



Fisher Funds

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Size helping BP get on with life a year after the Gulf disaster

27/02/11

We've all heard the phrase "too big to fail". It emerged in the midst of the global financial crisis to describe those businesses that are so important or so pervasive that if they failed, the collateral damage would be unbearable.

I've always preferred small companies to big companies. But despite my preference for undiscovered small companies, I have to admit that big companies might have a place in an investment portfolio because their size improves their chances of surviving.

A case in point is BP which a year ago was one of the world's most hated companies. Rightly or wrongly, the company was blamed for the Gulf of Mexico explosion that became the biggest oil spill disaster ever.

The financial consequences of the spill were bad enough - BP has so far reserved \$41 billion to cover the associated costs. But the environmental impact was enormous and the whole world watched with horror as week after week we saw images of dead birds and sea life, and marshes and beaches coated in thick oil.

But they say that life goes on, and indeed life seems to be turning out okay for BP. The company generated more operating cash flow in the 2010 year than in 2009, despite its curtailed activity in the Gulf, and its share price is up 50% from its low in July last year.

It appears that BP is big enough to take the hit and carry on.

The company is planning to carry out asset sales of \$30 billion this year, raising cash for costs associated with the spill, and it won't need to touch its core assets that support its underlying earnings. Last year, BP sold assets to raise \$17 billion and still finished the year with \$18 billion in cash. While the company suspended dividends in June last year, it appears that the company has enough financial strength to resume paying dividends later this year.

Of course had BP been in a different industry, it may not have been able to weather a crisis so well. BP operates in the energy sector, and energy is where it's all at right now. Because of global growth, it is estimated that the world will be consuming 40% more energy by 2030 than it does today. BP has massive reserves around the world, and it will be supplying much of this energy.

It seems then that companies can indeed be too big to fail, even after massive disasters.

For the environmentalists amongst us there is a silver lining to the tale. Apparently the Gulf is also too big to fail.

Much of the Gulf teems with bacteria that feed on oil, and a lot of the oil from a spill naturally evaporates and breaks down through exposure to the sun. With time up to 85% of the affected marshes will recover on their own, and as for the sea life, research shows that because fishing has been banned, many chronically overfished species have had a chance to recover.

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