Bp plc financial statement analysis report

Business, Company

Introduction

BP PLC Company, incorporated in 1909 is an oil and petrochemicals company. The company conducts exploration for and produces natural gas and oil, refines, markets, and supplies petroleum products, manufactures and markets chemicals, and generates solar energy (BP PLC, 2013). Chemicals manufactured by BP include acetic acid, terephthalic acid, ethylene, acrylonitrile, and polyethylene. BP is the third largest publicly traded company in the industry behind Exxon Mobil and Royal Dutch Shell. The company explores and produces oil and natural gas in thirty countries and has confirmed reserves of 17. 8 billion barrels of oil equivalent. The company is the largest producer of oil and natural gas in the United States and top leading refiner, with 16 refineries that processes 4 million barrels of crude oil on a daily basis. BP operates more than 21, 8000 gas stations around the world. The company took a major hit in 2010 following deepwater rig explosion in the Gulf of Mexico that killed 11 workers (BP, 2013). The company had to use $20 billion to pay for related damages and clear millions of gallons of crude oil that spilled into the Gulf in 2011 and 2012.

Information

The company was forced to sell $30 billion of its assets following the Deepwater Horizon spill in the Gulf of Mexico that took place in 2010 in order to settle related claims and costs. However, the company is well on its way to recovery after its profits rebounded from a $3. 3 billion loss in 2010 to nearly $ 26 million in 2012 (BP, 2013). After the spill, BP started focusing on three main area, including review and restructure of its safety procedures, revamping its efforts related to the oil spill, and establishing a ten point plan aimed at growing its operating cash flow. In a letter to shareholders, BP chairperson Carl-Henric Svanberg emphasized the need to ensure that such an accident never occurred again.

The share price performance of oil giant BP moved to the top bracket of oil companies in the late nineties following the acquisition of United States concerns Atlantic Richfield and Amaco. With increased emphasis on oil exploration and production compared to its main rivals, BP has moved into the former Soviet Union to secure future production as its current core assets in Alaska and North Sea wind down (BP, 2013). BP’s share price was at its lowest in 2010 following the oil spill in the Gulf of Mexico when the company recorded a share price of £320. 0. By July 2011, the company’s share price had risen to £460. 35 following attempts by the company to compensate the loss and sell some of its businesses to compensate for the damage. However, the company’s share price declined towards the end of 2012 recording a low of £450. 95 per share. The share price of the company fell to £433. 55 by December 2012 due to the effects of the global recession and the Eurozone crisis. The share price picked up by February 2013 to £467. 00 before dropping to £443. 20 in March (BP, 2013).

The share price of BP for 201 suffered a significant fall on the London Stock Exchange from 655 pence per share on the day of the accident to a low of 296 pence per share on 25 June 2010. Even though the company’s share recovered in share price to 493 pence per share in February 2010, it remained considerably below its level before the incident (BP Annual report, 2010, p. 39). For the first quarter of 2011, the company’s share price recorded a high of 514 pence, but this dropped to 480 pence in the second quarter and increasing slightly to 480 pence in the third quarter (BP Annual Report, 2011, p. 167). However, the price per share dropped further to 477 pence per share in the fourth quarter of 2011 to 477 pence (BP Annual Report, 2011, p. 167).

The share price of the company rose for the first time since the accident to 512 pence in the first quarter of 2012 (BP Annual Report, 2011, p. 167). For the second quarter of 2012, the share price for BP dropped to 475. 47 pence before dropping further to 456. 47 pence in the third quarter of 2012 (BP Annual Report, 2012, p. 154). However, the price per share grew to 463. 71 pence in the fourth quarter of 2012, and following the same trend by growing to 482. 33 pence in the first quarter of 2013 (BP Annual Report, 2012, p. 154).

Financial ratio analysis

Earnings per share (EPS)

This ratio serves as an indicator on the profitability of a company.

Earnings per share = profits available to equity shareholders/ average number of issued share.

EPS for 2011 = 0. 85

EPS for 2012 = 0. 38

Earnings and earnings growth

Earning = sales × profit margin

2011 = $234. 25 billion × 6. 65% = $15. 577 billion

2012 = 234. 05 billion × 3% = 7. 0215 billion

Profitability ratios

Description

Return on assets is calculated as net income measured by total assets. The ROA of BP Plc deteriorated from 2011 to 2012 indicating that the company's profits declined compared to total assets. Similarly, interest coverage declined because the company increased the dividend paid to shareholders. Rate of return on equity is calculated as net income divided by shareholders' equity. The ROE of BP Plc deteriorated from 2011 to 2012 indicating that the company did not use shareholders' equity efficiently to generate profits. Financial leverage is the extent to which a business or an investor uses borrowed money. Businesses with high financial leverage are considered to risk from bankruptcy if they are not able to repay their debts and lead to difficulty in obtaining new lenders in the future. Financial leverage for BP improved from 2011 to 2012 indicating that the company is efficiently using borrowed money. Asset turnover is calculated by dividing sales dollars by assets in dollars. It refers to the amount of sales generated by each dollar. Asset turnover for BP Plc deteriorated from 2011 to 2012 indicating that the company the company is not growing revenue in proportion to sales.

Liquidity ratios

Description

Current ratio measures the ability of a company to pay short-term liability. A high ratio indicates that a company is capable of meeting its short-term liabilities. BP Plc's current ratio increased from 2011 to 2012 indicating that the company can easily meet its short-term liabilities. Quick ratio measures the ability of a business to meet short-term obligations using its most liquid assets. A company with a higher liquidity ratio is in a better position. BP Plc’s quick ratio has improved significantly from 2011 to 2012 meaning that the company is better placed to meet short-term obligations using its most liquid assets. Cash ratio on the other hand is a ratio of a company’s total cash and cash equivalents to its currents liabilities. BP Plc’s cash ratio grew from 2011 to 2012 indicating that the company can decide on how much credit they can receive from creditors.

Conclusion

Capital growth and dividend income are equally important to investors. These components provide total return from any investment in share and investors always look for companies that can beat the market in total return. BP’s shares currently trade at 455 pence and the market cap is £87, 078 million. The company is on right track after the Gulf of Mexico disaster in 2010. BP has been able to generate consistent cash flow and that shows a better performance. That progress has enabled the company to meet the on-going Gulf liabilities, continue to invest strategically, and return free cash to investors by increasing and restoring dividend. To that end, I would recommend this company to the investor.

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