

Finance: company analysis research paper examples

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



Executive summary

The aim of this report is to conduct a critical evaluation of the Royal Dutch Shell Company using both qualitatively and quantitatively in order to unveil whether it is a good company to invest in or not. The material for this analysis comes from various online resources, specifically from the company's website that has the company's annual reports and financial statements review. Additional information comes from financial websites that has information on stock performance, industry and markets trends.

We decided to choose a company in the oil and gas industry because most of the ten companies in the world by revenue and profit come from this industry. In the analysis, financial statements of the fiscal year ending 2011 have been analysed deeply together with those of preceding years as well as comparison with those of other related companies in the same sector with our company of interest.

The company have also set a strategic plan to embrace new forms of energy that are cleaner and affordable to all persons, and efficient to use.

Additionally, company have also gone to an extent of investing to the society as a way of revealing its togetherness with the people who are its clients as a way of corporate social responsibility.

The company have also embraced the idea of environmental conservation by cutting on its carbon emission into the air as a way of reducing social costs accompanied by such pollutions as well as a sense of caring for the people who have led to its growth.

The company have note that the opportunity for growth for the company remains certain as more emerging economies have an expanding population which is wholly if not partially dependent on petroleum products as the their main source of energy.

The company is also committed to continue investing off shores as a way of continuing to be competitive and taking its services and products to all countries in the world as a way of expanding its market share in the world.

In summary, the company is a blue chip company that is most suitable for potential investors to put their money into, as there is a promise of good returns that will grow overtime. Additionally, Shell is a company that has invested heavily in the lucrative oil industry that is very promising.

Introduction

Royal Dutch Shell plc (Shell) is an independent oil and gas company that was incorporated in 2002. The company's core business is oil and gas industry but it also has interest in chemicals and other energy related businesses.

The company has the largest retail fuel network in the world, with about 43,000 gas stations.

Shell petroleum incorporation is a holding that is 60 % owned by the royal Dutch petroleum company while the remaining 40% is owned by shell transport and trading company. The royal Dutch shell company businesses revolve around the following five avenues:

- Exploration and oil refinery business
- Gas production
- Refining and marketing which deals with value addition and later delivering the refined products to areas they are in demand.
- Trading and shipping of oil to its wide internal retail networks

Over the recent years, the company has diversified its business to include nuclear energy technology.

The company's mission statements is to “ meet the energy needs of the society in ways that ere economically, socially and environmentally viable now and in the future” (Shell, 2012). From the above mission statements it can be argued that the company's main goal is to satisfy peoples energy needs in the most acceptable way and with high financial performance.

Vision statement of the company is to “ reinforce our position as a leader in the oil and gas industry in order to provide a competitive shareholding return while helping to meet global energy demand in a responsible way” (Shell, 2012)

The purpose of this analysis is to bring out an informing report to the outsiders of the company and particularly the existing and potential investors with an aim of ensuring they settle at an informed decision on whether to invest in the company or not.

In order to inform outside stakeholders, the paper uses both quantitative and qualitative methods to conduct financial analysis of the company using

various financial ratios of the company' past annual reports and industry reports. This analysis is conducted using quantitative cumulative value analysis that looks at the past record of earnings, assets, sales, management, and products. Current value ratios and earnings growth will help inform on the company's value.

Qualitative analysis of the company will be done using analysis tools such as PEST analysis, SWOT, analysis, Porter's Five forces model among others.

Quantitative analysis will involve the use of financial ratios such as PE ratio, quick ratio, and liquidity ratios.

Qualitative analysis

Royal Dutch shell plc, incorporated on February 5, 2002, is a global energy and petroleum company (Reuters, 2012). The company owns, directly or indirectly, investments in several companies that constitute Shell. Royal Dutch company it was incorporated in England and Wales and its' the parent company of the Dutch company shell which has its headquarters in Hague, Netherlands (Shell, 2012).

The company operates in over eight countries in the world where it has become a source of employment for over eight thousands persons; its total service stations worldwide stand at 43, 000 (Shell, 2012). The company most profitable continent is Europe with America ranking third while a collection of Asia Africa rank second.

Discussion of management Effectiveness

The company's board members include the following people:

Chairperson: Jorma Ollila

Chief executive officer: Peter Vossler

Certified financial officer: Simon Henry

Secretary to the board: Michel Brandjes.

The company's board members are in their early fifties with very stable and admirable academic credentials, with the chairperson who is a PhD holder. Throughout their tenure in office, the company has enjoyed favourable performance amid of crisis such as those of 2008. These top eye management team has been quoted as the best team the company have ever had since its' establishment. Moreover, the team have led the rest in laying a strategic plan for the company in restructuring its operation and attempts in trying to assert itself as the most competitive company in the energy and petroleum sector. As a fact, the company spent over\$ 2. 3 billion in the fiscal year 2011 in developing alternative energies carbon capture and storage (Shell, 2012).

In a nut shell the team is effective in delivering and in seeing the company scale higher heights in terms of profit generation, environmental conservation and sustainability and in satisfaction of consumers need and product diversification.

The team has also improved the company's contribution toward the social responsibility initiative whereby they endorsed the use of \$ 125 million on voluntary social investments during the fiscal year ended 2011.

This team of top management have been able to steer the company toward the good path yielding good results due to previous experience in similar capacities as well as good educational background. More so the company performs in-depth interviews for its members of management team in-order to ensure that it get the best personalities to Mann its business affairs.

Risk factor analysis

The company faces a lot of risks, ranging from economic fluctuations, competition, political, legal industry, business and financial risks.

As a matter of evidence, during the 2008 economic downturn the company's profitability declined largely affecting its major operations especially in upstream market (PR 2). Such effect of downturn led to decline the value of its shares as well as earnings per share, which lead to a significant loss of investors. Such loss of investors in the company is very injuring to any business undertaking, more so the huge debt obligations to the united states of American and Japan are still a hindering factor to its optimal performance but with a growing population in the developing economies there is an assurance of expanding demand to its' products. With coming to an end of the economic recession, the near future of the company looks quite promising.

The company is also exposed to political unrest especially in the developing countries where it has business operations which at times lead to closure of their business thus leading to reduced profits and at times total loss of their investments when their investments in such countries becomes victims of

such skirmishes. This is the case with most of the oil producing North African countries where it has key business operations as well as in major countries in Middle East.

Legal and regulatory risks are a continuous source of risk for this company, with business establishments in 80 countries in the world the company is prone to different legal provisions, which the company must follow and strive to aggregate all these provisions.

Competition in this industry is another source of risk to royal Dutch company, with other multinational company in the same sector, the company have always considered them in all aspects of decision making especially in terms of retaining and expanding their market shares as well as differentiating their products in terms of quality and pricing. This is because high prices have always led to loss of market hand thus reduced profitability and so is the impact of low quality products, which become uncompetitive. Bearing in mind that this is a privately owned oil company it faces stiff competition from government owned companies, which enjoy protection from the government in terms of oils reserve lands, which limit potential areas for such private company like the royal Dutch shell plc company.

Financial risk is another source of risk for this company. With operations in different countries, it is always obvious that these countries experience economic cycles at different times. Additionally, the volatile exchange rates for the currencies exposes the company to financial risks, where the

company may overstate some of its monetary value which might be untrue and thus misleading, especially to existing and potential investors.

Loss of investors' confidence is the worst risk the company faces since it obtains much of its operating finances in form of bonds and commercial papers. The company's access to such sources of fund is at risk in case of poor financial performance, which may keep potential investors away as well as lose some, thus affecting its growth in terms of investment.

The company has adopted various measures to hedge itself against such risks by insuring its business against risks such political risks in areas prone to such unrests. Also the company has increased its reserve amounts in order to have a good financial base to depended on in case on poor financial performance or even during times of economic downturns

Strategy discussion

The company has laid out its long run strategic plan, which covers the following areas:

- Adoption of innovations and advanced technology, which will help the company in meeting the increasing demand for energy in the coming days while aiming at minimizing negative impact to the environment.
- Shaping the future of energy by finding cleaner sources energy and efficient ways of using such energy.
- Embracing innovative and encouraging generation of new ideas that will assist surmount energy crisis in the current world in the coming days.

Swot analysis

BCG matrix analysis

BCG matrix ranks a business into four clusters.

Stars

Stars are high growth businesses that compete in the market. These organizations require heavy investment to sustain their growth.

Cash cows

These are businesses with low business growth and relatively high market share. They are mature successful businesses that with relatively little need for investment.

Question marks

Question markers are SBUs with low market share but operate in the higher growth market.

Dogs

Dogs refer to companies that have relatively low market share in unattractive low growth markets. Investors prefer to divest from dogs.

Effective placement of products

The company has established a special council called “ Product Placement Council”. The council serves the sole duty of ensuring proper placement of the company’s various products. It makes contracts with retailers and dealers regarding placement of these products and ensures that there is no violation of the contracts.

Positioning

According to (Gamble, & Thompson 57), product positioning involves the process of arranging a company's product to occupy a distinct and desirable place in relation to competing products in the mind of target consumers.

Shell enjoys a large global market share in the oil and gas industry. In addition, the company's market share is experiencing gradual growth as it expands its product line as well as its distributions.

Quantitative analysis

The aim of this section is to conduct a financial analysis of the company, using ratio with particular importance to investors. This analysis compares the financial performance of Shell with its closest rival Exxon Mobil and comparing the results with industry standards.

Financial performance

The growth rate factors from the table above shows that net income (Qtr vs. year ago qtr) for Shell is higher than Exxon and above the industry average . Shell also pays higher dividend compared to industry average and is higher than Exxon, which means that Shell has higher affinity to attract shareholders (Erich 44).

Price earnings ratios

The price to earnings ratio tells how expensive the stock of a company is, relative to the annual net income or profit earned by the firm per share (Erich 45). A higher P/E ratio means that investors are paying more for each

unit of net income, an implication that the stock is more expensive compared to lower P/E ratio.

Investment turnover

Investment return ratios indicate the profitability of a firm (Troy 213).

According to the table above, Exxon has a higher ROE above the industry average as well as Shell. Additionally, the return on capital and return on assets for Exxon are both higher than industry average as well as Shell. The cumulative average return over a five-year period for Exxon is also above that of Shell.

Conclusion

Following the critical analysis of Shell and Exxon Mobil in relation to financial performance, we find that Exxon Mobil is a bigger company compare to Shell as evidenced by various financial measures and asset evaluation. The overall result from the analysis shows that has an upper edge with exception of few ratios. Exxon Mobil has higher profitability ratios compared to Shell, though Shell is growing rapidly.

Both companies are in the same strategic groups hence have the same potentials and dimensions to compete. Exxon has a stronger financial base, however, Shell has the modern technology in lubrication and should therefore focus its strategy in improving its financial performance.

Major point of concern that Shell is focusing on financial and operational leverage while ignoring the grey areas such as the political default by Iran and entry of new players. Accordingly, Shell should draw attention to these

issues and adopt strategies to gain political influence in different countries to compete more effectively and gain a competitive edge.

Recommendations

In summary, the company is a blue chip company that is most suitable for potential investors to put their money into, as there is a promise of good returns that will grow overtime. Additionally, Shell is a company that has invested heavily in the lucrative oil industry that is very promising.

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