The Influence of the Russia-Ukraine War on BP

Chenyu Jiang[1, *]

[1] *Chenyu Jiang , City, University of London, Bayes Business School, SW8 2FJ, London, United Kingdom*
[*]*Corresponding author. Email: 18404150@masu.edu.cn*

ABSTRACT

According to the findings of this paper's SWOT analysis of BP, the company's management has been ineffective and dishonest in dealing with the fallout from the crises. Like Shell and Chevron, other companies in the same industry are getting more competitive as time passes. Although BP has committed $266 million in research and development, the company currently holds more than 5,000 patents. Following data from the previous four years, the company's financial condition fell severely during the Covid 19 period but recovered dramatically in 2022. The company occupies a niche among the several low-carbon energy sources in terms of the stock price. Oil and gas prices will continue to rise, encouraging investors to put their money into the traditional oil and gas company. As well as outlining the potential impact on oil prices in a war between Russia and Ukraine, this paper provides a brief overview of alternative hedging options.

Keywords: *BP, Oil Price, War*

1. INTRODUCTION

The war between Russia and Ukraine would cause supply-side tensions in the supply and demand of crude oil, boosting the price of crude oil, natural gas, and other energy sources due to the increased demand for oil [1-3].

BP is a well-known brand around the world. The name can be found on production platforms, refineries, ships, corporate headquarters, wind farms, research facilities, and retail service stations [4].

Since its introduction in the United Kingdom, the BP name has become synonymous with premium gasoline, transportation fuel, chemicals, and alternative energy sources such as wind and biofuels since its inception in the United Kingdom in the 1920s [5]. They are committed to making a significant difference in providing better energy for today's and tomorrow's rapidly changing worlds. It is crucial to investigate the impact of the Russia-Ukraine war on Bp. This article utilizes the SWOT analysis and financial analysis to investigate BP.

1.1. Financial Statement

1.1.1. Income Statement

According to BP's Income statement, we can see that Total revenue for 2021 is down compared to 2020. However, compared to 2019 and 2018, there is a significant drop in Total revenue, 52.80% of 2018. At the same time, Gross profit for 2020 has a dramatic reduction of 64.73% compared to 2019 and 2018. Net income for 2018 is much greater than that of 2019, and in 2020, net income becomes negative, meaning that the company is experiencing a loss, but in 2021, net income managed to rebound to 7,565,000 [6-7].

Revenue is not increasing, but rather it is decreasing year on year. Although there is a significant increase in net profit of 137.26% in 2021, the result is still not higher than the net profit of 2018 due to the demise of 2019 [8]. Comparing the company's statistics, the prospects of attracting more investors are not good, as neither revenues nor net income is based on sound financial growth.

However, we don't see other expenses in the income statement for operating costs, so we don't know the most significant expenses for this company, such as staff salaries. However, we will try to break even. In other words, we assume selling, general and administrative expenses as a whole as all variable expenses, subtract these from total revenue and divide them by each income. We will not see any difference based on the break-even situation on a contribution margin basis.

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1.1.2. Balance Sheet

Total assets surpass total liabilities, and total liabilities and equity equal total assets. BP's financial performance is judged satisfactory because of these factors:

percent 2017, the return on asset (ROA) was 8.97 percent, while in 2016, it was 6.24 percent, and in 2015 it was 8.43 percent. To be profitable, the corporation needs to lower its asset expenses and raise revenue, and the high ROA implies that. In other words, the ROA indicates that the company's management is efficient enough to generate more profits by maximizing the use of its assets.

There is a debt asset ratio of 24.29 percent in 2021, 30.61 percent in 2020, 26.24 percent in 2019, and 23.31% in 2018. A decrease in the debt asset ratio is 2021, which indicates that the corporation has performed well following a poor liability dimension in 2020.

Table 1. Income statement(All numbers in thousands)

Breakdown	2021/12/31	2020/12/31	2019/12/31	2018/12/31
Total Revenue	157,739,000	180,366,000	278,397,000	298,756,000
Cost of Revenue	134,879,000	170,182,000	250,814,000	269,876,000
Gross Profit	22,860,000	10,184,000	27,583,000	28,880,000
Operating Expenses	12,188,000	10,757,000	11,390,000	12,539,000
Operating Income or Loss	10,672,000	-573,000	16,193,000	16,341,000
Interest Expenses	2,712,000	3,115,000	3,489,000	2,528,000
Income Before Tax	15,227,000	-24,888,000	8,154,000	16,723,000
Income Tax Expenses	6,740,000	-4,159,000	3,964,000	7,145,000
Income from Continuing Operating	8,487,000	-20,729,000	4,190,000	9,578,000
Net Income	7,565,000	-20,305,000	4,026,000	9,383,000
Net Income available to common stockholders	7,563,000	-20,306,000	4,025,000	9,382,000

Table 2. Balance Sheet

Balance Sheet (All numbers in thousands)				
Breakdown	2021/12/31	2020/12/31	2019/12/31	2018/12/31
Total Assets	287,272,000	267,654,000	295,194,000	282,176,000
Total Liabilities Net Minority Interest	196,833,000	182,086,000	194,486,000	180,628,000
Total Equity Gross Minority Interest	90,439,000	85,568,000	100,708,000	101,548,000
Working Capital	12,303,000	13,183,000	8,464,000	3,073,000
Invested Capital	136,618,000	143,893,000	166,136,000	164,555,000
Tangible Book Value	60,907,000	56,769,000	85,096,000	85,924,000
Total Debt	69,787,000	81,926,000	77,446,000	65,799,000
Net Debt	35,235,000	43,470,000	45,252,000	42,664,000

1.2. Share Price

Due to the outbreak and the current market circumstances, BP's. In comparison to other oil companies (such as ExxonMobil), its return on investment has been low, and the business has reduced its dividend to relieve cash flow strain. The market was not thrilled, even though the financial performance exceeded expectations.

Investors will be enticed to invest in the traditional oil and gas industry by rising oil and gas prices. The company's stock is cheap in comparison to other oil majors, making it more appealing to investors (Figure 1).

Low-carbon energy provider with clear climate change commitments is how the company views itself. The market will eventually see the company's growth route as having enormous potential because of its position in several low-carbon energy sources [9-10].

1.2.1 Review of the Organization's Performance

The corporation's first annual loss in ten years was due to the New Crown epidemic in the global oil market. An estimated $5.7 billion (£4.2 billion) loss was predicted for the company last year due to decreased demand for transportation fuels and the subsequent drop in global oil prices. This compares to an expected profit of over $10 billion in 2019.

1.2.2 Businesses that aren't benefiting from increased oil prices

The increase in commodity prices did not affect the company's stock price. Following the epidemic, the global economy has begun to recover, and energy consumption is high. The spike in crude oil, natural gas, and chemical prices resulted in sizeable free cash flow for the company: replacement costs totaled US$3.3 billion, and net debt was reduced to US$32 billion.

Furthermore, non-GAAP earnings per share were $0.99 in the third quarter. The company's stock price rose at a slower rate than its peers.

1.2.3 The market's opinion on oil and gas has shifted.

Traditional oil and gas have undergone a significant transformation from an investor perspective. Companies have made tremendous progress in reducing carbon emissions, among other things, due to ESG regulations over the last few years. The current conventional energy crisis has resulted in rising energy costs for global utilities like heating.

Europe is facing a brutal winter in terms of prices. In truth, fossil fuels are critical to ensure a seamless and orderly transition to renewable energy for future energy demands. Traditional oil and gas industries will prosper as a result.

1.2.4 Natural gas brings in a lot of money.

The natural gas division of the business generates a substantial revenue stream for the company. With a 28.8 percent ownership in Azerbaijan's Shah Deniz gas production, BP hopes to acquire the Adriatic Gas Pipeline Company, the main operator and shareholder. Gas from Azerbaijan's ShahDeniz field is transported to Europe via the Trans-Adriatic Pipeline. It helps the European Union achieve its goal of a sustainable, secure, and diverse energy mix.

European gas prices have been climbing since July as the peak winter demand approaches. This facility preserves Europe's energy security in light of Europe's over-reliance on Russian gas and the consequent tensions.

1.2.5 Incorporating several sources of energy into the company's product line

New energy efforts are extremely important to the company. A $25 billion divestment of upstream fossil energy assets by 2025 and net-zero energy consumption by 2050 have been announced by the firm. The company has expanded into low- and zero-carbon markets and industries like biofuels, wind, and solar, by merging its current natural gas capabilities.

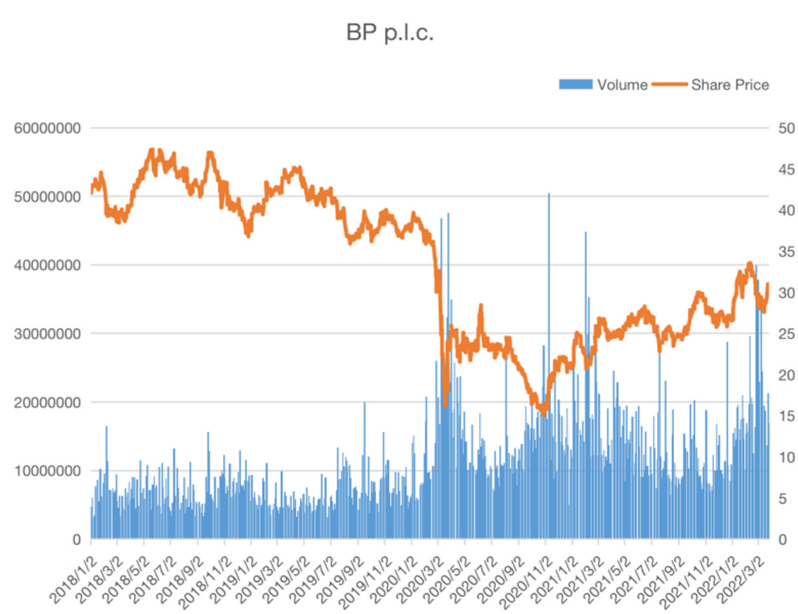

Figure 1. BP p.l.c. Share Price Currency in USD

2. HEDGING STRATEGY

2.1. Raw Meterial Price

Figure 2 shows that oil prices have been growing since May 2020. The Covid 19 epidemic caused the world economy to enter a recession and demand to collapse, even though global oil supplies were relatively abundant before the outbreak. Oil production was abundant, but demand was down, resulting in a precipitous drop in oil prices, which fell from roughly $58 per barrel in February 2020 to a four-year low of $23 per barrel in April 2020 within two months. In the past, oil prices had been going up and down on an axis of roughly $58-60 for an extended period, and from April 2020 to November 2020, they had been fluctuating in the $40 to $50 area.

Oil prices will be in a sluggish recovery range until March 2021, when they will rebound to roughly $58 per barrel, which was the price before the fall in February 2020. Oil prices reached a new all-time high of $87 per barrel in October 2021. The outbreak of the Russian-Ukrainian war in February 2022 resulted in a spike in oil prices, which reached $130 within a month.

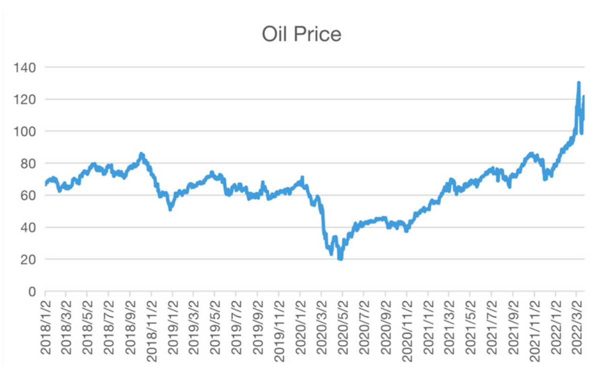

Figure 2. OIL (BRENT)

2.2. War between Russia and Ukraine

The war between Russia and Ukraine would cause supply-side tensions in the supply and demand of crude oil, boosting the price of crude oil, natural gas and other energy sources due to the increased demand for oil. Russian crude oil and natural gas exports are significant, and European energy imports are heavily reliant on Russian supply, one of the primary causes of this development. Since the Russian-Ukrainian conflict on February 21, international oil prices have risen dramatically, by as much as 40 percent in some cases. Natural gas, which is also affected by this issue, has seen a price increase of up to 70% in recent years. The situation in Russia and Ukraine has had a more significant impact on the price of natural gas than it has had on oil in recent months.

In addition to reacting to the high degree of positive sentiment around the conflict, the present surge in oil prices is also pricing in the anticipated disruption of the Russian energy supply. The market is concerned about the end of Russia's energy supply as a result of the United States and Europe kicking Russia out of the SWIFT system, which will cause Russia's energy trade exports and settlements to face obstacles, and this time if countries on Russia's energy exports to implement sanctions will directly block Russia's energy supply, which will further exacerbate the situation.

Oil prices continued to rise in October 2021, driven higher by the end of city closures in Europe and elsewhere, weather-related supply disruptions, and production constraints from OPEC and its partners (OPEC+), as well as higher gas prices, which increased demand for oil for heating and power generation. Expectations of sanctions on Russian oil rose due to the armed conflict between major oil producers Russia and Ukraine.

Europe is the primary destination for Russian energy exports, with Russian oil and gas shipments to Europe accounting for 50 percent and 78 percent, respectively, of Russia's overall exports in the energy sector. Based on Russia's significant energy market share, this means that nearly 25% of global oil and gas supplies will be disrupted once sanctions against Russia's energy sector are implemented in Europe and the United States.

The chairman of BP's board of directors delivered a statement announcing the company's departure from its alliance with Rosneft, as well as the sale of Rosneft shares and the end of a three-decade partnership. Rosneft owns half of BP's oil and gas reserves and produces a third of the company's output. This choice might cost BP as much as $25 billion.

2.3. Possible hedging strategies

Rising prices of raw materials, high-interest rates, and negative exchange rates are all risks that oil and gas firms can actively manage through derivatives. For example, BP employs derivative financial instruments to hedge against risks associated with commodity prices, foreign exchange rates, and interest rates during the usual course of its operations. Interest rate risk arises due to international trade, mainly when the US dollar is in flux. The corporation is attempting to hedge its stake in this area through derivatives. Bp generally employs futures and options contracts to hedge its exposure to volatile market prices, such as those for oil, gas, electricity, and other commodities.

3. SWOT ANALYSIS

With its many subsidiaries, bp can provide a diversified income rather than simply relying on its oil business. Over 10,000 engineers and 2,000 digital professionals work at bp. BP, on the other hand, has invested $266 million in research and development and possesses over 5,000 patents. BP's management has been ineffective and dishonest in dealing with the aftermath of the crises, further damaging the company's reputation. Other firms in the same sector, such as Shell and Chevron, are becoming more competitive with BP, and their brand reputation has improved as a result. This may give the impression that BP is synonymous with apathy and greed.

3.1. Strengths

With its many subsidiaries, bp can provide a diversified income rather than simply relying on its oil business. Lubricants, energy, and aviation fuels are only a few of Bp's subsidiary operations and products that help to diversify risk. Bp is the market leader in the majority of its product categories. Over 10,000 engineers and 2,000 digital professionals work at bp. On the other hand, BP has invested $266 million in research and development and possesses over 5,000 patents, allowing them to lead the industry in research. BP is the largest oil and gas corporation in the United Kingdom and the largest gasoline distributor in the United States. It plays a critical role in regional economic balance. The Company has an extensive sales network in Europe, North America, South America, Africa, and the Asia Pacific. Bp is active in the region. With 17,150 gas stations in the area, the corporation sells in the east through its subsidiary AMOCO and in the west through ARCO. More than 11,850 BP-branded stations are operated worldwide, including 1,525 in the United Kingdom, and Castrol-branded lubricants are sold in more than 50 countries. BP has a loyal client base with a long and stable relationship with the Company, implying that they rely on BP to supply their energy demands.

3.2. Weaakness

The Company's long-term success in the energy business may have hampered its expansion in other areas. He has been implicated in several oil spill scandals in various world regions, which may have resulted in a drop in their sustainability rating. Oil spills have also resulted in ocean pollution and the extinction of marine species, wreaking havoc on the ecology. In the aftermath of the succession of crises, BP's management has been ineffective and dishonest in dealing with the fallout, further damaging the Company's reputation.

3.3. Opportunities

BP is investigating gas and low-carbon energy, integrating current gas capabilities with considerable development in its zero-carbon business and markets. They've established a plan that will enable them to transition from a global oil corporation focused on resource production to an integrated energy company focused on customer solutions. By 2030, they intend to be a significantly different energy firm.

3.4. Threats

Environmental issues may continue to be a threat and hazard if BP does not formalize and prioritize corporate social responsibility in its strategy, which includes modifying workplace safety practices to reduce refinery explosions, oil spills and leaks, pipeline corrosion, and other environmental issues. However, if these environmental concerns and insufficient safety standards are not addressed, the Company will continue to face litigation and penalties, which will have a detrimental effect on the Company's long-term sustainability and image. This may create the perception that BP embodies apathy and avarice. Other companies in the same sector, such as Shell and Chevron, are becoming more competitive with BP, and these companies are more adept at addressing environmental issues than BP. As a result, their brand reputation has improved. Bp is also under considerable strain, particularly in light of the global oil price volatility.

4. CONCLUSION

Russia's onslaught on Ukraine will keep crude prices at a risk premium. Oil and gas prices will rise sharply, adding to inflationary pressures and weighing on financial markets and global economic growth. In the absence of major supply disruptions, crude oil prices could pull back as the Russian attack turns more of a macro bearish factor than a bullish supply threat.

This paper mainly discusses the future development strategy of BP under this background and conducts research through SWOT analysis. We find that the Company's long-term success in the energy business may have hampered its expansion in other areas. Also, with its many subsidiaries, bp can provide a diversified income rather than simply relying on its oil business. The corporation is attempting to hedge its stake in this area through derivatives.

The article also exists some limitations. There are fewer quantitative models for data analysis. In the future, we will further discuss the impact on the company's financial condition and share price benefit using regression analysis and event study methods.

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