

Initiating Coverage

Exxon Mobil Corp

Same Old, Same Old

Key Take-Away: ExxonMobil is poised to continue their slow and steady revenue growth. Rather than focusing on a variety of green technologies like some competitors (e.g. BP and Shell), the firm has instead chosen to invest (relatively little to boot) mainly into decarbonization efforts, though its future success/failure remains shrouded in doubt. Instead, the firm is strengthening its commitment to fossil fuel production, planning to both increase overall production and to optimize costs through new technologies and low-cost extraction sites.

Optimizing Costs: ExxonMobil's expansion plans revolve around investment into so-called "advantaged assets", which are fossil fuel reserves with an economic advantage compared to others through lower extraction costs, higher-quality fuels or higher recovery factors, with plans to increase the share of these assets in its upstream portfolio from 50 to 60% by 2030. To this end, ExxonMobil acquired Pioneer Natural Resources in May 2024, which holds significant acreage in the Permian Basin (one of the areas defined as an advantaged asset). The company is aiming to more than double production in the area and claims that, once fully integrated, synergies between the two will improve unit economics.

Scaling Investments: ExxonMobil has been continuing to increase capital expenditures and R&D spending over the past few years. Recent projects include the development of a new polymer resin Proxxima with applications in construction and batteries, and investment in a lithium extraction in Arkansas as demand for batteries grows due to EVs. It is expected that CapEx will maintain an elevated position of 8% of sales as the Pioneer acquisition becomes integrated into the

Valuation: We initiate coverage with a \$138 PT.

Consortium Equity Research
Energy| Oil and Gas
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Stock Rating: Equal Weight

Price Target: \$138.00

Price: \$111.47

Potential Upside: 19.67%

Ticker: \$XOM

Market Cap: \$489.2b
Shares Outstanding: 4395mm
Free Float (%): 99.94%
Dividend Yield: 3.53%



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Peer Comparisons

Comparable Companies

\$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Chevron	\$ 270,103	\$ 292,069	17.7x	\$ 191,689	\$ 38,943
Shell	\$ 199,153	\$ 232,383	13.6x	\$ 296,762	\$ 41,612
BP	\$ 81,112	\$ 125,920	31.7x	\$ 193,929	\$ 31,693
Conoco Phillips	\$ 131,452	\$ 142,964	12.6x	\$ 56,924	\$ 24,446
Exxon-Mobil	\$ 469,968	\$ 493,400	14.0x	\$ 343,818	\$ 71,538

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
Chevron	7.50	39.2%	20.3%	11.7%	(5.6%)
Shell	5.58	24.7%	14.0%	10.3%	(12.5%)
BP	3.97	26.8%	16.3%	6.8%	(14.3%)
Conoco Phillips	5.85	48.9%	42.9%	26.8%	(8.0%)
Exxon-Mobil	6.90	31.5%	20.8%	13.7%	(1.6%)

High	7.50x	48.9%	42.9%	26.8%	-1.6%
75th Percentile	6.90x	39.2%	20.8%	13.7%	-5.6%
Average	5.96x	34.2%	22.9%	13.9%	-8.4%
Median	5.85x	31.5%	20.3%	11.7%	-8.0%
25th Percentile	5.58x	26.8%	16.3%	10.3%	-12.5%
Low	3.97x	24.7%	14.0%	6.8%	-14.3%

Exxon-Mobil Valuation

Implied Enterprise Value (25th Percentile)	\$ 399,505
Implied Enterprise Value (Median)	\$ 418,365
Implied Enterprise Value (75th Percentile)	\$ 493,400
Implied Share Price (25th Percentile)	90.72783803
Implied Share Price (Median)	\$ 95.19
Implied Share Price (75th Percentile)	112.9190648

Source: CapIQ

Company Overview

Integrated Portfolio: ExxonMobil is a vertically integrated business competing in the Upstream segment through extraction of crude oil and natural gas, the Downstream segment through the retail sale of oil, and the Chemical Products segment through the production of petrochemical products. The Upstream segment drives most of the company's revenue and earnings, and its portfolio is geographically diversified, with major expansion occurring in the Permian Basin, Guyana, Papua New Guinea and Indonesia.

Focus on Advantaged Assets: ExxonMobil's expansion plans revolve around increasing production using advantaged assets, including oil and natural gas reserves with lower exploration and extraction costs. Its May 2024 acquisition of Pioneer Natural Resources, an exploration company with significant proved reserves in the advantaged Permian Basin, is expected to more than double production in the area by 2030, an increase of

Low investment in green energy: Unlike its competitors, ExxonMobil has invested little in renewable energy. Its green efforts revolve around its Low Carbon Solutions division, through which the company will invest in decarbonization efforts like carbon capture and storage, as well as low-emission fuels. ExxonMobil is also investing in lithium extraction in Arkansas to capitalize on expected increases in demand for the battery metal. This division is likely currently inconsequential to overall earnings and there is high uncertainty as to its profitability as the company has not disclosed its earnings separately.

Industry Overview

Changing Political Landscapes: The new Trump administration is expected to deploy an array of policies to incentivize fossil fuel production, including removing federal loan, grant and tax credit programs designed to incentivize investment in renewable energies, streamlining the process of obtaining new drilling permits and stopping the issuance of federal land leases for offshore wind power. The rise of far-right parties in several European elections may also reduce the appetite to continue transitioning to renewable energies.

Uncertainty due to global conflicts: The Russian invasion of Ukraine is estimated to have caused a 52% surge in oil prices and significantly increased oil price volatility due to the implementation of sanctions on the Russian oil supply. However, the Trump administration has vowed to end the war as soon as possible, which could result in oil prices crashing down to their pre-invasion status quo. In addition, oil production in Guyana may be interrupted due to the ongoing territorial dispute between Venezuela and Guyana, in which the former claims more than half of the latter's territory as its own.

Laxing commitment to green targets: Due to unexpectedly costly transitions, slowing rollout of government incentives and investor pressure, European supermajors BP and Shell have relaxed their commitments to emissions targets, cutting their investments into renewable energy in favor of increasing production of fossil fuels.

Investment Theses

Improved revenue and unit economics: ExxonMobil's current expansion plans will have a positive effect on its overall upstream revenues and margins. 50% of its current upstream portfolio (expected to reach 60% by 2030) involves advantaged assets like the Permian Basin, Guyana and LNG extraction, which have improved margins compared to other extraction sites. In particular, through the acquisition of Pioneer Natural Resources, it is expected that the firm will more than double its production in the Permian Basin, an increase of 1.15 million oil-equivalent barrels per day (Moebd). In addition, the firm has had continued success with its goal to invest in advantaged assets, with these making up 50% of its upstream portfolio, and expects to reach 60% by 2030. The high concentration of upstream production in the Permian Basin is not only expected to drive economies of scale and thus EBIT margins, but also may yield a more favorable tax rate, since its domestic tax rate is only 3% compared to a worldwide effective tax rate of 30%.

Lack of investment in renewables: Although ExxonMobil's lack of investment in renewable energies looks temporarily wise given Shell and BP's walking back of their green targets, the company is still taking a major risk by investing the least among its peers in renewable energies. In particular, its focus on carbon capture and storage is worrying since the technology has seen

very limited deployment and is still unproven and is dependent on governments choosing to implement carbon pricing instead of mandating renewables make up a certain amount of the energy mix. With the US political climate becoming hostile to renewables, it is unlikely that management could justify investing in renewables in the near future. Thus, should there be significant growth in demand for renewable energy due to government policy or cost improvements, ExxonMobil faces the possibility of being an industry laggard compared to its competitors.

Price Target & Valuation

Our analysis gives \$XOM a price target of \$138.76 and an Equal Weight rating.

Potential Downsides to Our Rating

Impending volatility in oil prices: A major downside to the Equal Weight rating is the possibility of an oil crash in the near future. The constriction placed on the global oil supply caused by the Russian Invasion of Ukraine caused ExxonMobil’s revenue to increase by nearly 50%. With the incoming Trump administration seeking an end of the war, it is probable that Russian oil capacity will return to the market pending the lifting of sanctions. However, we believe that ExxonMobil is somewhat hedged against this scenario through its production of petrochemicals and focus on low-cost extraction sites. In addition, the company is expected to grow its revenue by 3.4% in 2024 compared to 2023 despite a 13% decrease in oil prices over the same period.

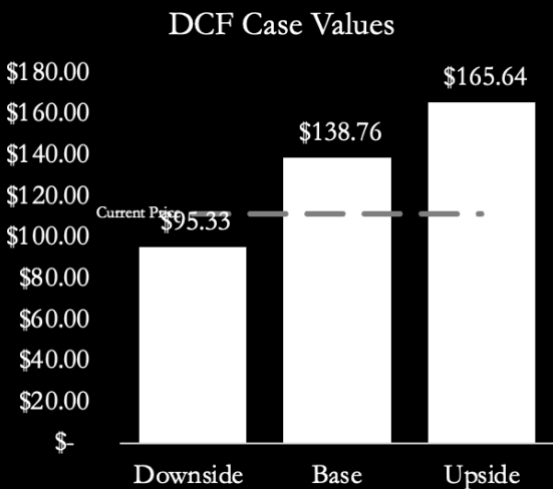
General Execution Risk: Much of Exxon-Mobil’s potential for improved EBIT margins and increased production relies on expanding into the additional acreage it obtained through the acquisition of Pioneer Natural Resources. As of this report’s publication, it has only been two quarters since then, and it is still relatively unclear whether it will be able to reach its 2030 production goals or fully realize economies of scale savings.

Unstable Political Environments: Many of ExxonMobil’s extraction sites are located in foreign countries with a more unstable political environment compared to the United States. In particular, ExxonMobil is heavily investing into the Essequibo region of Guyana, which is currently the subject of a territorial dispute between Guyana and Venezuela. In 2019, ExxonMobil was forced to abandon exploration activities after a Venezuelan military helicopter attempted to land on one of its vessels.

Our Price Target: \$138.00
Our PT is based on the assumption that integration with Pioneer occurs successfully, driving moderate improvements in both EBIT margin and revenue, while taking into account the possibility of commodity price headwinds in the future.

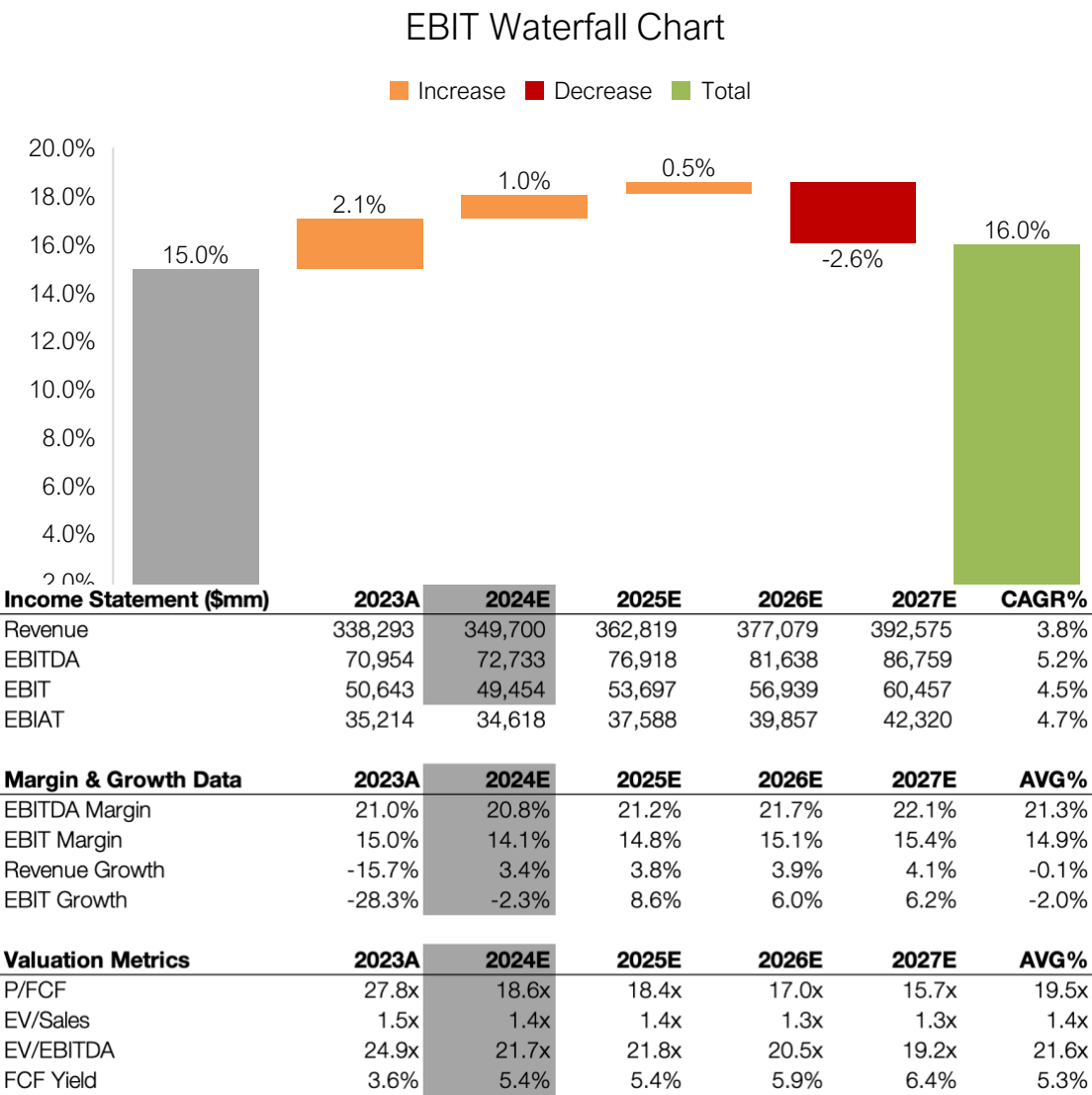
Our Upside Case: \$165.00
Our upside case is based on the assumption that the firm overdelivers on its production goals in its advantaged asset areas and macroeconomic headwinds will remain minimal through 2029.

Our Downside Case: \$95.00
Our downside case driven by the scenario where the Pioneer integration does not bring about the promised margin improvements and that commodity price headwinds will effectively cancel out planned increased production.



Venezuela has called for the ceasing of drilling in the area, and the possibility of future military confrontation poses a substantial threat to future production.

Projections



About \$XOM

Exxon Mobil Corporation (\$XOM), founded in 1882 and headquartered in Houston, Texas, is the largest US-based oil and gas company by market capitalization. The company has an integrated global presence, spanning six continents across upstream (exploration and extraction of crude oil and natural gas), downstream (refining and production of petrochemicals), and low-carbon initiatives (carbon capture and storage and biofuels).

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities. **Overweight** means the analyst team believes the stock price will outperform the coverage industry (TMT, Healthcare, Industrial, Consumer, FIG) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry. **Underweight** means the team expects underperformance relative to the industry.

Appendix

Terminal Value		Weighted Average Cost of Capital (\$mm)	
Exit Multiple Method			
2029 EBITDA	\$98,372	Market Risk Premium	4.24%
EV/EBITDA Exit Multiple	7x	Beta	0.88
Terminal Value	\$678,765	Risk Free Rate	4.57%
PV of Terminal Value	482342.1363	Cost of Equity	7.49%
PV of Terminal Value	\$482,342	Weighted Average Cost of Debt	4.25%
Implied TEV	\$637,588	Tax Rate	30.00%
(-) Debt	\$42,550	Cost of Debt	0.29%
(+) Cash	\$26,926	Total Equity	\$489,921
Implied Equity Value	\$621,964	Total Debt	\$15,624
Diluted Shares Outstanding	4231	Equity/Total Capitalization	90.26%
Implied Share Price	\$147.00	Debt/Total Capitalization	9.74%
Upside/Downside	32%	WACC	7.78%

Exxon-Mobil
Discounted Cash Flow

Active Case: 2 Base

Current Share Price \$111.47

DCF Analysis (\$mm)										
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
	31/12/2020	31/12/2021	31/12/2022	31/12/2023	31/12/2024	31/12/2025	31/12/2026	31/12/2027	31/12/2028	31/12/2029
Stub					0.06	0.06	0.06	0.06	0.06	0.06
Discount Period					0.03	0.56	1.56	2.56	3.56	4.56
Revenue	179,784.00	277,140.00	401,183.00	338,293.00	349,700.00	362,818.69	377,078.81	392,574.68	409,410.91	427,703.43
Revenue Growth	0%	54%	45%	-16%	3%	4%	4%	4%	4%	4%
Primary Revenue	178,574.00	276,692.00	398,675.00	334,697.00	346,104.00	359,186.73	373,410.53	388,869.72	405,668.89	423,923.99
Other Revenue	1,210.00	448.00	2,508.00	3,596.00	3,596.00	3,631.96	3,668.28	3,704.96	3,742.01	3,779.43
EBIT	(3,982.00)	24,881.00	70,654.00	50,643.00	49,454.00	53,697.17	56,938.90	60,456.50	64,277.51	68,432.55
EBIT Margin	-2%	9%	18%	15%	14%	15%	15%	15%	16%	16%
Tax Expense	(5,632.00)	7,636.00	20,176.00	15,429.00	14,836.00	16,109.15	17,081.67	18,136.95	19,283.25	20,529.76
Effective Tax Rate	141%	31%	29%	30%	30%	30%	30%	30%	30%	30%
NOPAT	1,650.00	17,245.00	50,478.00	35,214.00	34,618.00	37,588.02	39,857.23	42,319.55	44,994.26	47,902.78
D&A	20,998.00	19,407.00	19,540.00	20,311.00	23,278.50	23,220.40	24,698.66	26,302.50	28,044.65	29,939.24
Capex	17,282.00	12,076.00	18,407.00	21,919.00	28,000.00	29,025.50	30,166.30	31,405.97	32,752.87	34,216.27
Changes in NWC	1,018.00	(4,440.00)	(244.00)	4,354.00	3,600.00	5,224.59	5,580.77	5,967.14	6,386.81	6,843.25
UFCF	(14,614.00)	729.00	31,827.00	17,649.00	26,296.50	26,558.33	28,808.82	31,248.94	33,899.22	36,782.49
PV of FCF					26,237.16	25,466.06	25,629.07	25,792.24	25,959.11	26,132.90