

Centrica PLC Financial Performance Analysis

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Introduction

Centrica plc is a British energy conglomerate listed on the London Stock Exchange and included in the FTSE 100 index. The company's headquarters is in the historic English town of Windsor, in the county of Berkshire ("Shield Square Captcha," 2022). On February 17, 1997, British Gas plc demerged (split up) into three different businesses: Centrica plc, B.G. plc, and Transco plc (Ribeiro,2017). The company's primary focus is providing energy services to customers in the United Kingdom and the Republic of Ireland. In Scotland, it is known as Scottish Gas, whereas in Ireland, it is known as Bord Gais Energy. Besides its leading service, the company also offers things like plumbing (Ribeiro,2017). The 7,000 engineers and technicians working for Centrica Plc are proud to provide customers with innovative energy and service options. Integral energy provider Centrica plc operates both conventional and nuclear power stations ("Annual Report 2021/2022). Centrica provides electricity and natural gas to consumers and businesses through generation, exploration, and distribution. The company is a prominent player in the U.S. electric sector, serving 10,067,000 customers.

Using the figures presented in this analysis, Centrica reported revenue of £22,674 million in 2019, £12,249 million in 2020, and £14,744 million in 2021. All amounts in the following table are stated in millions of pounds sterling (£m).

% Change Movement

	Current Year (Million GBP)	Previous Year (Million GBP)	% Movement
Revenue	14744	12249	20.37%
Profit for the year	1173	(117)	N/M (loss to profit)
Current liabilities	17976	7665	134.52%
Net Cash (used in)/generated from financing activities	938	482	94.61%

Number of employees	19704	25753	(23.49%)
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Financial ratio calculations

Current ratio

Current ratio = Current Assets / Current liabilities

FY2021 = $19885 \div 17976 = 1.12$ FY2020 = $10412 \div 7665 = 1.36$

Quick Ratio

(Current assets - inventory) ÷ current liabilities

FY2021 = $(19885 - 644) \div 17976 = 1.07$ FY2020 = $(10412 - 324) \div 7665 = 1.32$

Gross profit margin

= $\{(\text{Total Revenue} - \text{Total costs of goods sold}) \div \text{Revenue}\} \times 100$

FY2020 = $\{(12249 - 8498) / 12249\} \times 100\% = 30.62\%$

FY2021 = $\{(14744 - 12681) / 14744\} \times 100\% = 13.99\%$

Debt ratio

= Total Debt / Total assets

FY2020 = $15737 / 17119 = 0.92$ FY2021 = $24336 / 27086 = 0.90$

Return on equity

= (Net income / Equity) * 100

= FY2020 = $41 / 957 = 4.28\%$ FY2021 = $1210 / 2365 = 51.35\%$

Financial Performance Analysis

In most cases, the **liquidity ratio** evaluates a company's capacity to meet its short-term obligations with the funds available in its current assets. In an ideal situation, a company's current assets would be twice as large as its current liabilities (or "current ratio") (Lalithchandra,2021). For investors, a current ratio greater than one is ideal. The current ratio for Centrica Plc in 2020/21 and 2021/22 is 1.36 and 1.12, respectively. As a result, the corporation has 1.36 pounds of Cash available to pay down debt in F.Y. 2020/21, making interest payments on the loan of 1.36 pence. The company had 1.12 pounds of assets to cover each pound of debt in FY2021/2022. In the fiscal year 2020/21, the company's current ratio was larger than in the fiscal year 2021/22, possibly because current liabilities were higher and current assets were lower. A decrease in the current ratio was observed in 2021 due to a rise in current debts. The company's current ratio is higher than its current liabilities in both fiscal years, making it less likely that it would run into liquidity concerns.

The quick ratio measures a company's liquidity by comparing its total current liabilities to its total liquid assets (those that can be quickly converted into Cash). Liquid assets are short-term holdings that can be sold rapidly for Cash at a low discount from their current market value (Lalithchandra,2021). In the fiscal year 2020/21, Centrica's quick ratio was 1.32, which means that for every pound of debt, the company had 1.32 pounds of liquid assets available to pay it. In FY 2021/22, the company had a 1.07 lb. buffer to cover its bills. As a result of lower inventory levels in FY 2020/2021, the company had an easier time converting liquid assets into Cash.

A company's ability to generate profits can be measured by examining its profitability ratios. The ratio calculated by dividing gross profit by total sales, on the other hand, is a valuable measure of a business's financial health. It represents the money left over after subtracting the price of goods sold from a company's overall revenue. Centrica Plc's return on equity in 2021 is impressive. In 2020, Centrica Plc achieved a return on equity of 4.28%, which means it earned money on an equity investment of that amount. With a Return on Equity of 51.35 per cent in 2021, the firm was profitable with more than 50 per cent of its shareholders' capital. The company's 2020 return on equity may have been poor because of COVID-19 (Satryo et al.,2017).

Gross profit is the amount left over after a company has paid its employees, paid its operating expenditures, and purchased its raw supplies. A larger gross profit would be great for Centrica plc. Your business will fail unless your gross margin increases to the point where sales pay for production. When the ratio value is low, the earnings are also low. This means the business is doing well if the firm's profitability ratios are higher than they were the previous year.

The ideal gross profit margin ratio of 50%-70% is considered healthy and safe for any firm. In 2020, Centrica PLC had a gross profit margin of 30.62%, which is relatively safer compared to 2021. In 2021, the year's gross profit decreased, thus giving Centrica Plc. Disadvantage: The measurement of gross profit margin indicates an increase; however, this works against the corporation by limiting its ability

to attract new customers and expand its business. Sales volumes may have increased in 2020, as shown by the Centrica Company's financial report, leading to a relatively high cost of goods sold. In this case, the gross profit margin improved because of a reduced cost of goods sold per unit and higher sales volume (Jayanti,2021). As a result, net sales rose from the first to the third quarter. Variation in sales is most notable since it directly affects a company's gross profit. Both internal and external factors might affect sales variations.

A cash flow analysis determines working capital or the money a company has available to make purchases and run daily operations. Each of Centrica Plc's divisions has received equivalent funding. Operating cash flows reflect all of Centrica Plc's normal business operations. Rent, production, and shipping costs are all factored in. Approximately 1.4 billion British pounds is the company's annual revenue. In 2020, the firm's working capital was £1.4 billion; by 2021 and 2022, it was £1.6 billion (All Reports & Data,2022). The company will incur losses in 2019 and 2020 but will turn a profit in 2021 and 2022. One of the company's top priorities is growing its regular operations. An uptick in operating cash flow suggests a rise in sales or activity at a company. A company's finance cash flows and activities are the flow of money among the company's owners, investors, and creditors. Purchasing shares for the company's account, issuing new shares of stock, and selling debt instruments like notes are all financing activities. The company's finances have steadily worsened under Centrica Plc's leadership. The budget for financial operations was \$2.5 billion in 2018, which is expected to drop to \$0.938 billion by 2022.

The statement of financial position provides an overview of the company's assets, obligations, and shareholders' equity. The assets and liabilities of a business are broken down in detail on the balance sheet. The company's wealth is known as "equity" in a business. Underperformance is seen in 2019 and 2020, while performance is seen in the subsequent years (All Reports & Data,2022). Companies based in the United Kingdom, such as Centrica, faced difficulties and saw a drop in business due to the country's decision to leave the European Union (Satryo et al.,2017). BREXIT will impact Centrica's operations because the company's primary market is located in the U.K. and Europe. The value of the firm's assets was estimated at \$20 billion in 2018. The corporation has a good business model with an enhanced asset value of \$27 billion in 2022. Asset growth is a key indicator of a company's health and success. The business does about as well as average when measured against its obligations. Centrica plc's liabilities are growing at a faster rate than its assets. Approximately \$16.6 billion U.S. dollars was owed as of the end of 2018. As of 2022, the total liabilities had risen to \$24.3 billion (Annual Report 2021). Short-term Cash outlays are what make up a company's working capital. Over the previous five years, the typical amount of working capital has grown.

People increased their debt levels between 2018 and 2020. In 2020, the company's debt increased to 5.7 billion pounds due to the COVID-19 pandemic. In 2021, Centrica's debt was reduced to 4.64 billion GBP. That Centrica has the financial wherewithal to repay its loans increases the firm's appeal to lenders and potential investors. Equities have been rising on a gradual but consistent basis. Shares of Centrica Plc were worth around £3.9 billion at the time. The company's equity climbed to £2.7 billion in 2021 from £1.8 billion the year before. Centrica Plc is improving in the energy market despite

challenges in 2019 and 2020.

Conclusion And Recommendation

Centrica plc is well known as a premier provider of energy services in the United Kingdom and beyond. Despite Brexit and the spread of COVID-19, the company has exhibited market resilience. The company's 2019 proved challenging due to disruptions in its normal market activity. Since the Brexit crisis, the company's sales and profits have dropped dramatically. When looking at key ratios, it is clear that operations are running smoothly. The firm's cash is sufficient to support its current short- and long-term debt. Earnings can also be derived from the company's stock and assets. Centrica plc relies heavily on debt financing.

If increasing its current ratio is a priority for Centrica plc, it may delay a cash-intensive purchase or dispose of non-performing capital assets. Stop trying to undercut the competition by building up your company's USP instead. Providing a low price isn't enough to entice customers; you need to offer other benefits. Focusing on what makes your product or service unique from the competition can ensure that it is judged favourably based on merit rather than just pricing.

As an organization, Centrica Plc can benefit from targeted recommendations. The organization must place a premium on CSR and sustainability initiatives. The corporation may be able to influence the community through training and education activities, in addition to using technology and renewable energy sources to reduce emissions. Ideally, the company's community would get some of the benefits as well. Centrica Plc, next, must cut down on its debt funding. Centrica Plc could raise money for its efforts by selling shares instead of securing costly loans or bonds.

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