

Financial analysis exercise ii

Finance



Financial Analysis Number: Lecturer: Financial analysis-Exxon Mobil Corp (XOM) In this analysis, we are going to compare the stock market price of Exxon Mobil Corporation (XOM) performance against that of Dow Jones Industrial Average for the last twelve months. The intention is to get an overview of how the stock has been performing in any direction that the DJI has been taking; if the stock has been following the DJI. The comparison will begin from the 27th of February, 2012 to date as last end of day closing (25th February, 2013). Exxon Mobil in the world's number one highly capitalized energy company head quartered in Irving, Texas. It has the highest revenue base in the world and the biggest publicly traded company. The stock is quoted in New York Stock Exchange (NYSE) as XOM. From the graph that we have, we can observe that the stock has been moving in the same direction as the DJI over the last twelve months. The direction of the stock's movement can be concluded that it has been largely determined by the direction that the DJI has been taking. This means that it has been less affected by other external factors at the market other than the market movement. The market's movement is largely influenced by macroeconomic factors such as the overall economic stability. It can be observed that, between March and the beginning of July 2012, the price was moving at relatively higher rate in price movement, than the market average. As the market dropped points, the stock dropped in price at a higher percentage than the market or as it gained the price of the stock likewise, gained at relatively higher price. The difference though, was not that significant, but it was more or less the same direction. Between July and mid September, the stock was averaging the same as the market average. Between mid September and mid December the average movement of the stock price was

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better than the market average in movement. Since December, the price has been averaging lower than the market average, but the direction of movement has been the same. While reviewing the profitability of a company, the profit margin is the crucial ratio to be used to determine the profitability in relation to the gross sales the company made for the period under review. The profit margin as given is 9.98% for the last trailing twelve months (ttm). This means the company has been doing very well as it returned in profitability \$44.88 billion against gross sales \$449.89 billion. The industry benchmark in oil and gas exploration and drilling is at 10.70%. Therefore, the company can be said to be doing well in profitability, but it was not able to beat the industry standard. This because of the operating uncertain macroeconomic environment in which business has been subdued due to economic turmoil inside United States and around the world. The company's profit and gross sales for the last three years has been increasing at huge margins. The three years we are reviewing are as at the end of December in 2009, 2010 and finally 2011. The company is yet to release the 2012 financials. It can be observed that the company has been increasing profitability as in 2009 the net profit was \$19,280,000; in the year 2010, it was \$30,460,000 and in the year 2011 it was \$41,060,000. We can observe that there was an increase in profitability of 57.99% in 2010 as compared to 2009 whilst in 2011 as compared to 2010 was 34.8%. Before that the company had seen its profitability in 2009 nosedive by 42.64% as it was \$45,220,000 as at the end of 2008 in the wake of global financial crisis. Sales, on the other hand, were \$310,586,000 as at December 2009; \$383,221,000 as at the end of December 2010 and \$486,429,000 as at the end of 2011. The increase in sales in percentage terms in the three years were

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23.4 in 2010 compared to 2009 and 26.93 in 2011 compared to 2010. The revenue, therefore, has been increasing at very good margins. In the analyst section, the company has been mean-rated at 2.5 points. A professional analyst recommendation ranges between 1 to 5 points. 1 point means that the analyst are strongly recommending that an investor can buy the stock as it is expected that shareholders will make good money out of their investment. At 5, the investor is strongly advising one to sell as the stock is not expected to make good returns for the investor; those who do not have should not buy the stock at all. In this case, 2.5 mean that analysts are leaving the decisions to investors whether to buy or sell or remaining holding on to the stock that one has already. The rating firms' credit rating has been mixed for the stock from the data. Most of the rating firms have been downgrading the stock as compared to one which upgraded and the other few which put their action at initiated. The firms which down-graded, went from buy to hold or neutral. This means that one can decide on his own volition to either buy, sell, hold on to the stock at hand or do not rush to buy if one does not own the stock. Some firms said that the stock might perform in its specific sector, but poorly overall (compared to stocks in other sectors). The one that recommended an upgrade rated the stock to outperform from the expectations. From the analysts' point of view, the company's profitability will be subdued at least in the next few months, but it will have a very strong showing in the next financial year. The company's revenue and profitability estimates are set to be less of deep slightly in the next quarter specifically than the current quarter. This poor showing will be short-lived up to the end of the next quarter which will affect the end year financial results significantly. This will mean that the overall financials will be less than the

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last financial year significantly. The revenue is expected to rebound strongly in the next financial year with most of the analysts supporting this view. Therefore, they are simply telling the investors to hold on to the stock at least for the long term view; they will not go wrong. Investors who do not have the stock and have a long term view on investment can acquire the stock as most analysts are very positive on the long term prospects of the company's performance. The stock's most recent price was \$87.70 as at the close of business February 25th, 4.00pm EST. Generally, the stock has been moving down with the day's change being 1.5-1.68% from the start of business on Monday the 25th, previously it had closed at \$89.20. In the last six months, the price of the stock has been quite stable with not much erratic movements. In the period under review, August 27 to date, the stock has seen the highest quotation at \$93.48 on 18th October and the lowest at \$85.10 on 28th December. Over this period the average highest and the lowest price has been \$89.29, this stock can be firmly said to be stable as the average change is about 4.7% in both directions over the six months.