

International Financial Management

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Critical analysis of Dividend distribution policy

The policy put in place by the Board of BP Plc, with regard to the distribution of dividends to the shareholders, is reliant on the results of each quarter of the business. Thus, the company pays regular and quarterly dividends to the shareholders of the enterprise (Annual Report, 2021). The general norm adopted by the enterprise is that a dividend is paid for each of the shares in the market, thus, the total amount of dividend received by the shareholder is purely dependent on the number of shares held by him.

The results of the past three years relating to the amount of dividend distributed by the company have been taken so as to critically evaluate the overall dividend policy of the company (Annual Report, 2021). In addition, the changes in the earnings per share of the company during the said period provide useful insight into the viability of the policy of the company.

Dividend Paid per share

The observation of the results of the last three years concerning the total dividend paid by BP plc per share shows a declining trend. In each of the years after 2019, the said dividend per share has declined in comparison to the succeeding year. The figure was 31.976 pence per share in 2019, which declined to 24.458 p per share in 2020 and further fell to 15.538 in 2021 p per share (Annual Report, 2021). As far as percentage change is concerned, a decline of 23.51% and 36.47% was observed in 2020 and 2021 respectively.

Basic EPS and EPS growth rate

The earnings per share in the company have fluctuated abnormally in the past three years. The basic EPS of BP plc in 2019 was 19.84 pence per share. It declined to -100.42 in the next year, courtesy of huge losses to the company during the pandemic year. However, the 2021 EPS is the highest in the company in the three years, at 37.57 pence per share. The percentage change further clears the situation (Annual Report, 2021). While the 2020 decline was -606.15%, the 2021 rise has been 137.41% higher than the last year. The impressive aspect to note here is that the company has been able to achieve an EPS double in 2019 despite suffering huge losses in 2020.

The current year's quarterly results

BP plc performed well in terms of dividend distribution in 2021. The company has been able to achieve its target of **resilient dividends** during the year as the dividend per share has been strong and steady in all quarters (Annual Report, 2021). In addition, the third quarter of the year showed a rise of 4% in the dividend paid per share by the enterprise. During the first two quarters, the dividend per share remained at 5.25 pence per share, this rose to 5.46 per share in the next two quarters.

Crux

Despite the stupendous rise in the basic EPS, BP plc has failed to raise its dividend per share accordingly. There has been growth in the current year however that is marginal and minimal.

Critical Analysis of the Efficient Market Hypothesis

In a December 2020 article published on Bloomberg, BP PLC claimed to be quoting that the oil peak of the world had already passed and that *Humanity's thirst for oil may never return to previous high levels*. In other words, as per the September 2020 energy outlook of BP Plc, the peak oil demand level across the world had already passed (Randall and Warren, 2020).

Efficient Market Hypothesis (EMH)

This is an investment theory that is based on the argument that while investors may gain super normal profits in the short-run, it is practically impossible for the investors to outsmart the market in the long-run and derive high returns in the future because the markets are already efficient – stocks are already priced accurately and in a fair manner (Dias et al. 2020).

Versions of EMH

The EMH may be of any of the following forms in the context of a business firm-

- **Weak:** *This form of hypothesis is based on the notion that the current market prices of a stock are inclusive of all the available historical financial information related to that stock (Dias et al. 2020).*
- **Semi-Strong:** *In this, it is stated that the current variation and levels of prices of a stock are already inclusive of the historical financial information as well as the information available to the public concerning the potential performance of the company's products.*
- **Strong:** *This form of hypothesis states that the current price levels of a stock floating in the market are inclusive of all the public, private, and historical financial information (Randall and Warren, 2020). This means that in such a case, even the insiders would not be able to make supernormal profits.*

The context of BP Plc

The results associated with the monthly share returns for the last three-year period for BP PLC confirm the existence of ***a semi-strong form of an efficient market hypothesis***. Since the release of the said statement by the company and the energy outlook for the future in September 2021, the monthly returns observed for the shares of the company showed a positive and increasing trend for the next straight eight months.

It is mainly due to the claims made by BP plc in the energy outlook statement that the demand for renewable energy sources is going to rise till 2050 (Randall and Warren, 2020). The said rise in the share prices of the company was not only inclusive of the historical prices related to the share information but also the potential rise in the demand for renewable energy sources and decline in the demand for coal which has assisted massively in the rise in demand of oil and natural gas worldwide.

Crux

It can be concluded that the rise in the returns on the shares of BP PLC is due to the existence of a semi-strong form of efficient market hypothesis and in the case of BP Plc the change in the prices of the shares and the consequent returns on the shares of the company are already a result of the fundamental analysis of public and historical information (Randall and Warren, 2020).

Critical Analysis of Project Appraisal in BP PLC.

The company has adopted a combination of more than one method to evaluate the various projects under its consideration. One of them is the Net present value method and the other one is the benefit-cost ratio method.

Net Present Value

This is one of the most popular methods of investment project appraisal method worldwide and the company has been using it traditionally (Batool and Sahi, 2019). Under this method, the present value of the net cash inflow estimated to be received through a project over its timeline is estimated by the company by obtaining the excess of the present value of all the existing cash inflows over the cash outflows (Batool and Sahi, 2019). In case of contrasting results between one method and the other, NPV is trusted and the project with a higher NPV is selected by BP PLC. It is important to note here that the initial investment is not discounted while computing the NPV of the projects by the enterprise. Only the values of inflows that the company is expected to receive in each of the future years are discounted to bring the future value of inflows to the existing values.

Benefit-Cost Ratio Method

This method is in application in BP PLC for the last few years and has gained relevance in passing years. The major benefit, utility, and advantage of this method is that it assists the companies to compare the potential benefit that a particular project is expected to provide to the cost that the company has estimated to incur over the timeline of the project (Batool and Sahi, 2019). This ratio is computed by the division of the present value of the aggregate benefits that the company is expected to receive over a period of time to the present value of costs to be incurred.

Crux

The decision-making in BP PLC concerning the acceptance or rejection of a particular project is highly based on the use of the two methods that have been discussed above (Kryzia et al. 2020). One of the most important aspects of the use of the combination of the two methods by BP PLC is that it allows the decision-makers in the company to evaluate or study the various projects from various angles (Basiurkina et al. 2020). The use of the NPV method facilitates the computation of net monetary benefit whereas the use of the benefit-cost ratio method allows the company to compare the net benefits to the net costs of the project.

Conclusion

The critical evaluation of the various aspects associated with financial management in BP PLC led to the extraction of various useful results in association with the enterprise. It was found that the dividend policy adopted by the company has not been just for the investors as the financial statements of the company showed rising earnings per share but the same has not been translated into rising dividends. The share price variations in the company confirmed the existence of an efficient market hypothesis of semi-strong nature. Moreover, the company uses highly effective and efficient methods of appraising projects in NPV and Benefit-cost ratio.

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