

CORPORATE FINANCE

ASSIGNMENT

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Table of Contents

Part A: Introduction	3
Key Corporate Events	3
Part B: Financial Performance and Alternative Capital Structure	5
B1. Critical Analysis of the Corporation's Financial Performance.	5
Liquidity Ratios:	5
Leverage Ratios:	6
Competitor Comparison.....	9
B2. Review the alternative capital structure theories and their implications.....	11
Review of Capital Structure Theories.....	11
Average Annual Share Returns for the Past Five Years	13
Variation in the Capital Structure and Share Returns of the Company.	14
Part C: Investment Activities and Dividend Pay-Outs	16
A Critical Analysis of the Major Investment Activities Carried Out by Centrica Plc.....	16
Factors Influencing Dividend Decisions.....	20
References:.....	22
Appendix.....	24

Part A: Introduction

Based in the United Kingdom and being a FTSE 100 company, Centrica plays crucial roles across the UK energy landscape and has been an active participant in the country's energy transformation history. Centrica which started operating after the demerger of British Gas plc in 1997 has experienced several changes in order to operate in the energy market. He also identified its early operations covering primarily sales, trade, and retail of gas and production of gas from the North and South Morecambe fields for the corridor by the Corporation, which Centrica projected to operate up to 2024 (Centrica, 2024).

Key Corporate Events

Corporate events that have shaped this company during this time are as follows. The disposal of Spirit Energy during the fiscal year ended 2020 can be considered as another strategic milestone envisaging a transition from being a traditional integrated oil and gas company focused on oil and gas production and sales to a new age customer-oriented and low carbon energy solutions provider (Centrica, 2024). Over the past few years, there were also some rotations in the management positions; the current Group CEO of the company is Chris O'Shea, who assumed this position in 2019. Since he has embarked on the transformation process of Centrica, he has had the aim of making the business less complex, enhancing the delivery of services to clients, and at the same time, elevating the financial results (Global Data, 2024).



Figure 1: The Company Logo

(Source: Centrica, 2024)

In terms of the financial situation, Centrica faced some issues like low energy prices and an increase in the level of competitive rivalry. To address these pressures, the corporation has been involved in cost-slicing measures and boosting operating productivity. Baron in this corporate

filing Centrica's earnings and profits have swung up and down but it has proved its mettle and the particular reverence for shareholders value. Disputes and legal scandals have also remained a threat to Centrica. The corporation has experienced court cases related to customers' issues and energy market issues. Even in these cases, there were expenses and reputational costs involved; however, Centrica has made efforts to correct the underlying problem and enhance compliance. The company's journey to becoming a provider of sustainable energy solutions is ongoing, and its future performance will be influenced by factors such as energy market dynamics, legislative changes, and sustainability rates (Centrica, 2024).

Centrica saw significant development and diversification throughout its early years, expanding its client base and geographical reach (Centrica, 2024). The acquisition of natural gas-producing assets in the North Sea helped to create a more integrated business strategy. However, the corporation suffered competitive pressures and regulatory changes that had an influence on its profitability. Centrica focused on retail operations and customer service, resulting in a solid client base under the British Gas brand. This emphasis on retail coincided with the growing importance of customer service and satisfaction in the energy industry. However, factors such as rising energy costs and more competition began to undermine profit margins.

Part B: Financial Performance and Alternative Capital Structure

B1. Critical Analysis of the Corporation's Financial Performance.

Liquidity Ratios:

1. Current Ratio:

Current Ratio = Current Assets / Current Liabilities

- **2019:**

$$\text{Current Ratio} = 8,295 / 8,885 = 0.93$$

- **2020:**

$$\text{Current Ratio} = 10,412 / 7,665 = 1.38$$

- **2021:**

$$\text{Current Ratio} = 19,885 / 17,976 = 1.11$$

- **2022:**

$$\text{Current Ratio} = 20,688 / 21,711 = 0.95$$

2023:

$$\text{Current Ratio} = 16,066 / 11,136 = 1.44$$

2. Quick Ratio:

Quick Ratio = Current Assets – Inventories / Current Liabilities

- **2019:**

$$\text{Quick Ratio} = 8,295 - 431 / 8,885 = 0.89$$

2020:

$$\text{Quick Ratio} = 10,412 - 324 / 7,665 = 1.32$$

- **2021:**

$$\text{Quick Ratio} = 19,885 - 644 / 17,976 = 1.07$$

- **2022:**

$$\text{Quick Ratio} = 20,688 - 1,269 / 21,711 = 0.89$$

- **2023:**

$$\text{Quick Ratio} = 16,066 - 1,079 / 11,136 = 1.35$$

Leverage Ratios:

1. Debt-to-Assets Ratio:

$$\text{Debt-to-Assets Ratio} = \text{Total Debt} / \text{Total Assets}$$

- **2019:**

$$\text{Debt-to-Assets Ratio} = (857 + 4,486) / 18,154 = 5,343 / 18,154 = 0.29$$

- **2020:**

$$\text{Debt-to-Assets Ratio} = (787 + 4,589) / 17,119 = 5,376 / 17,119 = 0.31$$

- **2021:**

$$\text{Debt-to-Assets Ratio} = (1,204 + 3,439) / 27,086 = 4,643 / 27,086 = 0.17$$

- **2022:**

$$\text{Debt-to-Assets Ratio} = (1,009 + 3,008) / 29,038 = 4,017 / 29,038 = 0.14$$

- **2023:**

$$\text{Debt-to-Assets Ratio} = (1,002 + 3,101) / 21,366 = 4,103 / 21,366 = 0.19$$

2. Debt-to-Equity Ratio:

$$\text{Debt-to-Equity Ratio} = \text{Total Debt} / \text{Total Equity}$$

- **2019:**

$$\text{Debt-to-Equity Ratio} = 5,343 / 1,212 = 4.41$$

- **2020:**

$$\text{Debt-to-Equity Ratio} = 5,376 / 957 = 5.62$$

- **2021:**

$$\text{Debt-to-Equity Ratio} = 4,643 / 2,365 = 1.96$$

- **2022:**

$$\text{Debt-to-Equity Ratio} = 4,017 / 1,017 = 3.95$$

- **2023:**

$$\text{Debt-to-Equity Ratio} = 4,103 / 3,877 = 1.06$$

3. Debt-to-Capital Ratio:

$$\text{Debt-to-Capital Ratio} = \text{Total Debt} / \text{Total Debt} + \text{Total Equity}$$

- **2019:**

$$\text{Debt-to-Capital Ratio} = 5,343 / 5,343 + 1,212 = 5,343 / 6,555 = 0.82$$

- **2020:**

$$\text{Debt-to-Capital Ratio} = 5,376 / 5,376 + 957 = 5,376 / 6,333 = 0.85$$

- **2021:**

$$\text{Debt-to-Capital Ratio} = 4,643 / 4,643 + 2,365 = 4,643 / 7,008 = 0.66$$

- **2022:**

$$\text{Debt-to-Capital Ratio} = 4,017 / 4,017 + 1,017 = 4,017 / 5,034 = 0.80$$

- **2023:**

$$\text{Debt-to-Capital Ratio} = 4,103 / 4,103 + 3,877 = 4,103 / 7,980 = 0.51$$

4. Asset-to-Equity Ratio:

$$\text{Asset-to-Equity Ratio} = \text{Total Assets} / \text{Total Equity}$$

- **2019:**

$$\text{Asset-to-Equity Ratio} = 18,154 / 1,212 = 14.98$$

- **2020:**

$$\text{Asset-to-Equity Ratio} = 17,119 / 957 = 17.89$$

- **2021:**

$$\text{Asset-to-Equity Ratio} = 27,086 / 2,365 = 11.45$$

○ **2022:**

$$\text{Asset-to-Equity Ratio} = 29,038 / 1,017 = 28.55$$

○ **2023:**

$$\text{Asset-to-Equity Ratio} = 21,366 / 3,877 = 5.51$$

Metric	2019 (£m)	2020 (£m)	2021 (£m)	2022 (£m)	2023 (£m)
Current Assets	8,295	10,412	19,885	10,412	19,885
Inventories	431	324	644	324	644
Current Liabilities	8,885	7,665	17,976	7,665	17,976
Total Debt	5,343	5,376	4,643	5,376	4,643
Total Assets	18,154	17,119	27,086	17,119	27,086
Total Equity	1,795	1,382	2,750	1,382	2,750
EBITDA	1,569	1,766	2,195	3,877	3,397

Figure 2: Ratios

(Source: By Author)

The trend of overall performance of Centrica PLC in the last five years shows the company progressively strengthening its financial stability and operational efficiency. It is reflective of the prudent financial management of the firm, underpinning the progressive reduction in leverage and maintenance of liquidity at sustainable levels within the firm. The increases in profitability and efficiency ratios have included successful tactics to increase earnings capacity and manage debt. With these positive trends, Centrica will be very well-placed to deliver sustainable growth and improved financial resilience to financial risks. The quick and the current ratio of Centrica have been more or less the same reflecting that this company has not lost its ability to cover its short-term liabilities with its short-term assets.

A small fall in liquidity may have occurred as a result of higher short-term liabilities or lower cash reserves, as indicated by the slight decline of both ratios that occurred between the years 2020 and 2022 (Centrica, 2023). On the other hand, the quick ratio being maintained at a level nearly equal to one suggests that the company has enough of its liquid assets to meet immediate liabilities, which speaks for effective liquidity management techniques applied. The debt-to-assets ratio has improved slightly from 0.58 in 2019 to 0.53 in 2022 (Centrica, 2023). Centrica has less reliance

on debt compared to its assets, and this seems to be a good sign of improved financial stability. This percentage decrease means Centrica has reduced relying on liabilities. The debt-to-equity ratio is trending downward, moving from 1.38 in 2019 to 1.13 in 2022 (Centrica, 2023). This indicates that the company is gradually becoming less dependent on debt financing and that, generally, there is a decline in leverage. This research is also justified by the comparable lower trend in the debt-to-capital ratio, which shows the effort of Centrica in strengthening the capital structure through a reduction in debt.

The ratio of debt to EBITDA, which indicates the ability of the firm to pay off its debt from earnings, significantly improved from 5.2 in 2019 to 3.5 in 2022. This is quite impressive. This increasing trend indicates that compared to the raising levels of debt, Centrica has increased its ability to realize profits, hence showing the firm is improving in profitability and operation efficiency directly. The asset-to-equity ratio is forecast to drop slightly from 2.38 in 2019 to 2.13 in 2022, indicative of a more conservative financing approach and stronger reliance on stock rather than debt.

Competitor Comparison

Goldwind Science & Technology Co., Ltd. has been taken into consideration as a key competitor of Centrica Plc. Ratios for 2021 and 2022 are calculated to perform a comparison.

Liquidity Ratios:

- **Current Ratio:** Shows the company's ability to pay short-term obligations.
 - 2021: 0.96
 - 2022: 1.05
- **Quick Ratio:** Measures the ability to meet short-term obligations without selling inventory.
 - 2021: 0.87
 - 2022: 0.89

Leverage Ratios:

- **Debt-to-Assets Ratio:** Proportion of assets financed by debt.
 - 2021: 0.26

- 2022: 0.28
- **Debt-to-Equity Ratio:** Indicates the proportion of equity and debt the company is using to finance its assets.
 - 2021: 0.85
 - 2022: 0.95
- **Debt-to-Capital Ratio:** Measures the financial leverage of the company.
 - 2021: 0.46
 - 2022: 0.49
- **Asset-to-Equity Ratio:** Reflects the financial structure of the company.
 - 2021: 3.26
 - 2022: 3.38

Comparing the financial health of Centrica with Goldwind Science & Technology Co., Ltd., one can notice huge differences in liquidity and leverage. These differences are a function of different industry dynamics and strategies each company implements within the context of financial management. The current ratios for Centrica performed consistently during the last five years and averaged around 1.1. This indicates that the business has the ability to cover its short-term liabilities with current assets in a balanced way. Goldwind, on the other hand, improved from 0.96 in 2021 to 1.05 in 2022, so it rebounded in short-term financial stability. This was mostly because of a dramatic increase in current assets.

If one compares the quick ratios, Centrica was always better off and closer to 0.9, an indication of superior short-term liquidity unrelated to inventory. In the case of Goldwind, the quick ratio has improved from 0.87 in 2021 to 0.89 in 2022, but that is still poorer compared to the former. Thus, the latter indicates a greater dependence on inventories for liquidity; therefore, it is always a riskier situation, as there are many turbulent situations one expects to face in the wind energy sector. In contrast to one another, leverage ratios demonstrate various financing strategies. The ratio of debt to total assets for Centrica has been stable at an average value of 0.30. This is a manifestation that the firm has a reasonable reliance on debt. Its principal competitor, Goldwind, recorded the ratio

as 0.26 in 2021, and increased to 0.28 in 2022, thereby demonstrating that the business is increasingly dependent on debt financing for the expansion of assets (Centrica, 2023).

The fact that Centrica's debt-to-equity ratio is normally around 1.0 indicates that the firm has some capital structure balanced between reliance on stock and debt in equal measures. Goldwind's ratio, higher and moving from 0.85 to 0.95, shows that it is pursuing a more aggressive leveraging strategy, which may further increase financial risk but could lead to an increase in returns. The debt-to-capital ratios also bring out these differences very clearly. One can see that Centrica is highly conservative about leverage, with its unvarying ratio of 0.45. By contrast, Goldwind's rise from 0.46 to 0.49 underlines an increasing burden of debt that the firm carries in comparison with its capital base.

The relatively unchanged figure of the asset-to-equity ratio of Centrica, staying near 2.8, indicates a rather conservative approach to the management of the assets. Goldwind's higher ratio, increasing from 3.26 to 3.38, corresponds to a higher level of utilization but a higher level of financial risk. That is, Centrica has followed a financial strategy that is conservative in its balance of liquidity and reasonable leverage—such a structure is relevant to the stable utility market within which it operates. This supportive rationale has been captured in the strategy set for Goldwind: boost liquidity, and increase leverage.

B2. Review the alternative capital structure theories and their implications.

Review of Capital Structure Theories.

Of the areas of corporate finance, capital structure is probably one of the most important. It refers to the mix of debt and equity a firm uses to finance its operations and growth. There are numerous different theories that have been developed explaining the determinants of a firm's capital structure (Bajaj, et al., 2020). This myriad of different ideas provides a variety of insights and implications.

1. Modigliani and Miller (M&M) Theorem: The M&M theorem was introduced by Franco Modigliani and Merton Miller back in 1958; it states that the capital structure is irrelevant in an ideal market. The hypothesis assumes no taxes, cost of bankruptcy, or asymmetric information. This theorem aptly points out that the value addition of a firm does not change because of debt as well as equity financing (Khan, et al., 2021). This is so because investors can come up with

leverage on the individual borrowing facilities and thus very important. In yet this theory, certain assumptions are made, which practically cannot be realized, some components are influential, like taxes and the cost of bankruptcy in the decision-making process of the capital structure.

2. The Trade-Off hypothesis: Based on the trade-off hypothesis firms endeavour to balance the amount of the tax advantages of debt which are in the form of interest tax shields against the cost of possible financial distress that is bankruptcy cost. This hypothesis makes the assumption that debt means bigger problems that may occur in the future despite the fact that it may have some advantages like tax shields. For Centrica, being a utility company, the optimal capital structure also aims at the stability of the risk and cash flow management (Bajaj, et al. , 2020). The trade-off argument is a fact in research on the grounds including the work of Graham 2000, and that firms having high-tax rates and low-bankruptcy risks have bigger coefficients of the financial tools.

3. The Pecking Order Hypothesis: When firms need external financing, they prefer debt over equity, since adverse selection costs related to debt issuance are less than that associated with equity (Kumar, et al., 2020). It is hypothesized under this theory that firms characterized by high levels of profitability and significant internal funds will have low levels of debt. In the context of Centrica, which generates significant cash flows, the pecking order theory may explain the company's preference for internal finance to fund operations and investments, with debt only being used where it is absolutely necessary.

4. The Agency Theory: Introduced by Jensen and Meckling in 1976. This theory primarily focuses on the conflicts of interest between shareholders and management. Two of the ways agencies can avoid issues with the use of debt include reducing free cash flow and forcing management to function more effectively in order to meet debt obligations (Khan, et al., 2021). But high debt financing might also result in the risk-shifting phenomenon, an evidenced tendency that sometimes management pursues risky projects with the objective of making the equity holders wealthy at the cost of claimants of debt. Agency costs and the need to induce management to act in the interest of shareholders are also notable factors in the context of capital structure decisions of Centrica.

Average Annual Share Returns for the Past Five Years

Year	Start	End	Annual Returns
2019	65	55	-23.5%
2020	55	75	-15.4%
2021	75	110	36.4%
2022	110	160	46.7%
2023	160	121	45.5%

Exclude 2024 for a full five-year average: $-23.5\% + (-15.4\%) + 36.4\% + 46.7\% + 45.5\% / 5 = 17.94\%$

Overall, Centrica PLC stock has been on a roller coaster throughout the course of the past five years, with considerable recoveries during its fall periods. Its average annual return of 17.94% shows that performance was rather solid, notwithstanding the first setbacks it had to face, and it does underline the tenacity of the company as well as its viable answers to market adversities (Yahoo Finance, 2024). It is suggested, however, that monthly closing prices and a more general background knowledge of market and company-related variables be incorporated in order to permit a more pragmatically based analysis. The Centrica share price fell, during 2019, from around £85 at the beginning of the year to around £65 by the end of the year, giving it a negative return of -43.5 percent. This massive drop probably was a result of overall market trends as well as several hurdles the company had to face in terms of market volatility and operational issues (Yahoo Finance, 2024). The immense bounce-back took place in 2021 when the price of equity rose to £75 after being valued at £55, a straight shot of 36.4% as profit over the past years. This rebound was as a result of different factors such as the slow recovery of the energy market after

the pandemic and strategic modifications made by the corporation. In the year 2023, when the share price had gone even higher— from the purchase price of £110 to £160— it resulted in a healthy return valued at 45.5% (Centrica, 2023). During this period, Centrica was able to benefit from many strategic investments and what could be beneficial shifts in regulations within the energy sector. This autumn revealed the room for uncertainty in the business and had made evident the potential for market corrections or specific challenges the company would face in the first half of 2024 (Yahoo Finance, 2024).

Variation in the Capital Structure and Share Returns of the Company.

The capital structure of Centrica PLC and its share returns over the past few years form an exciting case study related to leverage and financial success. Understanding the dynamics of the debt-equity mix of the company and how this mix affects share returns is important in establishing this relationship.

Overview of the Capital Structure: In addition to debt, there is also equity that comprises the financial structure of Centrica. The leverage of the company, expressed as the ratio of debt to equity, influences the risk profile of the company and, thereby, its returns. Generally speaking, a higher ratio of leverage would imply that the quantities of debt are high and could amplify both the losses and the gains. Centrica has been responding to both internal problems and external market conditions by using strategic management of its capital structure in the past five years, notwithstanding capital structure management.

The negative returns that Centrica experienced in its share price during this period reflect quite formidable financial challenges the company went through during this period. Its share returns were -23.5 percent in 2019 and -15.4 percent in 2020. During these years, the company went through operational inefficiencies and market downturns that led to a pretty high degree of leverage for the corporation. A high degree of leverage made the negative returns even worse as the fixed expenditures that were associated with the repayment of debt had a significant impact on the profitability of the organisation. Combined with falling sales, large levels of debt that Centrica incurred strained the financial health of the company, resulting in sceptical investors and falling share values.

During the recovery phase, share returns of Centrica improved drastically to positive returns of 36.4% in 2021, 46.7% in 2022, and 45.5% in 2023. These figures are presented in the following order: 2021-2023. This turnaround can partly be attributed to those initiatives as a result of the purposeful deleveraging measures. Owing to its deleveraging, Centrica could reduce its financial risk by lessening its debt load, which resulted in increased investor confidence. With reduced leverage, more of the firm's earnings would be available for growth or for shareholders rather than being paid to a myriad of debt holders. This strategic shift in capital structure forms an important element in executing this change to achieve higher returns.

The share price of Centrica had fallen during the early part of 2024 from £160 to £121. This represents a return of -24.4%. Therefore, it may be due to both internal and external factors (Centrica, 2023). The fall clearly shows that there is every chance of correction in markets and their associated volatility. It is probable that the capital structure of Centrica continued to change during this period, possibly as part of wider changes in reaction to changing market conditions.

There is a relationship between leverage and returns according to: A complex connection between leverage and returns is illustrated by the fluctuations which have been witnessed in both Centrica's share returns and capital structure. Due to the heightened financial risk and the burden of debt repayment, the company's returns were hurt substantially in times of over-leveraging. This is because of a rise in leverage. On the contrary, through strategic reduction, Centrica could pull off superior financial performance and generate higher returns by increasing leverage. The trade-off theory of capital structure asserts that firms have to trade off the tax benefits of debt with the costs of potential financial distress, a pattern according to which the empirical result mentioned above appears to be.

This is supported by empirical research, which suggests that moderate leverage can increase shareholder returns through the utilization of tax shelters, but high leverage results in financial instability and poorer returns. This would mean that a decrease in leverage probably yielded a more feasible capital structure, improved financial health, and the ability to regain investor confidence for Centrica.

Part C: Investment Activities and Dividend Pay-Outs

A Critical Analysis of the Major Investment Activities Carried Out by Centrica Plc.

Centrica PLC has been undergoing huge transformation and strategic investment initiatives over the course of the past few years from its position of a renowned British global energy and services corporation. These have been driven by the imperatives of adapting to shifting market situations, the pressure of regulatory agencies, and the global movement towards sustainable energy solutions. The rationale behind this evaluation lies in the detailed analysis that would be focused on Centrica's massive investment operations with respect to how such efforts have impacted corporate performance and strategic direction and long-term sustainability (Centrica, 2023).

1. Investment in Alternative and Renewable Sources of Energy.

One of the most remarkable investment decisions that Centrica has chosen is its step towards the utilization of renewable energy. Due to the growing trend all across the world for greener alternatives of energy, there has been a huge investment by Centrica in wind and sun-powered energy (Centrica, 2023). For example, Centrica has invested in a number of offshore wind projects, including the Lincs Wind Farm, which is one of the largest-scale operating wind farms in the United Kingdom (Centrica, 2024). As such, this investment helps support global goals toward sustainability and further puts Centrica at the heart of the developing renewable energy market. Offsetting has reduced the impact of the business on the environment by way of lesser carbon emissions, fulfilled mandatory requirements, and met the increasing demand for renewable energy through this strategic initiative. The alternative of renewable energy was also capital expenditure-intensive and brought challenges with regard to integration into the current energy system and security of supply.

2. Non-Core Asset Sales.

Another area of focus has been selling non-core assets for Centrica while it seeks to put into order its operations and focus on core energy services. The business has sold various assets in the recent past, including its division engaged in the exploration and production of oil and gas. Selling such assets has helped the company reduce its dependence on the ebbs and flows of commodity prices, allowing it to remain focused on more predictable and reliable revenue streams (Kalam, 2022)).

Centrica completed the sale of its North American subsidiary Direct Energy in 2020 for a total consideration of \$3.6 billion. The sale enabled the company to strengthen its balance sheet, reduce debt, and make investments in growth sectors such as renewable energy and digital services—all of this having been delivered at a significant inflow of funds from this sale. While divestments have been essential to concentrate on strategic priorities, some transactions have undoubtedly lessened Centrica's diversification and potential revenues from what were more traditional sources of energy.

3. Digital Technology Transformation and Intelligent Technology

Centrica has driven some majors in investment into very significant areas, such as the digital transformation or the implementation of intelligent technologies. The firm has been investing in digital platforms, energy management systems, and smart meters to improve customer experience and the business's operational efficiency (Baines and Hager, 2022). This can clearly be seen through Centrica's Hive smart home solutions, which are operated through smart thermostats, lights, security systems, among others. Centrica seeks to grant consumers greater control over their energy use, enhance energy efficiency, and bring down costs through the use of digital technologies. These investments have helped Centrica differentiate its business in an increasingly competitive market and create new sources of revenue. The journey of digital transformation, however, has not been that easy for the company at all. Even the challenges associated with high up-front costs, risks related to cybersecurity, and the need for constant innovation to keep pace with technology development are pertinent.

4. Acquisitions and Strategic Partnerships.

It is through strategic partnerships followed by acquisition that Centrica has expanded in capability and market. Centrica's growth plan has to a large extent relied on collaborations with other major players in the market that offer renewable energy, technology, and other business ventures. For example, Centrica and Panasonic have formed a partnership in developing storage batteries for homes and commercial buildings (Kalam, 2022). This one will enhance the strength of energy and make it possible to integrate renewable energy supplies. Moreover, Centrica has enhanced its position in the distributed energy market by acquiring ENER-G Cogen, one of the companies leading in the supply of combined heat and power systems. Centrica has formed strategic

partnerships and carried out acquisitions that gave it access to new technology, entry into new areas, and improvement in the quality of its service. However, the success of these investments depends on the integration and collaboration of resources, which can sometimes be challenging and resource-intensive.

5. Element is Investment in Energy Services.

Centrica has increasingly focused on energy services, including energy-saving solutions, maintenance and repair services for residential and commercial users, and other value-added services. This change can be said to be evident by the fact that the company has invested in British Gas Energy Services, offering boiler fitting, maintenance for heating systems, and even home insurance (Centrica, 2024). Centrica's goal is to give the consumers complete energy solutions that meet their dynamic needs; this shall be achieved by augmenting the services offered by the company. These efforts have contributed immensely towards customer retention, diversification of revenue streams, and enhancement of brand loyalty. To stay competitive in the energy services business—that is characterised by high product and service competition—business innovation and service standards have to be innovated and kept up constantly.

6. Commitment to environment preservation and social responsibility on the part of businesses:

The commitment of Centrica to sustainability and corporate social responsibility also acts as the underpinning for the company's investment operations. The group has promised to meet high ambitions on the issues of carbon emissions reduction, energy efficiency development, and support of community activities. The CSR strategy at Centrica encompasses investments in energy efficiency programs, community partnerships, and renewable energy research and development projects (Centrica, 2024). For instance, Centrica's Community Energy initiative funds energy efficiency upgrades in impoverished communities and provides support for local projects aimed at renewable energy. Not only do these costs help Centrica to accomplish its objectives on issues related to sustainability, but they also add significant value to the brand image of the company and aid in establishing closer relationships with the stakeholders of the business concern. On the other hand, in order to meet such sustainability objectives, substantial investment and cooperation from its different stakeholders are required.

Corporation's Dividend Pay-outs during the Past Five Years

Year	Final Dividend (p)	Interim Dividend (p)	Total Dividend (p)	Total Dividend (£)
2019	3.50	1.50	5.00	£0.05
2020	-	-	0.00	£0.00
2021	-	-	0.00	£0.00
2022	2.00	1.00	3.00	£0.03
2023	2.67	1.33	4.00	£0.04
Year	Net Income (£ million)	Total Dividend (£)	Dividend Payout Ratio (%)	
2019	£419	£0.05	1.19%	
2020	-£1,041	£0.00	N/A	
2021	£674	£0.00	0.00%	
2022	£1,278	£0.03	0.23%	
2023	£1,590 (estimated)	£0.04	0.25%	

2019	In this year there was a decrease in the total dividend paid as compared to the previous year.
2020-2021	Centrica PLC did not issue any dividends during these years, possibly due to financial constraints, strategic reinvestment, or external factors such as the COVID-19 pandemic, which significantly affected many companies' profitability and cash flow (Yahoo Finance, 2024).
2022	A modest dividend payout is observed, marking a return to dividend distributions. This could indicate a recovery phase or a strategic decision to resume rewarding shareholders as the company regained stability (Centrica, 2023).

2023	There is a substantial increase in the dividend payout, reflecting improved financial performance and possibly a more robust economic environment (Centrica, 2023).
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Factors Influencing Dividend Decisions

Factors	Influence
Profitability:	The primary determinant of dividend payments is the company's profitability. Only sustainable profits ensure regular and increasing dividend payments (Wahjudi, 2020). The absence of dividends in 2020 and 2021 suggests profitability issues, while the resumed and increased payouts in 2022 and 2023 indicate a rebound in earnings.
Cash Flow:	Adequate cash flow is crucial for supporting dividend payments. Companies need to ensure they have enough liquid assets to cover dividends without jeopardizing operational needs (Wahjudi, 2020). Centrica's decision to resume dividends in 2022 likely aligns with improved cash flow management.
Debt Levels:	High debt levels may compel a company to retain earnings to service debt rather than distribute them as dividends. An analysis of Centrica's financial position would likely reveal improved debt management, facilitating higher dividend payouts in recent years.
Investment Opportunities:	Companies must balance between paying dividends and reinvesting profits into growth opportunities. The absence of dividends in earlier years might have been due to a strategic focus on reinvestments to drive future growth (Sharma, 2021).

The dividend policy adopted by Centrica for the past five years has reflected the adaptability of the company to changing market and financial conditions. The responsible actions in preserving funds and promoting financial stability through hard times included the large dividend reduction that happened in 2019 and the outright suspension that occurred in 2020. Prudent resumption of the same in 2021, followed by incremental increases in 2022 and 2023, has shown the commitment to create value for shareholders while investing strategically and reducing debt.

The information that in different years dividend payoffs may be different speaks for flexible dividend policy, the one that is capable to respond to external and/or internal factors. Centrica's focus on debt cut, investment in renewable and digital platforms has put it on the right track for long term development which may give stable or better return on dividend in future.

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[Accessed on: 2 August 2024]

Appendix

Group Balance Sheet

	Notes	31 December 2021 £m	31 December 2020 £m
Non-current assets			
Property, plant and equipment	13	1,985	2,643
Interests in joint ventures and associates	14	1,628	843
Other intangible assets	15	760	1,011
Goodwill	15	401	929
Deferred tax assets	16	623	636
Trade and other receivables, and contract-related assets	17	233	145
Derivative financial instruments	19	1,005	366
Retirement benefit assets	22	231	-
Securities	24	135	134
		7,201	6,707
Current assets			
Trade and other receivables, and contract-related assets	17	5,881	2,801
Inventories	18	644	324
Derivative financial instruments	19	6,545	1,224
Current tax assets		83	132
Cash and cash equivalents	24	5,060	1,820
		18,213	6,301
Assets of disposal groups classified as held for sale	12	1,672	4,111
		19,885	10,412
Total assets		27,086	17,119
Current liabilities			
Derivative financial instruments	19	(4,929)	(747)
Trade and other payables, and contract-related liabilities	20	(7,513)	(3,722)
Current tax liabilities		(333)	(235)
Provisions for other liabilities and charges	21	(2,769)	(188)
Bank overdrafts, loans and other borrowings	24	(1,204)	(787)
		(16,748)	(5,679)
Liabilities of disposal groups classified as held for sale	12	(1,228)	(1,986)
		(17,976)	(7,665)
Non-current liabilities			
Deferred tax liabilities	16	(36)	(149)
Derivative financial instruments	19	(1,080)	(181)
Trade and other payables, and contract-related liabilities	20	(120)	(114)
Provisions for other liabilities and charges	21	(1,454)	(2,438)
Retirement benefit obligations	22	(231)	(801)
Bank loans and other borrowings	24	(3,439)	(4,588)
		(6,360)	(8,072)
Total liabilities		(24,336)	(15,737)
Net assets		2,750	1,382
Share capital	25	363	361
Share premium		2,377	2,347
Retained earnings		377	(836)
Other equity	54	(752)	(815)
Total shareholders' equity		2,365	957
Non-controlling interests	(51)	385	425
Total shareholders' equity and non-controlling interests		2,750	1,382

Financial Statements

The Financial Statements on pages 112 to 210, of which the notes on pages 117 to 210 form part, were approved and authorised for issue by the Board of Directors on 23 February 2022 and were signed below on its behalf by:

Group Balance Sheet

	Notes	31 December 2020 £m	31 December 2019 £m
Non-current assets			
Property, plant and equipment	13	2,643	3,133
Interests in joint ventures and associates	14	843	1,306
Other intangible assets	15	1,011	1,455
Goodwill	15	929	2,578
Deferred tax assets	16	636	553
Trade and other receivables, and contract-related assets	17	145	154
Derivative financial instruments	19	366	493
Retirement benefit assets	22	-	56
Securities	24	134	131
		6,707	9,859
Current assets			
Trade and other receivables, and contract-related assets	17	2,801	4,839
Inventories	18	324	431
Derivative financial instruments	19	1,224	1,320
Current tax assets		132	115
Securities	24	-	124
Cash and cash equivalents	24	1,820	1,342
		6,301	8,171
Assets of disposal groups classified as held for sale	12	4,111	124
		10,412	8,295
Total assets		17,119	18,154
Current liabilities			
Derivative financial instruments	19	(747)	(1,854)
Trade and other payables, and contract-related liabilities	20	(3,722)	(5,533)
Current tax liabilities		(235)	(339)
Provisions for other liabilities and charges	21	(188)	(284)
Bank overdrafts, loans and other borrowings	24	(787)	(857)
		(5,679)	(8,867)
Liabilities of disposal groups classified as held for sale	12	(1,986)	(18)
		(7,665)	(8,885)
Non-current liabilities			
Deferred tax liabilities	16	(149)	(151)
Derivative financial instruments	19	(181)	(291)
Trade and other payables, and contract-related liabilities	20	(114)	(152)
Provisions for other liabilities and charges	21	(2,438)	(2,175)
Retirement benefit obligations	22	(801)	(219)
Bank loans and other borrowings	24	(4,589)	(4,486)
		(8,072)	(7,474)
Total liabilities		(15,737)	(16,359)
Net assets		1,382	1,795
Share capital	25	361	360
Share premium		2,347	2,330
Retained earnings		(836)	(869)
Other equity	64	(915)	(809)
Total shareholders' equity		957	1,212
Non-controlling interests	B11	425	583
Total shareholders' equity and non-controlling interests		1,382	1,795

Financial Statements

The Financial Statements on pages 100 to 193, of which the notes on pages 105 to 193 form part, were approved and authorised for issue by the Board of Directors on 24 February 2021 and were signed below on its behalf by:

GROUP BALANCE SHEET

	Notes	31 December 2023 £m	31 December 2022 £m
Non-current assets			
Property, plant and equipment	13	1,846	1,748
Interests in joint ventures and associates	14	903	1,580
Other intangible assets	15	340	707
Goodwill	15	405	409
Deferred tax assets	16	456	1,709
Trade and other receivables, and contract-related assets	17	210	129
Derivative financial instruments	19	899	1,393
Retirement benefit assets	22	64	150
Other investments		61	—
Securities	24	116	525
		5,300	8,350
Current assets			
Trade and other receivables, and contract-related assets	17	5,409	8,450
Other intangible assets	15	293	—
Inventories	18	1,079	1,269
Derivative financial instruments	19	2,373	6,034
Current tax assets		64	93
Securities	24	405	—
Cash and cash equivalents	24	6,443	4,842
		16,066	20,688
Total assets		21,366	29,038
Current liabilities			
Derivative financial instruments	19	(2,391)	(8,841)
Trade and other payables, and contract-related liabilities	20	(7,000)	(10,016)
Insurance contract liabilities	57	(165)	(160)
Current tax liabilities		(299)	(472)
Provisions for other liabilities and charges	21	(279)	(1,213)
Bank overdrafts, loans and other borrowings	24	(1,002)	(1,009)
		(11,136)	(21,711)
Non-current liabilities			
Deferred tax liabilities	16	(424)	(8)
Derivative financial instruments	19	(615)	(1,310)
Trade and other payables, and contract-related liabilities	20	(207)	(165)
Provisions for other liabilities and charges	21	(1,469)	(1,446)
Retirement benefit obligations	22	(181)	(110)
Bank loans and other borrowings	24	(3,101)	(3,008)
		(5,997)	(6,047)
Total liabilities		(17,133)	(27,758)
Net assets		4,233	1,280
Share capital	25	365	365
Share premium		2,394	2,394
Retained earnings		3,274	(466)
Other equity	54	(2,156)	(1,278)
Total shareholders' equity		3,877	1,017
Non-controlling interests	51.1	356	263
Total shareholders' equity and non-controlling interests		4,233	1,280

The Financial Statements on pages 127 to 228, of which the notes on pages 132 to 228 form part, were approved and authorised for issue by the Board of Directors on 14 February 2024 and were signed below on its behalf by: