

# Example of exporting energy to eu research paper

[Business](#), [Company](#)



## **All Possible Investment**

Investment is an important aspect that associated with an organization as well as business, as it has a tendency to deliver future aspects and benefits in the future (Baker & Powell, 2005). Investment has a clear cut strategy in the mind which is to deliver future consequences and prosperity in the future. The tradeoff between the risk and investment can be extremely essential for taking different investments into consideration, and reach on a certain conclusion regarding the providence of effectiveness in the market (Dayananda, 2002).

This particular part of the assignment specifically deals with the analysis all the possible investment that can be taken into account for this scenario. The scenario is very clear which is to exporting energy and its relevant aspects towards the European Union (Fabozzi, 2002). This is indeed a broad ask and requires lots and time and investment to accomplish the same, as exporting energy to the EU sector will certainly be a huge investment. There will only be a single investment that would be considered in this part in terms of the potential investment that will cover up the things for the company accordingly. This entire section of the report will be based entirely upon the assumptions for the initial investment or outlay with all the future cash flows that will be generated with the each passing year. The initial investment and future cash flows are as follows

Exporting energy is not a piece of cake and it usually come up with high amount of initial outlay particularly, and the same is found in this particular case as well (Fabozzi, 2002). The initial outlay is € 21, 750 million, which also known as the total invested amount in exporting the energy sector to the

European Region. There are six years of benefits or cash flows considered for the core analysis. The cash inflow in the first year's operations of the company will be € 5, 000 million which will be increasing by 100% in the financial 2nd financial year, and then increased again in the 3rd financial year by 20% particularly. The cash inflow actually decreased a bit in the 4th year of operations by nearly 33%. However, the cumulative cash flow is in the positive figure and node which is showing that the investment would be extremely effective and worthwhile for the company in almost every aspect. The average cash inflow in these 6 years of operations will be € 10, 167. The next big thing that will covering in the section of investment is the selection of a perfect Weighted Average Cost of Capital (WACC). It will be known as a Discount rate that will discount all the future cash flow in the present values in order to cover all the things accordingly. The discount rates which have been covering in this particular section will be 12%.

### **Possible Return on Investment (ROI)**

This particular section of the assignment is very important as the entire complex and sophisticated calculations of the financials will be completed in this section that will be used for the future decision making stance (Fabozzi, Peterson & Peterson, 2003). There are numerous possible investment analysis tools that can be considered in this analysis such as Net Present Value, Internal Rate of Return, Profitability Index and Return on Investment (ROI).

## **Net Present Value (NPV) Analysis**

A formula or calculation that can value down the future cash flow in the present terms is known as Net Present Value (NPV). It is a significant and valuable investment tool which specifically counts under the analysis of Capital Budgeting (Fabozzi, Peterson & Peterson, 2003). In fact the importance of NPV is on the highest node, before discounting is an important section for the companies all over the world. The companies that can have the positive cash flow for an initial outlay are comparatively productive as compared to the companies which are not resilient in terms of future cash flow.

### **The Net Present Value (NPV) for the six years of operations is as follows**

This particular analysis is showing that the net present value for these six years of operations will be in positive term and it will be 18, 152. 9 € Million in the six years of operations. The investment will be very effective and positive for the company, and it should be selected by the company for their future.

## **Internal Rate of Return (IRR) Analysis**

Internal Rate of Return (IRR) is another significant and valuable tool of capital budgeting and investment. It subjects to the original WACC of the company (Fabozzi, Peterson & Peterson, 2003). If the IRR of the investment is higher than the actual WACC, then such investment should have been considered by the company. The computed IRR of the investment is as follows

The computed IRR of the company is 34. 31%, which is comparatively higher

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than the actual hurdle rate of the investment which is 12%. This particular analysis is in the favor of the company and will increase the level of investment benefit with a positive node. Therefore, the investment of exporting energy towards the European Union should be considered.

## **Profitability Index**

Profitability Index (PI) is yet another important tool that comes under the Capital Budgeting Stance (Fabozzi, Peterson & Peterson, 2003). The selection Criteria in PI is very clear that if the end result is higher than the level of 1, then the investment should be selected accordingly, otherwise it will be better to reject it. The computed PI is as follows

The profitability index of the initial investment will be 1. 835 (higher than 1), showing the investment will be worthwhile for the company. Therefore, investment should be considered.

## **Return on Investment (ROI)**

Return on Investment is a very valuable tool of investment to analyze the core percentage benefits of the investment. It is a combination of total amount of cash flow (discounted and undiscounted) with the initial investment outlay (Fabozzi, Peterson & Peterson, 2003). The computed ROI is as follows

The Return on investment (ROI) in both of the scenario (Discounted and Undiscounted) is positive and high. It is nearly 280% in the undiscounted cash flow, while it is nearly 184% in the discounted cash flow analytical aspect. This investment of exporting energy to EU will be a positive one, and it should be selected.

## Sources of Finance Available

There are certain sources of finance available for the organizations, and in this case there are certain sources as well that will be affecting the performance of the company particularly (Hirschey, John & Makhija, 2009). In this case of investment, there are three different sources that will be considering for the analysis

- Owner's Own Capital
- Bank Loan
- Shareholder's Equity

Owner's Own Capital: it is an important source of finance considered by the organizations in all over the world for the investment purpose. The case is also an important one as far as current analytical period is concerned. The total invested amount in the export of Energy towards the EU is extremely high, and it will not be a wise decision of investment to source the finance from the own capital of the management. It will leave the company towards the Limited Liability Section; however it will also increase the level of burden on the management, especially on the board of directors particularly.

Bank Loan: Bank Loan is the 2nd most important medium of Financial Capital, and most of the companies of the world used these particular mediums for the investment purpose (Hirschey, John & Makhija, 2009). The associated cost with this particular medium of finance would be very high, and it will not be effective in this particular vision as well. The bank loan will not be considering a wise decision in this particular scenario because it will cost very high for the company. This particular medium should not be considered by the company for exporting the energy sector to the EU. It may

be a perfect choice or medium for the investment purpose, because all of the money of the financial institution on the sake, therefore there will no credit or liquidity risk is there, however the amount of burden will be very high on the company, which may not be effective for their future aspects particularly.

### Shareholder's Equity Analysis

Shareholder's equity is an important type of capital that considered by the companies for their investment purpose. It is one of the widely used financial medium used by the companies in all over the world. It is usually suitable for large investment (Hirschey, John & Makhija, 2009). The current scenario of Exporting Energy to the EU also required having a high amount of equity section particularly, and it will have a definite impact over the amount invested and getting in return. In this way the company has to go towards the Primary Market for the Initial Public Offering (IPO), and let the people and investors coming towards the company to have high amount of investment and investment based return particularly. The only cost which the company has to incur to mobilize and implement this particular finance medium is the initial cost of the investment which will be associated with the IPO in the primary market.

After considering the cost and benefit analysis of all of the mediums of finance, it can be said that the most important type of investment that will be effective for the company is Investing the money through the Shareholder's Analysis. The cost of Initial fees, and then the dividend payouts will be considering in this particular thing accordingly, which will not cost the company very high.

## All Factors of Production

Having different natures of business is a common thing, and it is equally applied over the analysis particularly (Hirschey, John & Makhija, 2009). The factors of production can be extremely essential. The natures of business have been divided into two different aspects known as Service Oriented Aspect and Manufacturing Aspect. Manufacturing is an alternative name of Production. However, it should be used accordingly at the right place at the right time. The possible factors that will be considering for the production are as follows

**Capital:** Capital is an important aspect for an investment purpose, and it will be given in this particular analysis as well. The factor of production of capital is important and significant, and it is equally applicable on the exporting of Energy towards the EU section as well. Accumulating higher capital with the production will also increase the entire production aspect of the company with a positive aspect and attitude particularly.

**Fixed Capital:** Fixed Capital is a significant part of capital that associated with the capital accumulation. It usually associated with the fixed amount known as Total Fixed Cost. In this analysis, the management has to accumulate sufficient information regarding the fixed capital amount particularly. It is an important production factor which will be considering in this production of exporting the Energy in the EU.

**Working Capital:** Working Capita is an important tool that will be considering managing the day to day operations of the company in an organized manner. In this particular analytical vision of Exporting energy to the EU also be consider for the analysis purpose in this section as well.



Financial Capital: Capital is an important amount which will be considering for the production purpose, and it is equally applied on this particular case as well. It is equally applicable on this scenario of exporting energy towards the EU sector as well for the specification of the market. Financial capital can be accumulating through one of the mediums discussed above.

Technological Process: The process of technology can be very important for the sake of an organization, and it is equally applied on the scenario of exporting of energy as well to the EU region. Through this particular aspect, technology can be used by the company to become more active and productive.

#### References

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