

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Based on Weston, Mitchell, & Mulherin, 2004, evidences indicate that the combined returns at merger announcement are positive. In fact what happened in acquisition transaction between Anadarko Petroleum Company and Kerr-McGee was the opposite as described in the last part of chapter 4.

The result of the valuation of Kerr-McGee using Free Cash Flow to the Firm showing that Anadarko Petroleum acquired Kerr-McGee at the right price. From this valuation, price stock per share is found \$70.39, which is only 11 cent lower compare to \$70.50 the price that Anadarko Petroleum Company paid in acquiring Kerr-McGee.

.This leads to conclusions that in making merger and acquisition decision, valuation result is not enough as the only base to acquire another company. Especially for oil and gas companies, like the case of this these, there are some other factors that have to be considered. These factors affect the falling of Anadarko Petroleum Company's market price after the acquisition and what make it even harder, these factors are non-financial factors that can not be calculated.

High risk because of the uncertainty and volatility of market price, global economic condition, regulations, numerous factors which are beyond the company's control affect the profitability and performance of oil and gas companies.

Oil and gas reserves also play important role in the oil and gas companies' going concern. That is why blocks, areas, wells and datas which are owned by another oil and gas companies become main reason oil and gas companies merge and acquire another oil and gas companies.

Market saw that there were no synergies can be developed between Anadarko Petroleum Company and Kerr-McGee. This also affects the falling of market price for Anadarko Petroleum Company.

5.2 Recommendations

Some recommendations resulting from the result of the valuation and conclusions are:

1. In taking decision of acquisition, factors beside financial conditions have to be more considered. In oil and gas industry, non-financial factors such as areas, datas owned by the target company, technical staffs (employees quality), risks that have been mentioned above, stability of politic and economy in the country where they company wants to operate, and the culture of the target company play an important role in affecting the result of the merger.
2. Comparing the result of valuation that has been done by other analysts from UBS and Lehman Brothers, where they got \$145 and \$135 respectively using NAV in their valuation, it is better to use Discounted Cash Flow in valuating oil and gas company. This is because there are too many things are being simplified in the NAV valuation, which is not enough in capturing the value of the oil and gas companies in the future.
3. The right assumptions of oil and gas price projection is also very important in effecting the result of the valuation, so that is why in valuating process, the oil price benchmark that analyst usually use has to be adjusted to the realized sales price the company has and to the hedges the company does.