

financial research report essay sample

[Finance](#), [Investment](#)



Abstract

Imagine that you are a financial manager researching investments for your client that aligns with its investment goals. Use the Internet or the Strayer Library to research any U. S. publicly traded company that you may consider as an investment opportunity for your client. The assignment will cover the following topics:

Rationale for choosing the company for which to invest

Ratio Analysis

Stock price analysis

Recommendations

In this paper, provide a rationale for the U. S. publicly traded company that has been selected, indicating the significant factors driving your decision as a financial manager. Determine the profile of the investor for which this company may be a fit, relative to that potential investor's investment strategy. Select any five (5) financial ratios that I have learned about in the text. Analyze the past three (3) years of the company's financial data, which I may obtain from the company's financial statements. Determine the company's financial health. Based on my financial review, determine the risk level of the company from your investor's point of view. Indicate key strategies that may be used in order to minimize these perceived risks. Provide recommendations of this stock as an investment opportunity.

Provide a rationale for the U. S. publicly traded company that you selected, indicating the significant factors driving your decision as a financial manager:

Exxon Mobil Corporation (Exxon Mobil) is a manufacturer and marketer of

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commodity petrochemicals, including olefins, aromatics, polyethylene and polypropylene plastics and a range of specialty products. It also has interests in electric power generation facilities. The company has a numerous divisions and affiliates that include Exxon Mobil, Exxon, Esso or Mobil. Divisions and affiliated companies of Exxon Mobil not only operate but also market products in the United States and other countries of the world. Their principle business strategy is energy, involving exploration for, and production of, crude oil and natural gas, manufacturer of petroleum products and transportation and sale of crude oil, natural gas and petroleum products. In October 2011, Cosan SA Industria e Comercio bought the distribution assets of Exxon Mobil in Bolivia, Paraguay and Uruguay. In January 2012, Apache Corporation acquired Exxon Mobil's Mobil North Sea Limited assets including the Beryl field and related properties (Forbes 2014).

Exxon Mobil was founded in 1859 in the United States. The current CEO for the company is Rex Tillerson. The company employees 76, 900 people and is headquartered in Irving, Texas. The company's annual sales total \$420. 71B. On the Forbes list, Exxon is #82 on the World's Most Global Brands, #5 Global 2000 which lists the company as #3 in sales, #1 in profits, #91 in Assets, and #2 in Market Value. The company's market cap was \$400. 42 B as of May 2013 (Forbes 2014).

In 2013, the energy giant shares hit an all-time high of \$98. 88 and were up 50% since the 2009 bottom, for a 69% total return. Compare that return to the Dow's 143% gain and S&P 500's 164% rise. The unenthusiastic rate of global growth has kept a lid on gasoline prices, crimping Exxon's refining

margins. The prospects for faster growth may be uninspiring, but with Exxon returning billions in capital every quarter via dividends and buybacks there are plenty of shareholders willing to wait things out. While Exxon has lagged since the broader market's bottom, the company's performance in 2013 has not been quite as bad as some of its fellow market heavyweights. In fact, Exxon's stock has done well enough to keep it out of the Dogs of the Dow at the moment.

The Dogs are the 10 highest-yielding stocks in the 30-member index, which have historically outperformed in the following year. Exxon's 2.6% dividend yield is squarely middle of the pack, compared with AT&T's 5.1% on the high end and Visa's 0.8% on the low end. Exxon looks cheap, going for just 12 times the consensus estimate and up 12% on the year, or about half the broader market's gain. In December 2013, Goldman Sachs analysts upgraded the oil giant to a buy rating, citing a "more defensive" posture that is appropriate for 2014. The firm thinks the company will "turn the corner" before rival Chevron when it comes to production growth as well (Schaefer 2013).

Determine the profile of the investor for which this company may be a fit, relative to that potential investor's investment strategy:

Big Oil is especially suited for investors looking to enter the Mexican market given their large international operations. Exxon Mobil has a leg up on some of its competitors, such as Chevron, because the company has a history of doing business in Mexico through its chemical division. Exxon Mobil currently has 250 employees in the country. The company operates a lubricant

blending plant in Vallejo and a chemical plant in the port of Tuxpan. The company also has offices in Mexico City. Mexico is the world's 10th largest oil producer. On December 23, 2013, President Enrique Pena Nieto signed into law legislation, which required changing the Mexican constitution, to open Mexico's energy market to foreign investment (Zacks Equity Research 2014).

Exxon Mobil Corp is the easiest oil and gas stock to hide out in and the company remains undervalued. Exxon Mobil is an equity investment meaning that the money that is invested in a firm by its owners or holders of common stock but which is not returned in the normal course of business. Investors will only recover it only when they sell their shareholding to other investors or when the assets are liquidated. With that being said, Exxon Mobil may not be the best fit for an investor who is looking to make a quick turnaround on their investment. Investors in Exxon Mobil may have the extra funds to allow this money to sit and grow while they invest other money into some quick low risk securities such as bonds (ExxonMobilFamily).

Select any five (5) financial ratios that you have learned about in the text. Analyze the past three (3) years of the company's financial data, which you may obtain from the company's financial statements. Determine the company's financial health:

Financial ratios are designed to extract important information that might now be obvious simply from examining a firm's financial statements. Examples of financial ratios that could be examined are liquidity ratios, asset management ratios, debt management ratios, profitability ratios, and Market Value ratios. Liquidity ratios are ratios that show the relationship of a firm's

cash and other current assets to its current liabilities. Common liquidity ratios include current ratios, quick ratio, and the operating cash flow ratio. Asset management ratios are a set of ratios that measure how effectively a firm is managing its assets. Asset management ratios consist of total assets turnover ratios, fixed assets turnover ratio, days sales outstanding (DSO), and inventory turnover ratio. Debt management ratios measure how much of a company's operations come from debt instead of other forms of financing, such as stock or personal savings. The debt management ratio is one measure among many of a company's risk and likelihood of default.

Debt management ratio measures the extent to which a firm uses borrowed funds to finance its operations. Owners and creditors are interested in debt management ratios because the ratios indicate the riskiness of the firm's position. Debt management ratios consist of leverage ratios, times-interest-earned ratio, and EBITDA Coverage ratio. Profitability ratios are ratios that are used to assess a business' ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. Profitability ratios consist of Net Profit Margin, Basic Earning Power (BEP) ratio, Return on Total Assets (ROA), and Return on Common Equity (ROE). Lastly Market Value ratios relate the firm's stock price to its earnings and book value per share. Market Value ratios consist of Price/Earnings (P/E) ratio, Price/Cash Flow ratio and Market/Book ratio (Brigham/Ehrhardt).

Information that is needed to calculate all ratios can be found in the company's balance sheet. Appendix A contains all of the company's financials on the balance sheet. Appendix B contains the ratio analysis for

Exxon Mobil. Appendix C contains the information for ratio analysis against the industry of Oil and Gas. First we will examine Exxon Mobil's current ratio. Current ratio is a liquidity ratio that is calculated as follows: $\text{Current ratio} = \text{current assets} / \text{current liabilities}$.

For 2013, Exxon Mobil had current assets of 59,308 and current liabilities of 71,724 (figures are representative of millions of USD). This gave the company a current ratio of 0.83 ($59,308 / 71,724 = 0.83$). The industry ratio for Oil and Gas is 1.24. Generally, creditors like to see a higher current ratio. If current liabilities are rising higher than current assets, then the current ratio will fall and this could mean trouble for the company. Shareholders, on the other hand, like to see a lower current ratio as this indicates to them that the company has a lot of money tied up in excess cash or marketable securities. Over the last three years ExxonMobil's current ratio improved from 2011 (0.94) to 2012 (1.01) but then the numbers declined significantly in 2013 to 0.83 (Stock Analysis On Net).

Secondly are the company's asset management ratios. Inventory turnover ratio will show how many times a company's inventory is sold and replaced over a period of time. The days in the period can be divided by the inventory turnover formula to calculate the days it takes to sell the inventory on hand or inventory turnover days. The formulation for this calculation is: $\text{Inventory turnover} = \text{sales and other operating revenue} / \text{Inventories}$ For 2013, Exxon Mobil had an inventory turnover ratio of 26.08 compared to the industry ratio of 17.05. This could mean one of two things. Either sales are really strong or the buying is ineffective. High inventory levels are unhealthy

because they represent an investment with a rate return of zero. Exxon Mobil's inventory turnover ratio as a company declined slightly from 2011 (31.09) to 2012 (31.16), but improved drastically in 2013. This could mean that sales are improving for the company (Stock Analysis On Net). Thirdly are the company's debt management ratios. One in particular to evaluate is the company's debt to equity ratio. The calculation for this is: $\text{Debt to equity} = \frac{\text{Total debt}}{\text{Total share of Equity}}$

This ratio will measure a company's financial leverage calculated by dividing the company's total liabilities by stockholders' equity. This will indicate what proportion of equity and debt the company is using to finance the company's assets. In 2013, Exxon Mobil's debt to equity ratio was 0.13 ($22,699/174,003 = 0.13$) compared to the industry ratio of 0.25. Based on these figures Exxon Mobil has not been as aggressive with financing its growth with debt. The company's debt to equity ratio for 2011 was 0.11 and in 2012 it was 0.07 (Stock Analysis On Net). Next are the company's profitability ratios. Out of these ratios we will examine the company's Return on Assets (ROA) ratio. Return on Assets is an indicator of how profitable a company is relative to the company's total assets. This gives an idea as to how efficient management is at using assets to generate earnings. Taking the company's net income and dividing by the company's total assets and multiplying it by 100 to get a percentage will calculate Return on Assets. The formulation should look like: $\text{ROA} = 100 \times \frac{\text{Net Income}}{\text{Total Assets}}$

For 2013, ROA for Exxon Mobil was 9.39% ($100 \times 32,580/346,808$) compared to the industry standard of 7.24%. A higher ROA means that the

company is earning more money on less investment and is effective at converting the money it has to invest into net income. Exxon Mobil's ROA improved from 2011 (12. 4%) to 2012 (13. 45%), but declined sharply in 2013 to 9. 39% (Stock Analysis On Net).

Lastly are the market value ratios. Out of these ratios we will examine the company's Price/Earnings Ratio. This is a valuation ratio of a company's current share price compared to its per-share earnings. This ratio is calculated as follows: $P/E = \text{Market Value per Share} / \text{Earnings per Share}$

Exxon Mobil's current P/E ratio is 12. 70 compared to the industry ratio of 9. 80. This P/E ratio could indicate that investors could be expecting higher earnings growth in the future. Also, the P/E ratio can indicate how much investors are willing to pay per dollar of earnings. With this interpretation, investors are willing to pay \$12. 70 for \$1 of current earnings (Stock Analysis On Net). Based on your review, determine the risk level of the company from your investor's point of view. Indicate key strategies that you may use in order to minimize these perceived risks:

Determining which investment is right for an investor depends on the person's investment objective and risk tolerance. The key to remember is that all investments involve some risks. Failure to make an investment decision can also be risky. By understanding the potential risks and returns for each investment option and what the short-term and long-term investment goals are can help to begin to make the right investment decisions for the investor. Exxon Mobil is company for an investor who is willing to be patient and achieve more long-term investment from the

company. Having a longer investment time horizon means that an investor can tolerate a greater level of risk. If the investor has a shorter investment time horizon, then investments with lower-risk such as fixed-income securities, like common assets or bond units, may be a better fit. By investing with Exxon Mobil stock, the investor will have the potential risks and rewards of investing in a single stock. As a shareholder, the return on investment depends on the performance on Exxon Mobil Corporation. Therefore the company is considered a non-diversified investment (ExxonMobilFamily).

Exxon Mobil's financial results are subject to a variety of risks in the global oil, gas, and petrochemical business. Many of these risk factors are not within the company's control and could very well affect the business. One perceived risk is based on supply and demand. The oil, gas, and petrochemical business is a commodity business. This means that the company's earnings may be affected by changes in oil, gas and petrochemical prices and by changes in margins on refined products. Oil, gas and petrochemical prices and margins depend on local, regional and global events or conditions that affect supply and demand. Another perceived risk for investing in Exxon Mobil is the current and future economic conditions. The demand for energy and petrochemicals works closely with economic growth rates.

The occurrence of recessions or other periods of low or negative economic growth will typically have an adverse impact on the company's results. Other factors that can affect economic conditions in the world or a particular region

can be changes in population growth rates or periods of civil unrest.

Economic conditions that impair the functioning of financial markets and institutions pose a risk to Exxon Mobil, which include risks to the safety of the company's financial assets and the ability of the customers to fulfill their commitments to Exxon Mobil (ExxonMobil).

Provide your recommendations of this stock as an investment opportunity: Exxon Mobil has long been one of the steadiest investments throughout the broader market since the 1970s. Investors love Exxon Mobil for many reasons but one of the best reasons is that the company's size makes it resilient to market corrections. There will be downswings, but investors know that ExxonMobil will bounce back. There are a couple of negatives to investing in the company such as domestic demand is weak and global revenue declined in 2012. But even with these concerns, Exxon is still a great investment considering the fact that the company is not a high-growth tech stock trading at over 100 times the company's earnings. Exxon Mobil is not for momentum traders looking to make a quick investment. ExxonMobil is a long-term investment for those with patience (Moskowitz).

Big news for Exxon Mobil most recently was the purchase of company stock by investor Warren Buffett. A reason for other investors to follow suit by investing in Exxon Mobil is the company's dividend. Exxon Mobil has raised dividends every year for 31 consecutive years. In 2013, the company continued its long history of dividend growth by announcing a 10% increase in quarterly cash dividend in Q2. This announcement came after a 21% dividend increase the previous year, which made Exxon Mobil the largest

dividend payer in the world (Young). Exxon Mobil's revenue growth in 2013 came in higher than the industry average of 1. 4%, and since the same quarter one-year revenues increased by 8. 8%. This growth has not filtered down to the company's bottom line, which is displayed by a decline in earnings per share. The company's earnings per share declined by 13. 2% in the most recent quarter compared to a year ago.

The company has experienced a declining pattern of earnings per share over the past two years but analyst expect for this trend to reverse over the next year. In the most recent trading session, Exxon Mobil stock price closed at a price level that was not very different than the closing prices one year earlier. This is due to the company's weak earnings growth as well as other factors. The company's change in net income from the same quarter one year ago has exceeded that of the Oil, Gas and Consumable Fuels industry average, but is less than the S&P 500. The company's net income decreased by 16. 1% when compared to same quarter one year prior, from \$9, 950. 00 million to \$8, 350. 00 million. The company has a P/E ratio of 12. 70, below the S&P 500 P/E ratio of 18. 00. Shares are down 8. 9% year to date. Exxon Mobil retains a buy recommendation based on these factors (Syed).

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