

# [Case study: gulf oil corporation essay sample](https://assignbuster.com/case-study-gulf-oil-corporation-essay-sample-essay-samples/)

1. Measure the economic sciences of Gulf’s geographic expedition and development plan in net present value footings. How do Gulf’s spending for geographic expedition and development comparison to hard currency returns Gulf generates from these activities. If we evaluate the public presentation of Gulf’s direction for the period from 1976 to 1983.

we will happen out that the direction fundamentally did non run the company decently. Many indexs prove the fact the management’s attempts in disbursement immense sum of money in geographic expedition and development activities did non give their benefits. The analysis will cover legion set of fiscal indexs in order to show the full image of Gulf’s management’s public presentation. For the period of 7 old ages.

the direction spent $ 15. 1 Billion in geographic expedition activities. By right. the sum spent should hold resulted in an addition in the company’s public presentation represented in an addition in shareholder’s wealth.

That was non the instance with Gulf. The direction of Gulf was passing immense sum of money without proper analysis. in a nutshell. they were demoing careless attitude in pull offing assets of the company.

This was reflected in immense market undervaluation of company’s stock. which will be demonstrated subsequently. Coming back to the outgo on geographic expedition activities. we will happen out that on per portion footing.

it cost stockholders $ 91. The sum is derived as per below: Per portion geographic expedition expenditure= Entire geographic expedition expenditure/ Number of partakersPer portion geographic expedition expenditure= $ 15. 1 Billion/ 0. 165 Billion= $ 91Now. allow us look how much the monetary value of the company increased for the period of 7 old ages.

Mentioning to the exhibit 6. we will see that the company’s portion increased from $ 29 to $ 43. which mean $ 14 addition in portion monetary values. $ 14 addition in monetary value for $ 91 outgo per portion clearly shows the fact that the direction of Gulf headed by Mr. Lee did a really hapless occupation.

And it happened in the environment. when the petroleum monetary values increased from $ 5. 76 in 1976 to $ 22. 42 in 1983.

But this is merely one angle of the analysis. Let’s cover other facets. If we refer to exhibit 3. we will see that the company was to a great extent consuming its militias. Its modesty replacing ratio on norm of 7 twelvemonth was 0.

85. which is non a good indictor. Ration below 1 agencies that the company produces more that it develops militias. If Gulf continued runing in this mode. its estimated modesty life would be 8 old ages. Estimated Reserve Life ( 1983 ) = Accumulated Reserves/ Production= Estimated Reserve Life ( 1983 ) = 2.

313/290= 8years. Other indexs. such as return on assets and equity. which we can deduce from exhibit 7.

show that the company performs below the industry norm. So that mean return on assets for Gulf for the period of 7 old ages was 6 % compared to 7. 2 % . Similarly. mean return on equity was 12.

4 % compared to industry norm of 16. 8 % . All this indexs proves the point why the market so drastically undervalued Gulf’s stocks. If we calculate NTA per portion footing.

we will happen out that it is $ 112. 9. compared to $ 43. It’s non a surprising fact looking at the hapless plus direction.

Net Total Assets per share= ( Entire Assets-Long term debt ) / Number of portionsNTA per share= ( $ 21 Billion- 2. 3 Billion ) / 0. 165= $ 112. 9Despite of such a hapless public presentation.

direction of Gulf showed a pattern of paying high dividends to stockholders. This tactics is normally done by the direction to portray its good public presentation in the eyes of stockholders. 2. How Gulf portions became so valuable within a short period of clip? How Pickens could profit from Royalty trust construct.

why was he offering such a large premium? The portion monetary values of Gulf became so valuable chiefly due to bad activities ; it had nil to make with the public presentation of the company. Just to foreground one interesting fact. one hebdomad before Pickens’s partial stamp offer. a trading volume of Gulf portions increased about two times.

Why investors wanted to get portions of Gulf? One of the grounds might be the royalty trust construct. which Pickens wanted to implement in Gulf. Pickens was a clear corporate plunderer. who was chiefly profiting by geting portions of companies and selling them at the premium therefore acquiring capital additions. The construct of royalty trust would consequences in a immense addition in EPS since the construct of royalty trust enabled the company to bask revenue enhancement benefits.

In general. the basic advantage of puting up a trust to administer oil and gas income is that the trust grosss are non capable to corporate revenue enhancement before any dividends are distributed. even though the proprietors enjoy the benefit of limited liability. Generally.

one time the corporate revenue enhancement has been paid. houses can retain their net incomes and/or administer them to their shareholders as dividends. Corporate dividends paid to persons are capable instantly to the personal income revenue enhancement at a rate. To the extent that the market value of stock is enhanced through retained net incomes.

the increased value is taxed as capital additions when shareholders sell their portions. So should Pickens hold implemented this construct in Gulf. the monetary values of royalty trust portions would hold been around $ 134. which is derived as per below: P/E Gulf Shares ( 1983 ) = P $ 43/ EPS $ 5. 5= 7.

8As a consequence of corporate revenue enhancement freedom. new NPAT would be $ 2. 85 Billion. New NPAT= $ 0. 915+ $ 1. 933= $ 2.

85 BillionNew EPS= $ 2. 85 Billion/ 0. 165= $ 17. 23New Price= New EPS\*P/E= $ 17. 23\*7. 8= $ 134That was the ground why Pickens was ready to offer $ 65 and why there were so many single investors willing to get the portions of Gulf on the Eve of Pickens’s offer.

Pickens net capital additions on portion footing from the sale of Gulf portions after implementing the royalty trust construct would hold been$ 34. 5After revenue enhancement capital additions per share= ( $ 134- $ 65 ) \*0. 5= $ 34. 53. How much should Keller of Socal offer for Gulf portions? In contrast to Pickens.

Keller of Socal wanted to get Gulf to run it. That was one of the grounds why direction of Gulf was more eager to be acquired by Socal instead than by Pickens of Mesa. who wanted to neutralize the company and bask immense capital additions from the sale of royalty trust portions. Since Gulf Management did non desire to accept any offer below $ 70. Keeler should offer $ 80 for Gulf portions.

Socal was in the place to offer $ 80. since many Bankss are willing to offer loans because of low pitching ration of the company.