Pen growth analysis

Business, Company

Pen growth energy trust is a closed end investment trust based in Canada but also operates in the USA. It owns, buys and operates working interests and royalty interests in oil and natural gas investments. The company basically develops, explores and holds interests through investment in securities, royalty units, net profits and notes issued by subsidiaries. The company's main area of business are light oil, heavy oil, and oil sands, conventional gas, shallow gas, offshore gas and exploration (Pen growth Energy Trust (2008).

The company has about 600 employees and it recorded revenues of approximately $1. billion for the year 2007. Industry overview The oil and gas exploration and production industry does not include transmission, refining and retailing of oil and natural gas products. This industry is capital intensive i. e. it requires a lot of investment in assets (Hoovers (2008). The world demand for gas and oil has been increasing despite all the environmental concerns about pollution. This industry competes with other energy sources e. g. renewable sources like ethanol, bio-diesel, hybrid (oil and electric), hydroelectric, nuclear power and coal are some of the other sources of energy.

The demand is fuelled by the level of economic activity, population growth and energy efficiency use. The price of oil and gas has been on the rise and it is expected to remain high as result of supply constraints. The emergence of economies like china has also increased the demand for oil The demand for crude oil is expected to grow at about 1. 7%-1. 8% per year over the next 20 years largely because of rising energy demand and past underinvestment. For natural gas, a growth of 2. 5% per year over the next

20 years is forecasted ((Weiss Ratings Inc. (2008) Competition in the industry

The success of any given company in this industry largely depends on how efficient it is in oits operations. Since it is a capital intensive industry, the company has to manage its operations and resources well. The success of the exploration and new wells drilled is another factor affecting the success of a company. The exploration may not be successful at times. Increasing production from the existing wells may go a long way in enhancing the bottom line of any given company in this industry (Hoovers (2008). Access to capital is another competitive advantage that a company can have over other companies.

Large companies can have easier access to capital than smaller companies and hence they can expand through acquisition or even mergers. Smaller companies on the other hand are forced to specialize in few geographical locations. Another potential threat to this industry is the growing appreciation of environmental concerns posed by oil. The emergence of renewable sources of energy e. g. solar, wind, hydro electric, nuclear e. t. c, presents competition to the use of oil and gas. The other important aspect on how the firms in this industry can benefit is that of supply management.

The price of oil and gas is basically affected by the supply given the fact that there is insatiable appetite for oil throughout the world. Therefore managing the supply of the commodity to the market is critical to the profitability of the industry. As seen earlier, the way companies that do not have access to capital can compete effectively is to position themselves strategically in terms of locations. The reason for this is that depending on the regional economic performance, a company can focus on areas that have increased economic activity (Hoovers (2008).

Integration can also provide another avenue for enhanced competition amongst the industry players. Some of the companies with integrated operations include Exxon Mobil, Bp plc, Chevron, Total SA e. t. c Integration provides an opportunity to earn more revenues and thus improved bottom line. Performance of the company Despite the strong record performance that the company realized for the year ended 2007, the momentum was lost during the current year. This is shown by the sharp decline in the EPS of $1. 46 compared to $1. 61 in the previous period (Weiss Ratings Inc. (2008)

The company’s performance compared to the industry averages show a significant decline according to S & P 500. The gross profit margin of the company increased in the second quarter of the year 2008 compared to similar period last year. However, the net earnings are below those earned by similar companies in the industry. The net earnings increased from $ 359. 65 million to $ 422. 39 million (Google Finance (2008) The company’s debt to equity ratio of 0. 58 is higher than the industry average. This indicates that the company may be using more debt than the other industry players.

The total asset to equity ratio of the company is below the industry and S & P 500 averages. This indicates that the company is not generating much shareholder value from the assets at its disposal (Mc Graw- Hill Companies Inc. (2008) The liquidity position of the company is also very weak. The acid test ratio of 0. 31 shows that the company might not be in a position to meet its maturing current obligations. This means that the company could experience liquidity problems in the near future. The company’s stock price has fallen from highs of $23 in September 2006 to the current lows of about $16. 3.

The P/E ratio of the company is also low-11. 55 times. The industry P/E ratio is 13. 25 times while that of S & P 500 is 21. 47 times (Google Finance (2008) Globalization in the industry Driven by the quest to provide shareholders with above average returns, most companies in this industry are always seeking opportunities across the globe. This is achieved through mergers and acquisition as well as through exploration. Therefore most companies have operations in different geographical areas and given the ever rising demand for oil and gas, this industry will be attractive for the foreseeable future.