Critical Overview of BP's Stock Report

BP Stock Report

The British company, BP, is an integrated oil company that belongs to the energy sector of the stock market. BP is one of the major oil companies in the market and is currently the largest producer of oil and gas in the United States. From finding oil and natural gas sources, to extraction, to transportation, and manufacturing and refining, BP controls its raw materials through production and sale of the final product. In addition to the company's large output amounts, the Deepwater Horizon oil spill in 2010 captured and directed the public's attention on BP. Since I started business classes, I pick any topic related to the oil industry when I can because I find it so fascinating. With this stock report, I thought it would be interesting to learn more about oil companies and investors who pick such a volatile market with huge potential risk and huge reward. I ended up picking BP because I wanted to see to what extent the company recovered after the 2010 disaster, and as a consumer, I sometimes fill my car with gas at BP stations.

The stock has been performing well since September. On September 1, the stock opened at $34.65 and closed at $34.77. On November 17, the stock opened at $38.94 and closed at $39.09. The stock price increased overall by $4.44, which is a 13% increase from the original opening price of $34.65. The stock shows a positive correlation with the price of crude oil. As the price of crude oil generally increased, BP's stock also generally increased. The large initial gain during September can be linked to shortages and stockpiling from Hurricane Harvey. Crude oil prices were kept high due to conflicts in the Middle East. The most noticeable dip in BP's stock price occurred mid-November when the price of crude oil also dipped. Even with this fluctuation, the stock began to rise back up afterwards, and the price increased to a higher price than the original starting point.

The stock volume would also suggest that the stock has been performing well. The volume of shares started at 4.59 million and ended at a volume of 3.29 million. Although the volume of shares being traded decreased, the decrease is a result of BP beginning to buy back some of its shares that it had issued in part as dividend payments when oil prices were low. The buyback has been seen as a positive sign that the company is confident in producing strong future cash flow to purchase stocks back with cash now. Reducing the total volume of shares should increase the EPS as earnings continue to rise, benefitting current BP stockholders and strengthening the value of BP stock.

In comparison to its competitors, Chevron and Exxon Mobil, BP's stock price grew the most. On September 1, Chevron's stock opened at 107.68 and closed at 108.76 with a volume of 3.66 million. On November 17, Chevron's stock opened at 114.67 and closed at 114.71 with a volume of 4.34 million. The stock grew by 6.99, which is 6%. Unlike BP however, Chevron's stock took a dip at the beginning of November. On September 1, Exxon Mobil's stock opened at 76.37 and closed at 76.57 with 7.36 million. On November 17, Exxon Mobil's stock opened at 80.32 and closed at 80.24 with a volume of 9.54 million. The stock grew by 3.84, which is 5%. Both Chevron and Exxon Mobil experienced smaller growth similar to the market.

The NASDAQ has been trending upward, reaching record highs. On September 1, the market opened at $6448.81 and closed at $6454.28 with a trading volume of 1.89 billion. On November 17, the market opened at $6794.45 and closed at $6782.79 with a trading volume of 1.99 billion. The index price increased overall by $333.98, which is a 5% increase from the original opening price of $6448.81. Compared to BP, the NASDAQ's steady fluctuations seemed smaller. The growth was also positive but at a much smaller rate, and overall the NASDAQ only had a 5% increase while BP had a 13% increase. Because BP's beta is 0.91, it makes sense that BP's stock was almost 10% above the growth of the NASDAQ.

According to expert financial analysts, the stock seems to be slightly undervalued from its estimated intrinsic value but close to a fair market value. Yahoo Finance analysts estimate a $40.72 price target, while the current price is $40.05. Their recommendation rating is 2.4 placing it somewhere between a buy (2) and hold (3). Analysts at MarketWatch estimate an average target price of $42.21. Their recommendation rating is also somewhere between a buy (17 analysts) and hold (16 analysts). Both groups of analysts share similar conclusions and are split. Though half of both groups suggest that the market price is close to the estimated intrinsic value and recommend holding the stock, the other half of both groups suggest that the market price is less than the estimated intrinsic value and recommend buying the stock.

In a recession or boom, the stock would be expected to follow market trends because BP's beta is 0.91. In a recession, the demand for oil and gasoline would decline as many consumers cut back, but the demand would not be eliminated completely as other energy sources are not readily available. I would expect the stock price to also decline but eventually level off and stabilize until the recession lifts. In a boom, the demand for oil and gasoline would increase as many consumers would have money available to use oil and gasoline for transportation and increased production. I would expect the stock price to also grow but eventually level off as the market becomes saturated. When the boom lifts, the supply would likely be high while the demand is low, and all prices would fall. In a boom, the stock along with crude oil prices would grow above the market, but in a recession, the stock and crude oil would fall below the market. This has been seen in the past during the 2008 recession and lately in the bullish oil market as the economy recovers.

BP has been making large strides towards a positive outlook for their future. BP has been focusing on increasing production and investing on projects for future growth and security. In mid-September, BP began a joint venture with Bridas in Argentina. They also began their Khazzan natural gas production project in Oman, which was just one of 7 major startups in several countries in 2017. All 7 upstream startups were announced to be ahead of schedule and below budget. In October, BP announced that the Midstream IPO they filed for back in September is expected to bring in an upwards of $893 million from its initial public offering. BP has been able to cut its production cost per barrel by almost half, and by selling off various assets, BP has been able to streamline operations. BP has been expanding production, increasing partnerships and entering various markets, and becoming more efficient in operations to cut costs all while selling assets and surpassing earnings estimates. Additionally, they have taken on more natural gas projects for diversification as alternative energy sources are being looked to for the future. BP has positioned itself for present success as well as security for the future in a volatile market.

After the 2010 spill, BP had to work hard to regain lost ground and recover. Their revenues and earnings have been up. They have had enough cash flow to buy back stocks and invest in major projects to expand production, and their projected future cash flow is strong. Within 5 years, they will no longer have ongoing payments and liabilities associated with the 2010 spill, which will only strengthen their financial position. They proved they could survive the aftermath of a horrible disaster, and they have made strategic investments that would help them survive a downfall or turn in the market. Their stocks have been recommended as a buy, and I believe that BP is undervalued because they are currently well-positioned and have so much future potential. If I were going to invest, I would continue my research and likely purchase BP stock.