

Analyst(s): Israel Nazari

Date: November 1, 2022

COMPANY/TICKER: **XOM 3.294% 03/19/2027**

Bond

BUY

EXECUTIVE SUMMARY

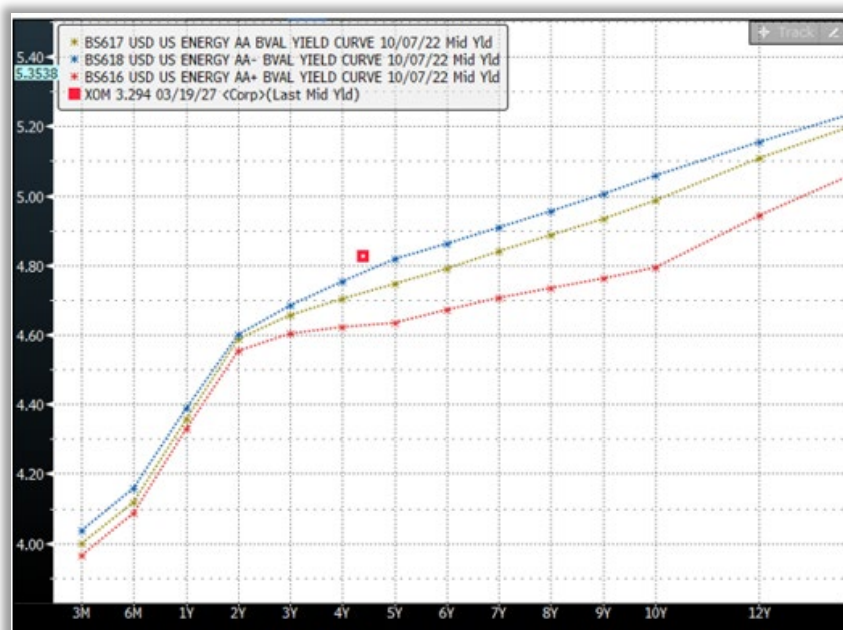
CUSIP:	30231GBJ0
Price 11/01/2022:	\$93.67
Coupon:	3.294%
YTM:	5.00%
YTW:	5.00%
OAS:	65 bps
Duration:	4.03 yrs.
Credit Rating:	Aa2/AA-
Seniority:	Senior Unsecured
Callable Date/Price:	1/19/2027 @100
Offered Amt.:	\$1B
Amt. Outstanding:	\$1B

The TCM All-Weather team recommends a buy of Exxon Mobil Corporation (XOM) 3.294% 2027 bond [30231GBJ0]. This Exxon bond is rated Aa2/AA- and offers an above-average yield-to-worst of 5.00% (62.84 bps OAS) with a duration of 4.03 years. (see chart) Exxon Mobil generates more than enough cash-flow backing to cover coupon payments and bond maturities for the next 3-5 years based on: 1) Oil prices consistently keeping with inflation and Exxon reporting \$20 billion in profit during Q3; 2) Upward momentum for Exxon due to OPEC+ deciding to cut its output by 2 million barrels and 3) Exxon Mobil signed its first commercial deal to store carbon dioxide emissions underground through a process called carbon capture and sequestration.

Key uncertainties: Recent increases in crude oil prices are believed to be temporary and driven by a surging fear premium. Exxon Mobil's business results are also exposed to potential negative impacts to due changes in interest rates, inflation, currency exchange rates, and other local or regional market conditions. Several countries have adopted regulatory frameworks to reduce greenhouse gas emissions including emissions from the production and use of oil and gas.

Source: FactSet Fundamentals

Capital Structure		
Exxon Mobil Corporation (XOM)		
	Energy Minerals	<=Industry
	Integrated Oil	<=Sub-Sector
Fully Diluted Market Cap.	417,249	90.6%
+ Long-term Debt	37,755	8.2%
+ Short-term Debt	7,393	1.6%
- In-the-Money Convertible De	-	
- Cash & Equivalents	-18,861	-4.1%
+ Preferred Stock	-	
- In-the-Money Convertible Pf	-	
- Investments in Unconsol. Sub	-	
+ Non-Controlling Interest	7,192	1.6%
+ Pension Liabilities	9,857	2.1%
Enterprise Value	\$460,585	100%

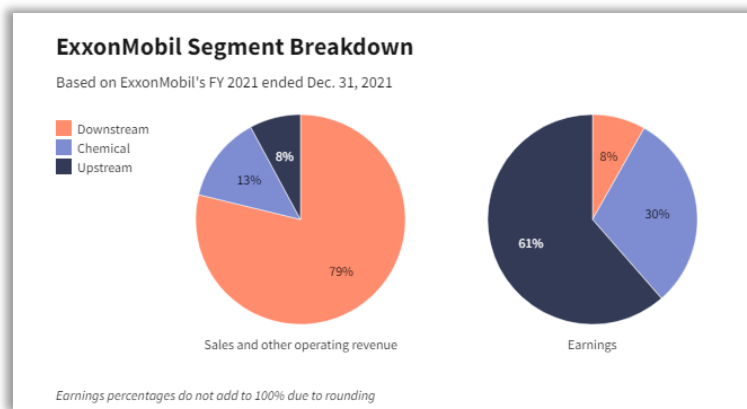


COMPANY OVERVIEW

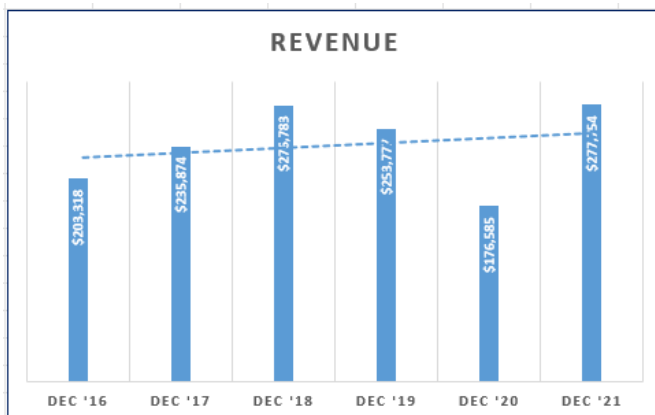
Exxon Mobil Corp. was founded in 1882 in the State of New Jersey by John D. Rockefeller. Exxon Mobil Corporation operates and markets products in the United States and in most other countries in the world. Its principal business involves exploration for, and production of, crude oil and natural gas. In addition, manufacture, trade, transport and sale of crude oil, natural gas, petroleum products, petrochemicals, and wide variety of specialty products. XOM engages in the exploration, development, and distribution of oil, gas, and petroleum products.

It operates through the following segments:

- **Upstream:**
 - The Upstream segment produces crude oil and natural gas.
- **Downstream:**
 - The Downstream segment manufactures and trades petroleum products
- **Chemical:**
 - The Chemical segment offers petrochemicals.



Exxon's historical financials demonstrate that their revenue growth has bounced back after a noted decline in 2020 caused by Covid-19. Also, its operating margin and interest coverage ratio are at the highest levels they've ever been in the last five years.



FINANCIAL COMPARISON

PROFITABILITY

2. PROFITABILITY Factors (1 - best, 6 - worst: high is better except Total Debt)

Company Name	Sales Growth (3 yr.)	Gross Margin (NTM)	EBIT Margin (NTM)	ROIC (NTM)	ROE (NTM)	Sales	EBITDA	Total Debt	RANK						Avg. Rank	Evaluation
									Sales Growth	Gross Margin	EBIT Margin	ROIC	ROE			
Exxon Mobil	31.90	39.98	16.12	18.52	22.95	\$358,362	\$73,489	\$46,883	3	3	4	2	3	3.0	Profitable	
Chevron	35.52	52.30	20.51	16.63	20.41	\$207,189	\$48,984	\$26,235	2	2	2	3	5	2.3	More Profitable	
Shell	-10.39	23.18	14.91	13.76	17.27	\$330,601	\$67,936	\$56,709	5	4	6	4	6	4.8	Less Profitable	
TotalEnergies	29.76	21.36	17.77	12.89	22.94	\$240,055	\$55,236	\$62,871	4	6	3	5	4	4.5	Less Profitable	
BP ADR	-30.70	22.58	15.37	-8.54	26.15	\$203,852	\$38,617	\$52,866	6	5	5	6	2	5.5	Less Profitable	
ConocoPhillips	81.66	56.63	36.69	24.56	30.44	\$65,638	\$28,976	\$16,971	1	1	1	1	1	1.0	More Profitable	
Average	22.96	36.01	20.23	12.97	23.36	\$234,283	\$52,206	\$43,756								

Overall, Exxon falls in the top half of its peer group with a healthy 18.52% return on invested capital (NTM) that was only topped by ConocoPhillips (36.69%). Exxon Mobil reports a 3-year sales growth of 31.90%, outperforming Shell (-10.39%), Total Energies (29.76%), and British Oil (-30.70%). Exxon's gross margins (NTM) of 39.98% also outperformed Shell (23.18%), Total Energies (21.36%), and British Oil (22.58%).

LEVERAGE

3. LIQUIDITY, LEVERAGE, YIELD (1 - best, 6 - worst: high is better for current ratio, EBITDA/Int. Exp, and yield; low is better for debt ratios and beta)

Company Name	Curr Ratio	EBITDA / Int. Exp	Net Debt / EBITDA	LT Debt / Ttl Capital	FCF Yield	Dividend Yield	Beta	Diluted Shares	RANK							
									Curr Ratio	EBITDA / Int. Exp	Net Debt / EBITDA	LT Debt / Capital	Dividend Yield	FCF Yield	Debt Rank	Yield Rank
Exxon Mobil	1.16	89.95x	0.38x	17.63	13.78	5.70	0.96	4,233.0	5	1	3	2	2	2	2.8	2.0
Chevron	1.31	82.46x	0.27x	12.80	9.58	4.52	1.03	1,957.1	3	2	1	1	4	6	1.8	5.0
Shell	1.39	21.10x	0.66x	28.16	12.93	4.06	1.37	7,518.5	2	5	5	5	5	4	4.3	4.5
TotalEnergies	1.21	22.57x	0.54x	26.10	12.94	5.92	1.13	2,592.0	4	4	4	4	1	3	4.0	2.0
BP ADR	1.10	14.45x	0.72x	41.33	14.15	4.80	1.00	3,269.9	6	6	6	6	3	1	6.0	2.0
ConocoPhillips	1.54	26.22x	0.29x	24.26	12.18	2.42	1.06	1,295.8	1	3	2	3	6	5	2.3	5.5
Average	1.29	42.79x	0.48x	25.04	12.59	4.57	1.09									

Exxon Mobil has both less debt and more yield overall in comparison to its peers. No other company was able to achieve a positive ranking in both categories. This is due to a combination of high current ratio (1.16) and best EBITDA/Interest Expense Ratio (89.95x), among others.

VALUATION ANALYSIS

PEER COMPARISON

5. BOND COMPARISON

Company Name	Cusip	Coupon	Maturity	Credit Rating (Moody's/S&P)	YTW	OAS (Trsy)	Altman Z-score (Bloomberg)	Price	Duration	Adjust weight if desired by changing these figures=>				Weighted Rank
										Yield Spread	Default Risk	Int. Rate Risk	Financial Risk	
Exxon Mobil	30231GBJ0	3.294%	3/2027	AA-	5.00%	65	4.20	\$93.30	3.99 yrs.	3	1	4	3	2.7
Chevron	166764BL3	2.954%	5/2026	AA-	4.94%	43	4.16	\$93.52	3.26 yrs.	4	2	2	2	2.6
Shell	N8119ZAD0	0.125%	11/2027	A+	3.36%	21	2.13	\$85.02	4.90 yrs.	6	4	6	4	5.2
TotalEnergies	89153VAS8	2.434%	1/2025	A+	5.09%	27	2.10	\$94.44	2.05 yrs.	5	5	1	4	3.9
BP ADR	E7S78BAB8	9.125%	4/2027	A-	6.20%	170	1.20	\$109.10	3.63 yrs.	1	6	3	6	3.7
ConocoPhillips	20825CAV6	3.750%	10/2027	A-	5.32%	100	3.90	\$93.22	4.39 yrs.	2	3	5	2	2.9

Overall Ranking: 2nd Place

This Exxon Mobil bond places second overall when ranked against its peers. What held it back from placing 1st overall is a slightly higher duration, which isn't a concern since Exxon's duration is still well below the benchmark. Additionally, it ranks first in having the lowest default risk given that it has the highest Altman Z-score, and ties for first in being the highest investment grade bond with a credit rating of AA-. The probabilities of default are extremely low since XOM counts with more than enough cash-flow backing to cover coupon payments and bond maturities for the next 3-5 years.

Yield Spread: 3rd Place

The yield spread for this Exxon Mobil bond ranked 3rd overall with a fair option-adjusted spread (OAS) to account for the small possibility of default. Although BP and ConocoPhillips rank better in this category, BP has a high debt burden by having the highest debt ratio and lowest debt coverage, and ConocoPhillips has more interest rate risk than Exxon with a duration of 4.39 vs 3.99 respectively.

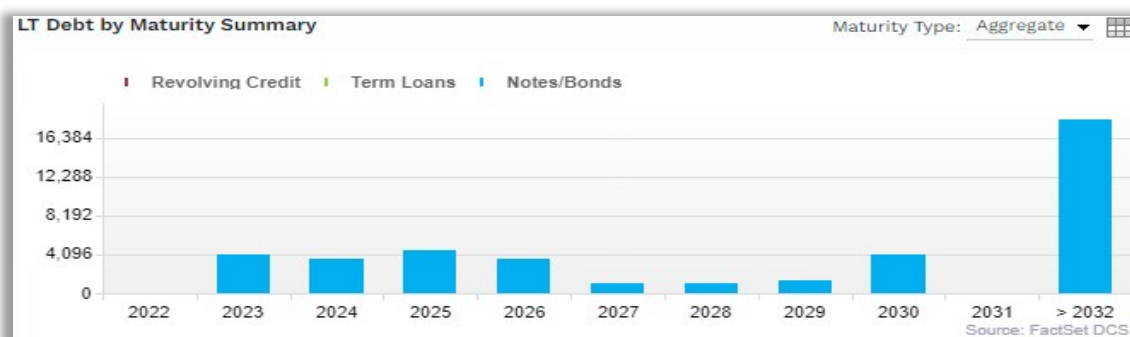
Financial Risk: 3rd Place

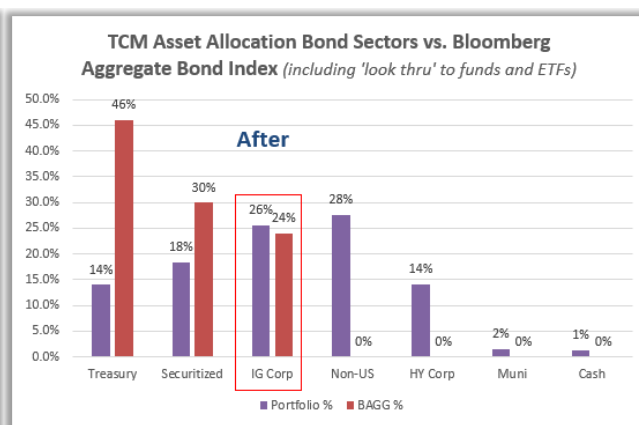
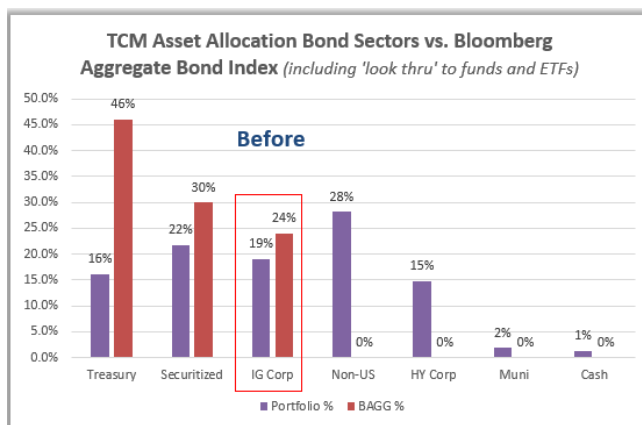
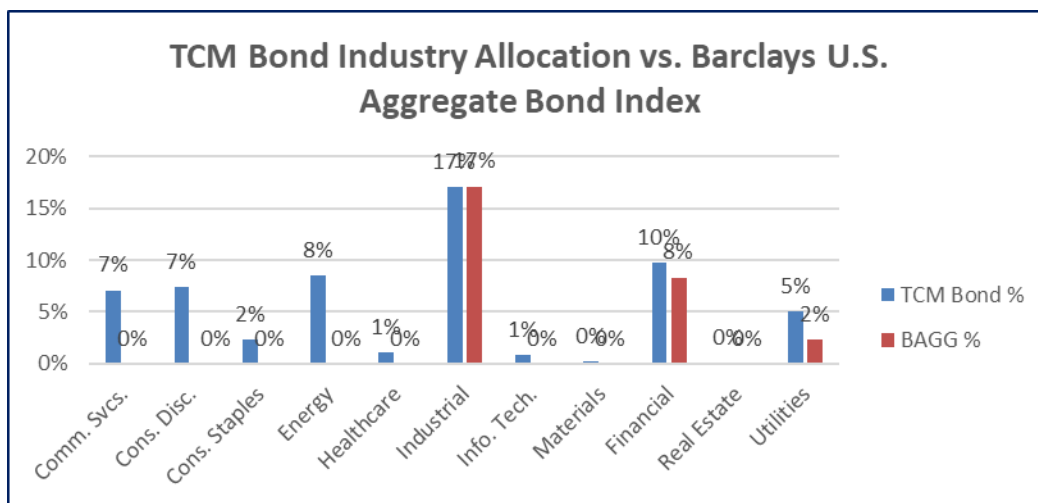
This Exxon Mobil bond also places a healthy 3rd place in Financial Risk amongst its peer group. Exxon Mobil has steady cash flows with relatively low debt. The top three companies ranked very close to each other in this category and the difference does not materially impact the default risk of the bonds overall.

PORTFOLIO IMPACT AND SUMMARY

The TCM All-Weather team recommends buying a 3% position in this XOM bond. The purchase would be funded by trimming the AGG ETF position. In doing so, it will give the portfolio a more concentrated bond exposure in Energy while maintaining diversification through our selection of broad market mutual funds and ETFs. Although energy tends to be more volatile than other sectors, we believe the strong financial condition and below-index duration of this ExxonMobil bond will buffer price volatility relative to the Bloomberg Aggregate Bond index. XOM just reported a \$20 billion profit for their 3rd quarter showing strong cash flows, and the maturity schedule below indicates a very modest debt payoff/refinance obligation for the next 10 years.

This purchase is the first in a series of trades intended to bring bond portion of the portfolio into a more active posture. This trade will increase our investment grade corporate exposure from 19% to 26%, bringing the portfolio closer to the index weight of 24%. It will also increase our portfolio's yield-to-maturity from 2.99% to 3.21% and lower our overall duration from 5.92 to 5.76 years, approximately 93% of the Bloomberg Aggregate index duration.





Fixed-Income Mutual Funds and ETFs							BEFORE						
Ticker	Description	Quantity	Price	Purchase	Credit Rating	Bond Sector	Sub-Sector	Duration	YTM	% Bond	% Total	Mkt. Value	Cost
AGG	ISHARES CORE US AGGRI	213	96.340	103.550	AA	Diversified	Diversified	6.40	2.54%	7.37%	2.26%	\$20,520	\$22,056
USIBX	USAA Intermediate-Terr	16,164	8.890	9.280	A	Diversified	Diversified	5.70	2.68%	51.59%	15.83%	\$143,696	\$150,000
FBND	Fidelity Total Bond ETF	321	44.430	46.710	A+	Diversified	Diversified	6.23	3.43%	5.12%	1.57%	\$14,262	\$14,994
PRSNX	T. Rowe Price Global Mu	7,470	9.530	10.040	A	Non-US	Diversified	7.56	3.18%	25.56%	7.84%	\$71,190	\$75,000
PRFRX	T. Rowe Price Floating R	1,638	8.920	9.160	B+	HY Corp	Diversified	0.55	4.12%	5.24%	1.61%	\$14,607	\$15,000
TGHNX	TCW High Yield Bond N	2,492	5.730	6.020	BB-	HY Corp	Diversified	4.45	4.24%	5.13%	1.57%	\$14,277	\$15,000
Fixed Income Portfolio Characteristics:					A-			5.92	2.99%	100%	31%	\$278,553	\$292,050

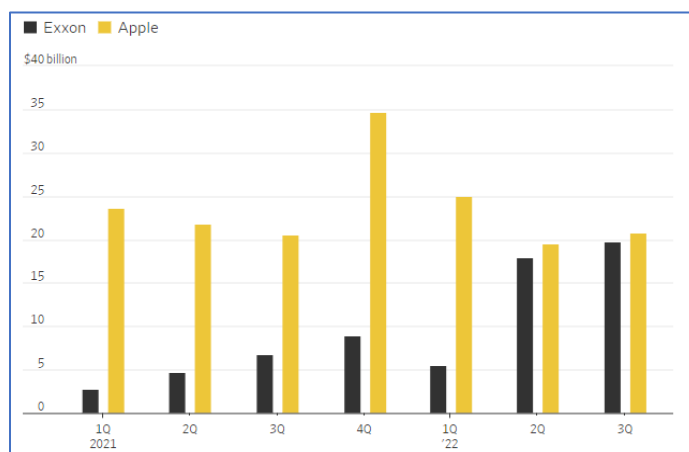
Fixed-Income Mutual Funds and ETFs							AFTER						
Ticker	Description	Quantity	Price	Purchase	Credit Rating	Bond Sector	Sub-Sector	Duration	YTM	% Bond	% Total	Mkt. Value	Cost
AGG	ISHARES CORE US AGGRI	213	96.340	103.550	AA	Diversified	Diversified	6.40	2.54%	7.37%	2.26%	\$20,520	\$22,056
USIBX	USAA Intermediate-Terr	13,160	8.890	9.280	A	Diversified	Diversified	5.70	2.68%	42.01%	12.89%	\$116,992	\$122,125
FBND	Fidelity Total Bond ETF	321	44.430	46.710	A+	Diversified	Diversified	6.23	3.43%	5.12%	1.57%	\$14,262	\$14,994
PRSNX	T. Rowe Price Global Mu	7,470	9.530	10.040	A	Non-US	Diversified	7.56	3.18%	25.56%	7.84%	\$71,190	\$75,000
PRFRX	T. Rowe Price Floating R	1,638	8.920	9.160	B+	HY Corp	Diversified	0.55	4.12%	5.24%	1.61%	\$14,607	\$15,000
TGHNX	TCW High Yield Bond N	2,492	5.730	6.020	BB-	HY Corp	Diversified	4.45	4.24%	5.13%	1.57%	\$14,277	\$15,000
XOM	Exxon Mobil Corp. Bond	281	94.840	93.300	AA-	IG Corp	Energy	4.03	5.00%	9.57%	2.94%	\$26,650	\$26,217
Fixed Income Portfolio Characteristics:					A-			5.76	3.21%	100%	31%	\$278,500	\$290,392

APPENDIX

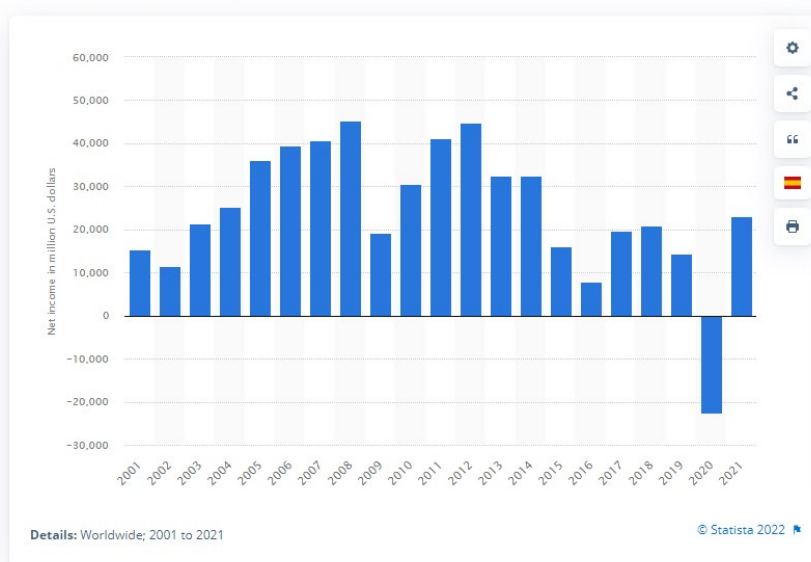
HISTORICAL FINANCIALS

Results Summary

3Q22	2Q22	Change vs 2Q22	3Q21	Change vs 3Q21	Dollars in millions (except per share data)	YTD 2022	YTD 2021	Change vs YTD
19,660	17,850	+1,810	6,750	+12,910	Earnings (U.S. GAAP)	42,990	14,170	+28,820
18,682	17,551	+1,131	6,755	+11,927	Earnings Excluding Identified Items	45,066	14,218	+30,848
4.68	4.21	+0.47	1.57	+3.11	Earnings Per Common Share ²	10.17	3.31	+6.86
4.45	4.14	+0.31	1.58	+2.87	Earnings Excl. Identified Items Per Common Share ²	10.66	3.33	+7.33
5,728	4,609	+1,119	3,851	+1,877	Capital and Exploration Expenditures	15,241	10,787	+4,454



Net income/loss of ExxonMobil from 2001 to 2021
(in million U.S. dollars)



PEER COMPARISON SUMMARY

SUMMARY OF RATIO COMPARISON								
Company Name	Profit-ability	Debt Rank	Yield Rank	Avg. Factor Rank	Over/Under Weight?	Profitability	Debt	Yield
Exxon Mobil	3.0	2.8	2.0	3.1	Over wgt.	Profitable	Less Debt	More Yield
Chevron	2.3	1.8	5.0	3.4	Market wgt.	More Profitable	Less Debt	Less Yield
Shell	4.8	4.3	4.5	4.1	Under wgt.	Less Profitable	More Debt	Less Yield
TotalEnergies	4.5	4.0	2.0	3.1	Over wgt.	Less Profitable	Avg. Debt	More Yield
BP ADR	5.5	6.0	2.0	3.9	Under wgt.	Less Profitable	More Debt	More Yield
ConocoPhillips	1.0	2.3	5.5	3.3	Over wgt.	More Profitable	Less Debt	Less Yield

REFERENCES

Factset

Exxon 10-K

Opect Monthly Oil Report

[ExxonMobil announces third-quarter 2022 results](#)

[ExxonMobil share price development monthly 2022 | Statista \(fullerton.edu\)](#)

[ExxonMobil: net income 2021 | Statista \(fullerton.edu\)](#)

[21111 Oil Drilling & Gas Extraction in the US - MyIBISWorld \(fullerton.edu\)](#)

<https://seekingalpha.com/article/4551013-exxon-mobil-corporation-2022-q3-results-earnings-call-presentation>

<https://seekingalpha.com/article/4550334-exxon-mobil-the-king-is-back>

https://www.wsj.com/articles/chevron-reports-huge-profits-as-oil-and-gas-prices-remain-high-11666952101?mod=Searchresults_pos4&page=1

https://www.wsj.com/livecoverage/stock-market-news-today-10-28-2022/card/big-oil-is-catching-up-with-big-tech-ZftM4p6bWheTHYxye8Zr?mod=Searchresults_pos6&page=1