



STRIKING BLACK GOLD

Financial Analysis on the Hess Corporation

MSBA 6030: Financial Accounting

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Agenda

Business Background

- Oil & Gas Industry
- Business & Corporate Structure
- Accounting Controversy

Financial Analysis

- Financial Statements
- Accounting Policies
- Disclosure Quality & Risk
- Ratios & Scores

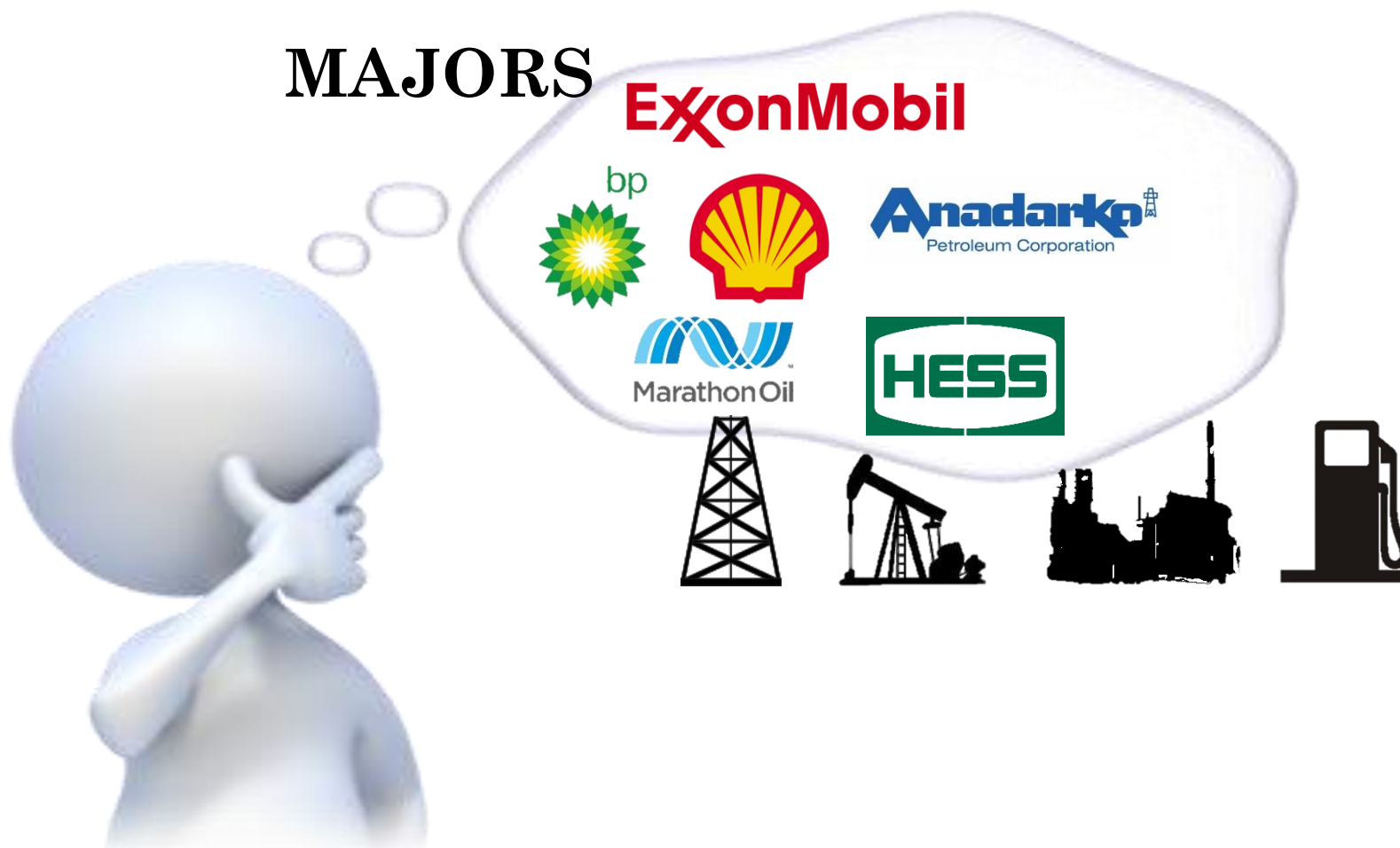
Conclusion

Drilling into the Background: Oil & Gas

MAJORS

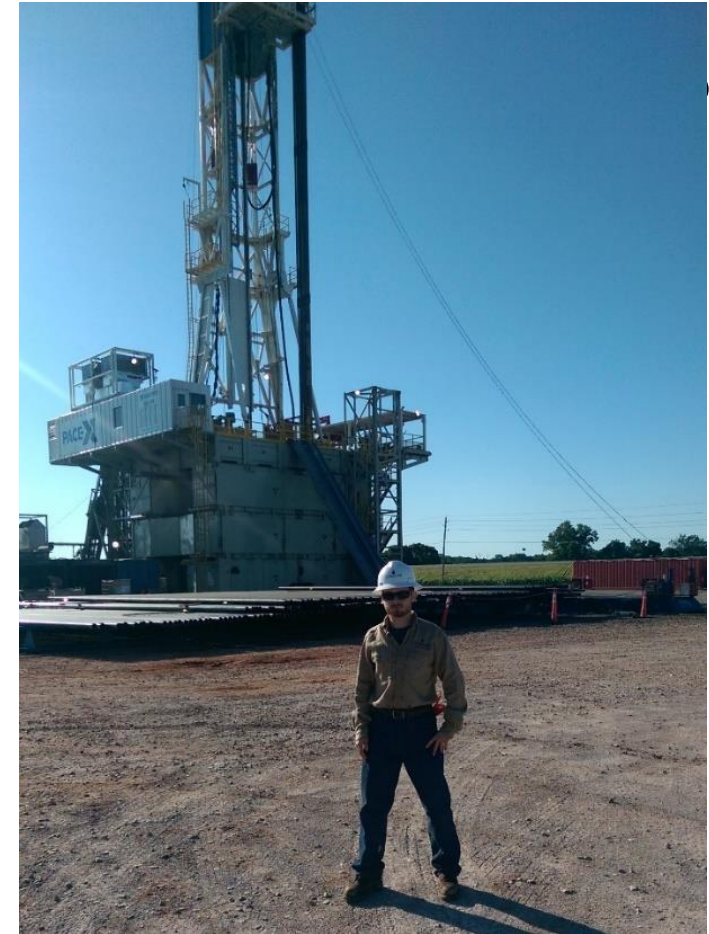
ExxonMobil

INDEPENDENTS



Competitors of similar size, industry, and type of business

MAJORS





	HESS	MARATHON	ANADARKO
Fiscal Year	December 31st		
Stock Exchange	New York Stock Exchange (NYSE)		
NAICS Code	NAICS code is 211111		
SIC Code	13: Oil and Gas extraction (1311: Crude Petroleum and Natural Gas Extraction)		
Major Customers	Governments, Financial Institutions, other Independent Oil Companies, Majors		
Employees	2,770	2,611	5,800
Firm's Auditor	ERNST & YOUNG, LLP, 1993	PwC, 1994	KPMG LLP, 1986



CEO compensation combines long-term stock performance and short-term “successes”

	HESS	MARATHON	ANADARKO
CEO	John Hess	Lee M. Tillman	R.A. Walker
Salary	\$1,500,000	\$1,050,000	\$1,350,000
Bonus	\$1,912,500	\$1,181,000	\$1,930,500
Stock Options	\$9,500,036	\$8,054,680	\$11,116,389
Other	\$21,147	\$256,619	\$487,251
Total	\$12,933,683	\$11,042,549	\$14,884,140



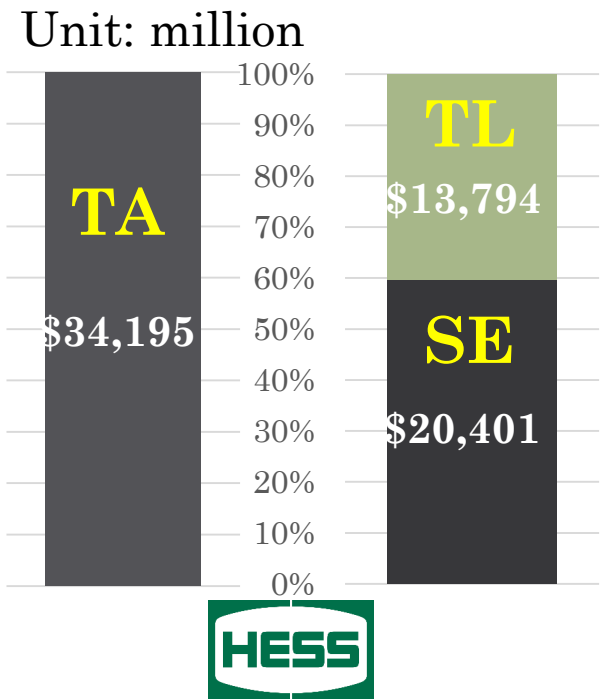
Controversy in Massachusetts

- Hess acquired Merit Oil in 2000
- At that time still had 
- Applied for state reimbursement used for environmental cleanup
- Did not fully disclose insurance claims when applying for funds
- Paid \$4.4 million settlement
 - 0.067% of revenue in 2015

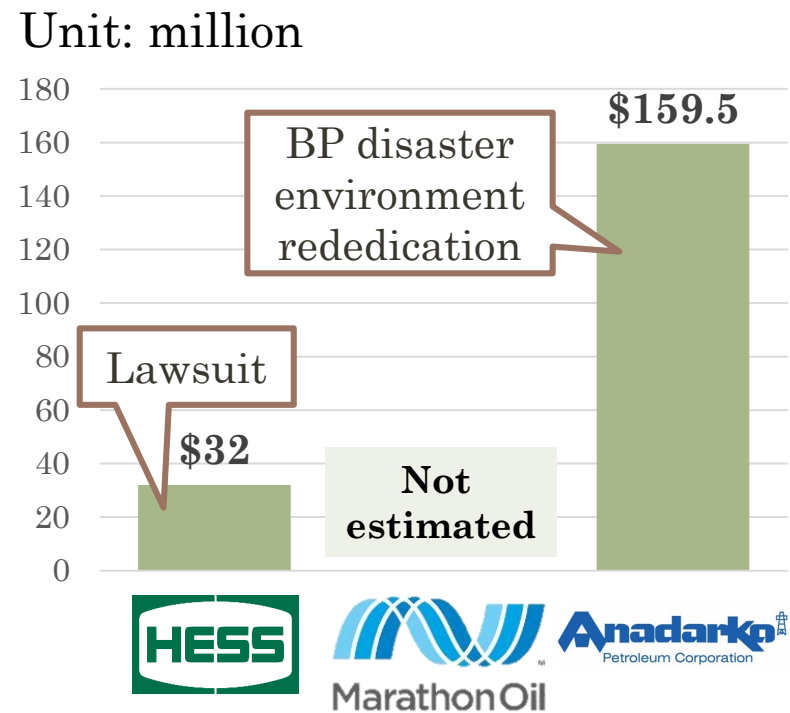


Compared to Anadarko, HESS has low contingent liabilities and reports less intangible assets, showing a relatively healthy financial status.

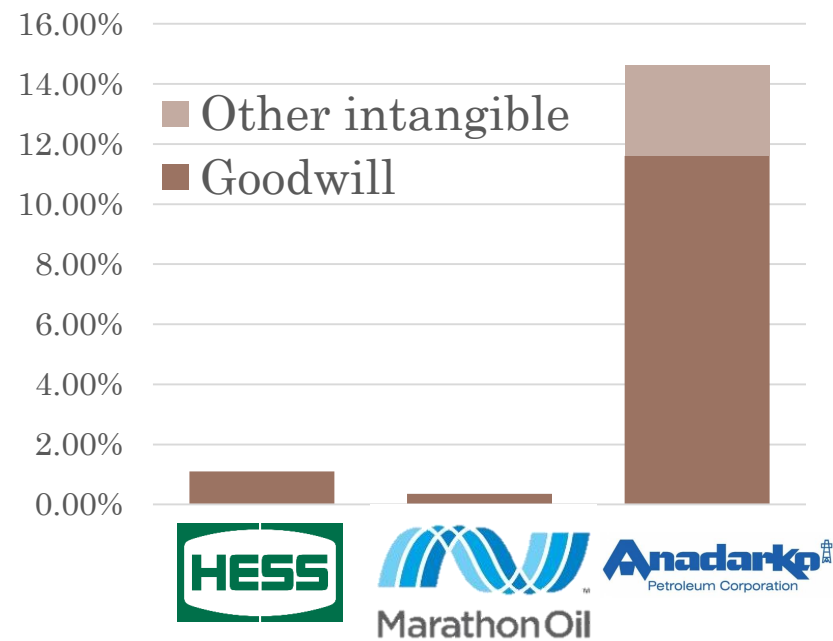
Balance Sheet



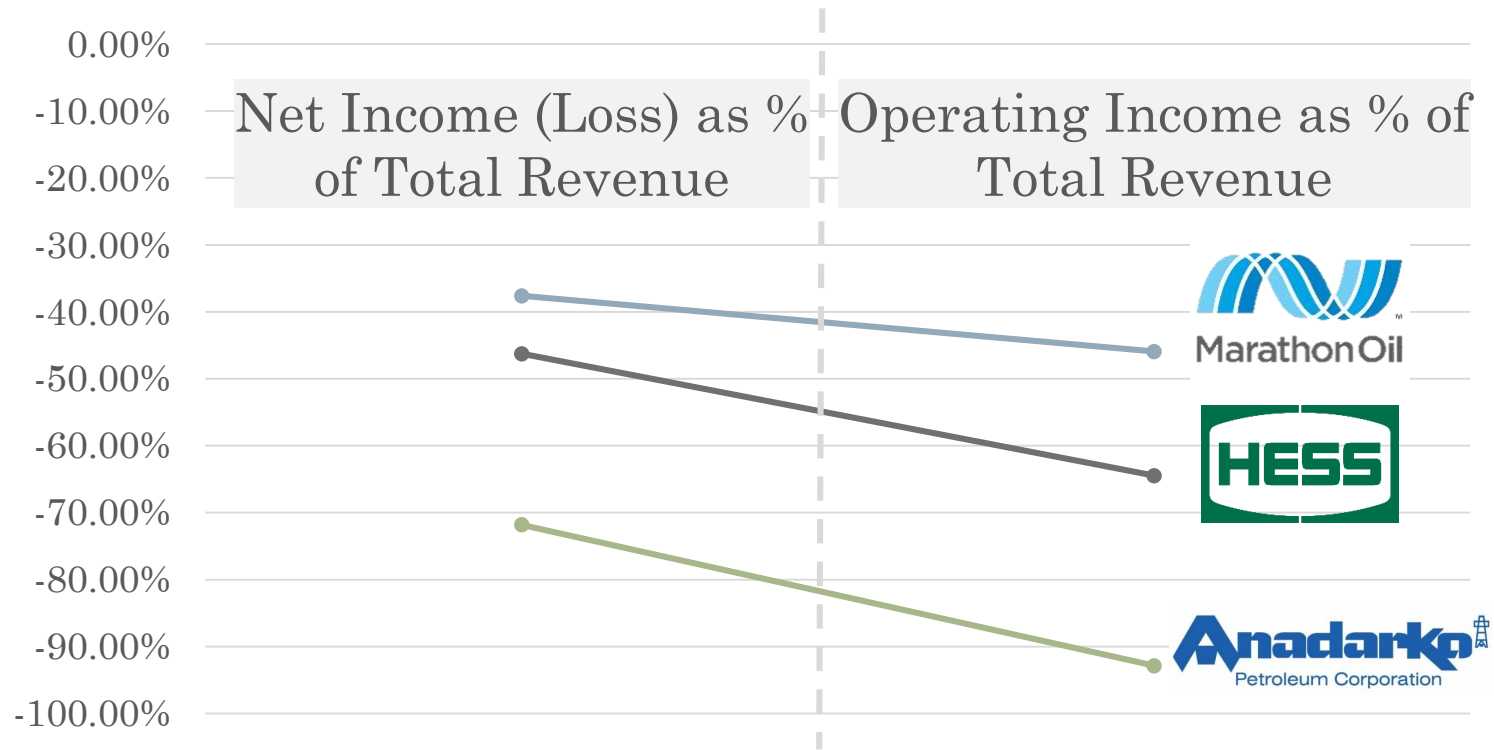
Contingent liabilities



Intangible assets as % of TA



Due to low oil prices, 2015 was a harsh year for the oil industry. HESS and its benchmark competitors suffered huge net losses. However, with income tax refunds, net loss from these companies decreased compared to operating loss.



Development cost in these oil companies are used for drilling and exploring new wells. It's ill-advised to consider it as R&D since it does not generate technology improvement and might mislead investors if reported so. Our team decided not to include these spending as R&D expense.

R&D expense

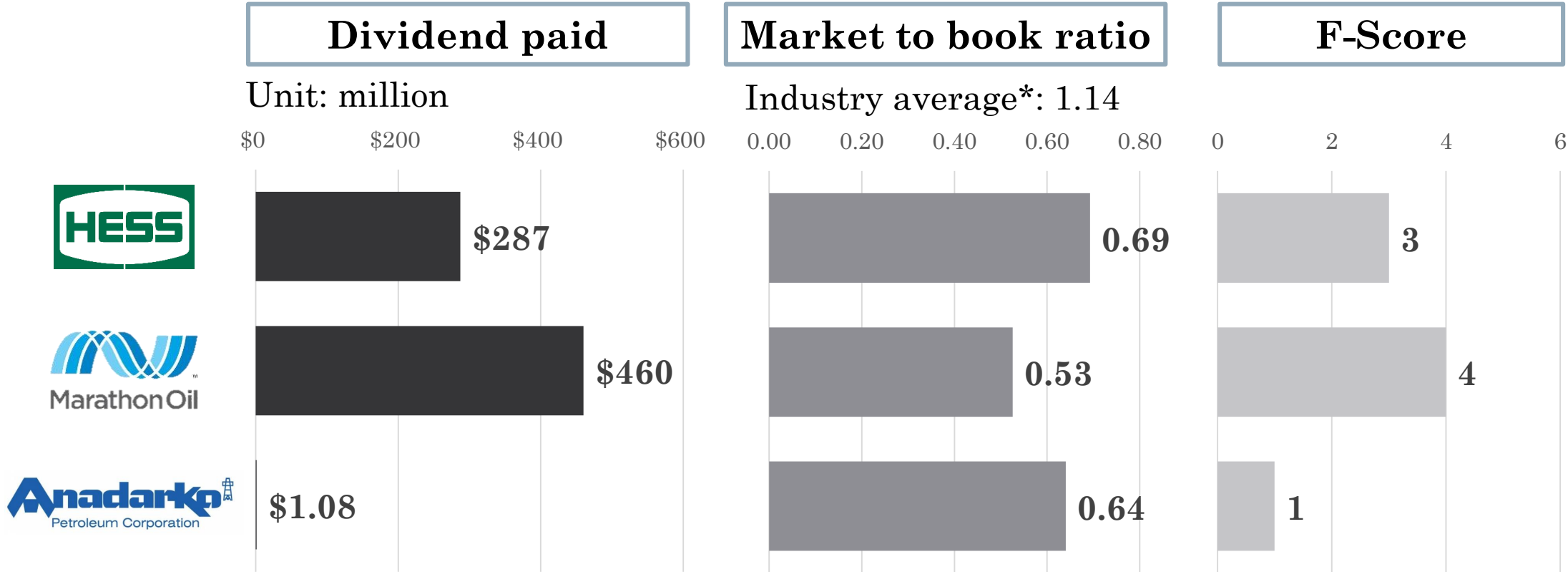
~~Development
cost?~~



0% R&D expense






Despite net loss, HESS still paid a dividend in 2015. The market to book ratio of these oil companies are very low even compared with industry average, meaning market confidence in investing these three oil companies is weak. Their F-Score doesn't show high investing value as well.



Note: Industry Average of Oil/Gas Industry (Production and Exploration) retrieved from http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/pbvdata.html



Using LIFO to measure inventory cost, HESS still had a higher net loss than Marathon who uses weighted average. At the same time, the depreciation method is consistent across the three companies.

	Inventory cost	Depreciation	Any Changes?
	LIFO	Unit of Production Straight Line	No
	Weighted Average	Unit of Production Straight Line	Yes* (From LIFO)
	Weighted Average	Unit of Production Straight Line	No

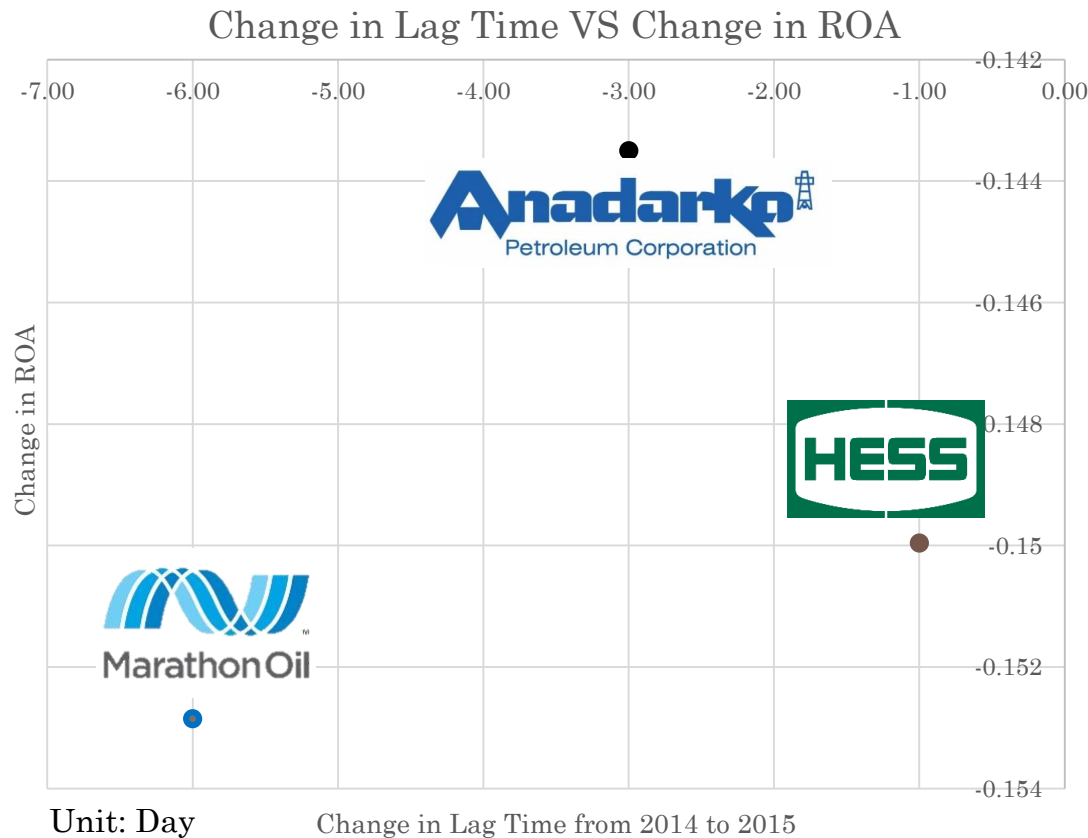
*Note: Marathon Oil changed from LIFO to weighted average during the fourth quarter of 2015 to accurately reflect the current value of inventory.



In 2015, the three companies reported their 10K earlier than they did in 2014. A lower ROA in 2015 might have made these companies disclose their figures sooner to avoid further impacts of oil price volatility.

Unit: Day

	2014	2015	Diff
<div>HESS</div>	58	57	-1
<div>MarathonOil</div>	62	56	-6
<div>Anadarko</div>	51	48	-3

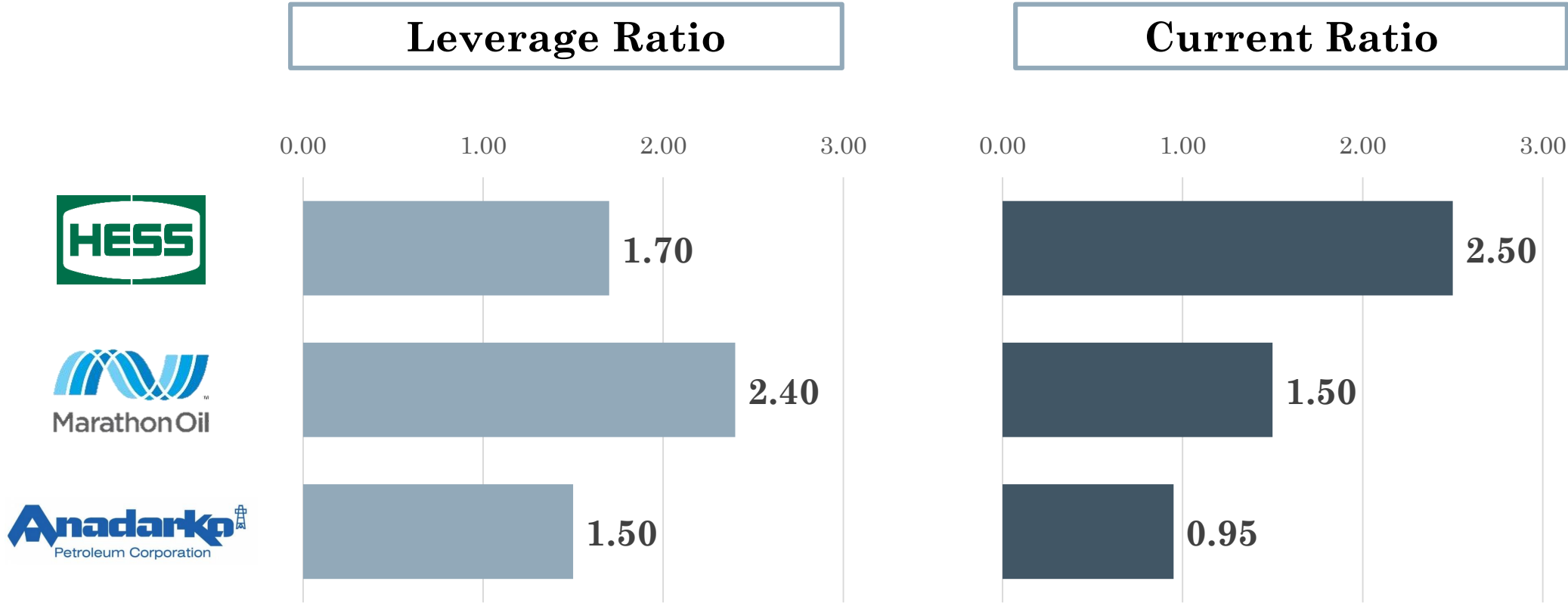


HESS's revenue is highly effected by the volatile oil price. In addition, the oil & gas industry contains many uncertain factors, including but not limited to government regulations, cooperate finance, political instability, environmental issues, and third-parties.

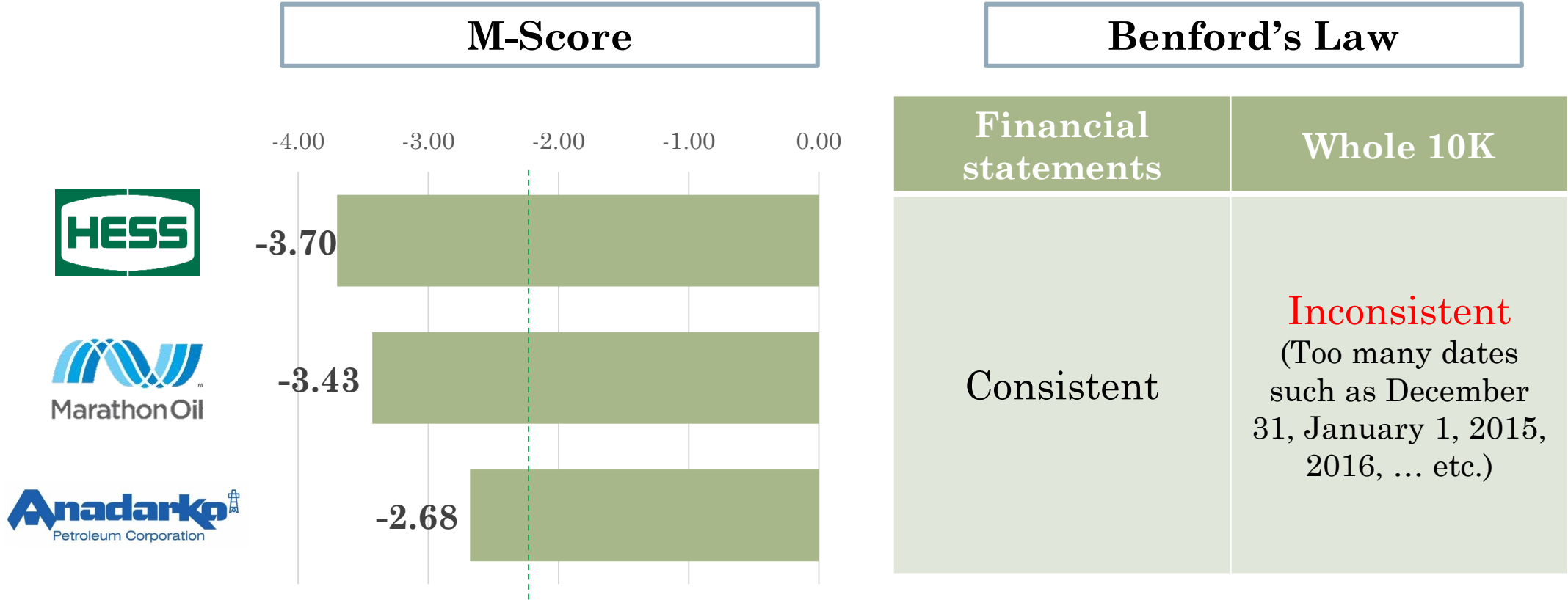
- ❖ Prices of crude oil, natural gas liquids and natural gas
- ❖ Estimation of quantities of proved reserves
- ❖ Joint operating parties
- ❖ Changing laws and regulations
- ❖ Financing for substantial capital requirements
- ❖ Political instability in production areas
- ❖ Environmental risks and environmental laws and regulations
- ❖ Climate change initiatives
- ❖ Dependence on oilfield service companies
- ❖ Cyber-attacks/Departures of key members from management team/ Competitors/ Catastrophic events...



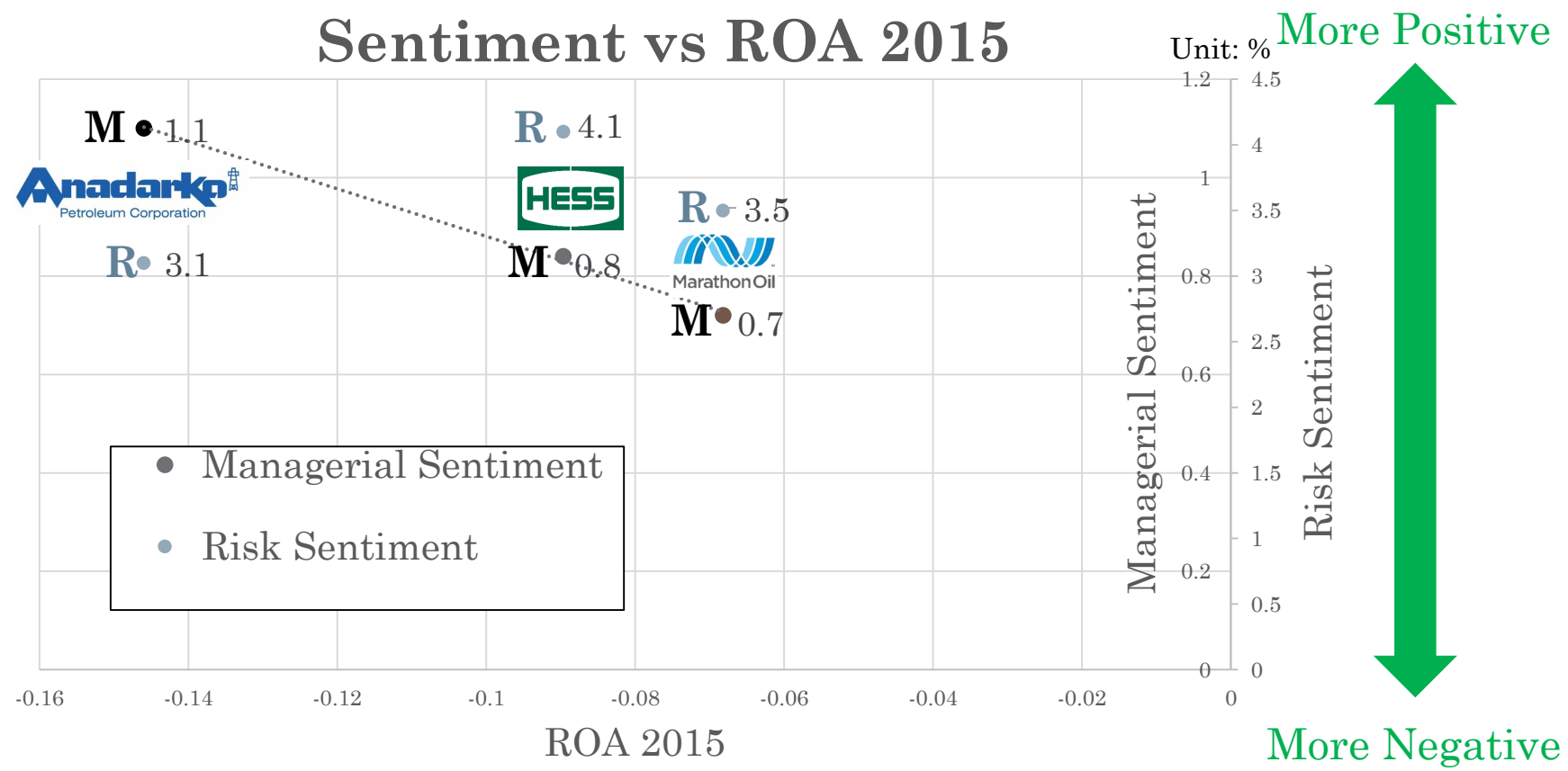
The fair leverage ratio of HESS indicates it was conservative to generate financial growth through debts. HESS' high current ratio suggests their ability to pay short-term obligations but shows a conservative attitude towards utilizing their working capitals.



Neither M-Score nor Benford's Law indicates potential manipulation on the financial statements of HESS and its competitors. M-Score of these companies are lower than the -2.22 threshold. However, testing Benford's Law by parsing the whole 10K might generate faulty results.



The company with lower ROA appears to be more positive in managerial sentiment but more negative in risk sentiment, which might express brutal exaggerations on good company performance and unfortunate risk impacts.



*Note: Formula for sentiment analysis: (positive words – negative words)/total words





is a company that...

- Has a better performance than its benchmark competitors,
- Seems free from fraud or manipulation, and
- Runs business conservatively



Thank you