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International Journal of Engineering Researches and Management Studies

FINANCIAL RATIO ANALYSIS OF OFFSHORE OIL AND GAS DRILLING INDUSTRY

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ABSTRACT

The decreasing prices of oil have made its drastic changes in the financial terms of oil & gas drilling industries. In business such as of Transocean, the company has rigs, which requires maintenance due to which the growth and sales may vary from time to time. This report contains the conditional analysis of Transocean before and after the decrease in oil prices and then compared both in the end.

KEYWORDS: Demand disruption, Supply chain management, Exponential demand

INTRODUCTION

About the company

Transocean Ltd. is one of the world's largest offshore drilling contractors. Transocean helps customers find and develop oil and natural gas reserves. The Swiss-based company rents floating mobile drill rigs, along with the equipment and personnel for operations, to oil and gas companies at an average daily rate of US$282,700 (2010). Transocean employs more than 18,000 people worldwide and has a fleet of 135 offshore drilling units and two ultra-deep-water units under construction, as of December 2011. The company is based in Vernier, Switzerland near Geneva, and has offices in 20 countries, including Switzerland, Canada, United States, Norway, Scotland, Brazil, Indonesia and Malaysia. The firm owns nearly half of the 50 or so deep-water platforms in the world. The company's ordinary shares are traded on the New York Stock Exchange under the symbol "RIG" and on the SIX Swiss Exchange under the symbol "RIGN."

Source: Wikipedia and www.deepwater.com

FINANCIAL RATIO ANALYSIS OF TRANSOCEAN LTD FROM 2011-14

In business such as of Transocean, the company has rigs, which requires maintenance due to which the growth and sales may vary from time to time. To analyse the growth and sales, let's look at CAGR (Compound Annual Growth Rate) and margins for Transocean from 2011-2014. Π: the total profit of the supply chain,

Ratio	Value
Sales CAGR	4.6%
EBITDA CAGR	9.6%
EPS CAGR	N/A(due to loss in2011)
EBITDA Margin	40.6%
Change in EBITDA Margin (2011-2014)	9.6%

Growth: The above CAGR shows moderate growth in sales and good margin growth. These two ratios suggest that the company has been able to control costs. The company has suffered from a loss due to payment related problem of Deep-water Horizon oil spill which made it difficult to calculate a CAGR for company's earnings per share. **Margins:** Transocean has a good growth margin. As this company has newer rigs which are to manage or handle challenging and complex task simultaneously requiring less downtime for maintenance, resulting in a higher margin.

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Return: Ultimately, the thing that matters the most to the shareholders is the return that the company can generate. Here are some ratios which measures the return.

Based on this breakdown, let's look at how much Transocean stands on this:

Ratio	Value
Pre-Interest	29%
Assets Turnover	0.30
Interest burden	81%
Tax efficiency	89%
Equity Multiplier	1.91%
Return On equity	12%

Transocean has fleet of newer rigs that results into high contact rates but at the same time the company has fleet of older rigs that results in profitability. Even if the company to sell, spin off, or even retire these older rigs, it could see further boosts in profitability as it has seen over the past three years. The company has higher asset turnover ratio which states that the company has old asset which have been depreciated over time. The company has good tax efficiency but weaker margin as compared to peers which clearly depicts that higher margin do not necessarily contribute to a higher return.

FINANCIAL RATIO ANALYSIS OF TRANSOCEAN LTD FROM MID-2014 TO APRIL 2015

Valuation

P/E Current	-3.40
P/E Ratio (with extra ordinary items)	-3.39
Prices to Sales Ratio	0.72
Prices to Book Ratio	0.49
Prices to Cash Flow Ratio	2.99
Enterprise Value to EBITDA	3.60
Enterprise Value to Sales	1.51
Total Debt to Enterprise Value	0.71

Efficiency

Revenue/Employee	700,305
Income per employee	-144,504
Receivables Turnover	4.28
Total Asset Turnover	0.30

Profitability

Gross Margin	31.88
Operation Margin	29.56
Pretax Margin	-19.62
Net Margin	-20.63
Return on Assets	-6.21

ISSN: 2394-7659
Impact Factor: 2.187 (PIF)

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Return on Equity	-12.47
Return on Total Capital	-7.40
Return on Invested Capital	-7.60

Capital Structure

Total Debt to Total Equity	73.82
Total Debt to Total Capital	42.47
Total Debt to Total Assets	35.52
Long-Term Debt to Equity	66.26
Long-Term Debt to Total Capital	38.12

Liquidity

Current Ratio	1.59
Quick Ratio	1.37
Cash Ratio	0.73

- Current Ratio of RIG is 1.59 which is less than the optimum value (i.e. 2) which shows that the company is not safe (financially).
- RIG's long-term debt is $9,059.0 million while the current assets are $2,231.0 million which is less than the long term debt. This shows that the company is not stable (financially).
- Within the last 5 years, EPS of RIG was negative. This behavior shows that there is no long-term EPS growth.
- Price/Earnings (P/E) Ratio of RIG is not available. P/E Ratio should be moderate over the past 3 years.
- Price/Book (P/B) Ratio and Price/Earnings (P/E) Ratio of RIG is 0.48 and 0.00 respectively. When both multiplied, the net result should be less than 22 which is true for RIG.
- RIG's growth rates
- EPS: -438.33%
- Sales: -0.67% , which are not up to the mark. The optimum growth is at least 25% in comparison with previous year

HIGHLIGHTS

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CONCLUSION

- **Net Income:** On the basis of net income, the company has underperformed as compared to that of the S&P 500 and the Energy Equipment & Services industry. There is a decrease in net income by 417.2%.
- **Return on equity**: There is a decrease in ROE as compared to industry average and other energy industries. Decrease in ROE is an indication of major weakness within the corporation.
- **Net operating cash flow:** Decreased to $566.00 million when compared to the same quarter last year. The cash generation rate of the firm is lower than that of industry average.
- **EPS**: The company's EPS are down by 438.33% as compared to a year ago. The company has faced a decline in EPS over the past two years. However this trend is expected to reverse in coming years. During the past fiscal year, TRANSOCEAN LTD swung to a loss, reporting -$5.25 versus $3.85 in the prior year. This year, the market expects an improvement in earnings ($1.42 versus -$5.25).
- **Stock**: Stock performance has declined by 54.17%, worse than the S&P 500's performance. However, in one sense, decline in the stock last year is a positive for future investors, making it than most other stocks in its industry

TRANSOCEAN LTD's gross profit margin in 2014 has increased when compared to the same period a year ago. Sales and net income have declined as compared to the industry average. TRANSOCEAN LTD has average liquidity. Currently, the Quick Ratio is 1.29 which shows the company's ability to cover short-term cash needs. The company's decreased liquidity indicates deteriorating cash flow.

During the same period, stockholders' equity has decreased by 18.09% from the same quarter last year. Together, the key liquidity measurements indicate that it is relatively unlikely that the company will face financial difficulties in the near future.

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