

Financial Performance Analysis: The Case of a Medium-Sized Oil and Gas Exploration and Production Company

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ABSTRACT

This manuscript analyzes the financial performance of a midsize oil and gas exploration and production company. This company is chosen because it represents a typical medium-sized oil and gas company which tends to be under-studied by academia or practitioners compared to the major oil companies. The goal is to identify and propose solutions to potential long-term problems that may also perplex other oil and gas companies of the similar size.

The company is a public-traded medium-sized oil and gas exploration and production company with a total asset of \$8.6 billion and over 1,600 employees. It operates drilling and production in the United States, South Africa, Argentina, and Tunisia.

Using the data extracted from various annual reports and Compustat, we apply the methodology of common-size financial statements and ratio analysis to identify the strengths, weaknesses, opportunities, and threats (SWOT) and suggest alternative solutions for the major problems in the company. The major problems identified are short- and long-term liquidity, low activity performance (turnover ratios), high operating expenses, and decreasing revenues and profits. The alternative solutions are to continue the Retrenchment strategy by divesting peripheral properties and focusing on core growth areas of low cost and efficient production. This is especially important in the current environment of recessionary economy and suppressed oil and gas prices.

Furthermore, the company should consider merge with very-selected companies with high-quality assets to provide solid financial basis and greater revenues. Lastly, the company should actively hedge energy commodities to reduce the potential losses induced by fluctuating prices and exchange rate risks in order to remain competitive and sustain growth.

KEY WORDS

Oil and gas exploration and production, financial statement analysis, financial ratio analysis, SWOT, alternative solutions

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