

Turning the Tide – Leadership Decisions in Times of Financial Distress at Phoenix Petroleum

Amidst the dynamic landscape of the petroleum industry, Phoenix Petroleum faces a pivotal moment as it navigates financial turmoil. How can the company ensure its resilience and long-term success in the face of these challenges?

At a Glance

Country	Industry	Revenue	Net Loss
Philippines	Petroleum	US\$2,276.09 million FY 2022 approx. 127,552 million pesos	- US\$57.3 million FY 2022 approx. 3,213 million pesos

Introduction

In the highly competitive petroleum industry, companies like Phoenix Petroleum play a pivotal role in meeting the energy needs of consumers and businesses alike. Founded in 2002 and publicly listed since 2007, Phoenix Petroleum has rapidly grown to become a prominent player in the Philippine market, boasting a network of retail stations and a diversified portfolio of products and services. Under the leadership of its executive team, the company has pursued ambitious expansion strategies and sought to establish itself as a dynamic and innovative brand in the industry.

However, despite its initial successes, Phoenix Petroleum encountered significant financial

challenges in recent years, culminating in substantial losses totaling US\$119.5 million (approx. 6.7 billion Philippine pesos (pesos)) from 2021 to mid-2023. The company's profitability was further exacerbated by adverse market conditions, escalating debt levels, and mounting operational pressures. In response to its dire financial situation, Phoenix Petroleum was forced to consider drastic measures, including the possibility of layoffs, as a means to mitigate losses and restore stability to its bottom line.

This case study delves into the complex decision-making process faced by Phoenix Petroleum's leadership team as they grapple with the company's financial woes and the impending need for layoffs. Against the backdrop of mounting challenges, the executive team is tasked with navigating the principles of corporate governance to steer the company towards a viable path forward. As they weigh the various options available, the team must carefully balance the interests of stakeholders, uphold ethical standards, and chart a course that ensures the long-term sustainability and resilience of Phoenix Petroleum.

Note: Philippine pesos will be referred to simply as pesos throughout the text.

Understanding the Context

Industry Overview

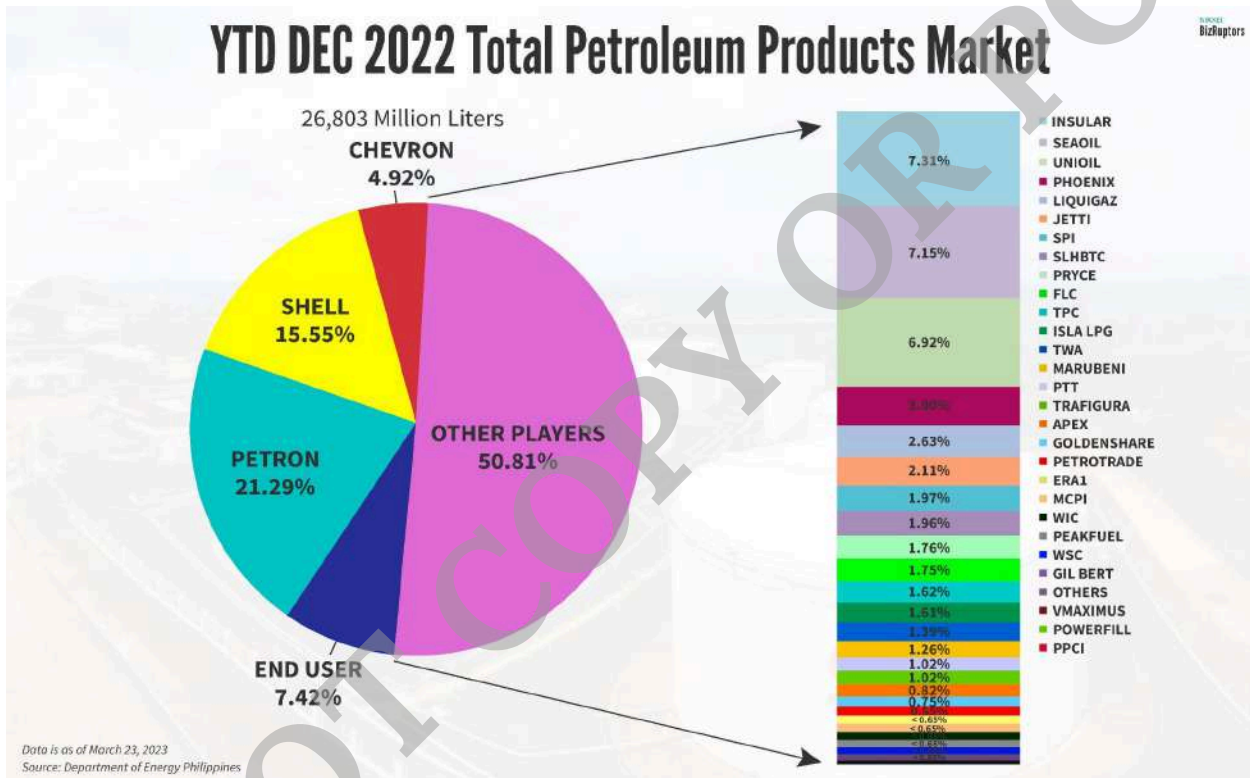
The oil industry in the Philippines is crucial for powering electricity, vehicles, and heating. Despite high demand, the country relies heavily on imports due to limited production. The majority of imported crude oil and petroleum products come from the Middle East, notably Saudi Arabia and the UAE. Refined petroleum products are mainly sourced from South Korea, Singapore, and China, with minimal imports from Russia.

Crude oil production in the Philippines has remained stagnant, with the Galoc oil field in Palawan being the primary source. However, other oil fields have been decommissioned or temporarily shut down, affecting domestic production. The country's oil refining capacity has also been limited since 2020, with only one operational refinery in Bataan.

In the Philippine oil market, three major companies, known as the "Big Three," dominate approximately 42% of the total demand. Shell and Petron are the leading players, with Shell

transitioning to focus on fuel imports after closing its refinery in 2020. Petron operates the only active refinery in the country. Chevron Philippines also ceased its refining operations to prioritize imports in response to market competition.

The Philippine oil industry faces challenges in meeting domestic demand, leading to significant import reliance. The market is dominated by a few key players, which impacts pricing and supply dynamics.



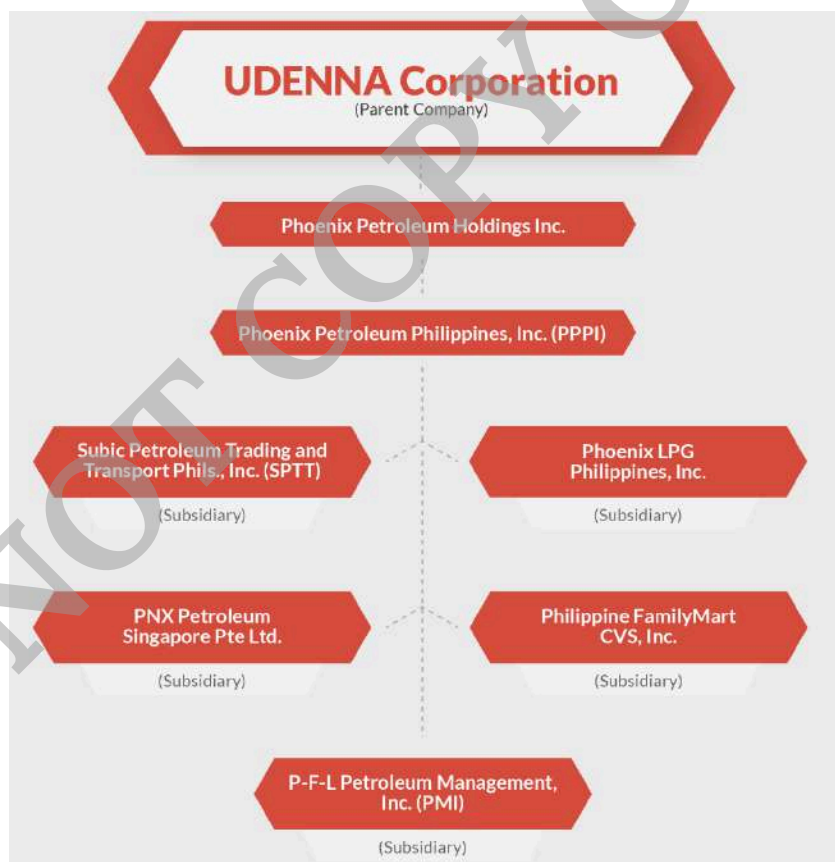
YTD December 2022 Total Petroleum Products Market | Source: [Department of Energy Philippines](https://www.doe.gov.ph)

Company Background: Phoenix Petroleum

Phoenix Petroleum, established in Davao in 2002, has evolved into a prominent nationwide network of retail and commercial channels, offering a diverse array of energy products and services tailored to both individual and industrial customers. The company is under the UDENNA Corporation. With a comprehensive product line that includes refined petroleum products, lubricants, bitumen for asphalt, and LPG, the company serves various sectors of the

economy. Moreover, Phoenix Petroleum's operations extend beyond product manufacturing and distribution, encompassing oil depots, storage facilities, transport services, and integrated logistics solutions, ensuring efficient and reliable supply chain management.

As a publicly-listed entity on the Philippine Stock Exchange since 2007, Phoenix Petroleum prides itself on its commitment to corporate social responsibility, actively supporting environmental initiatives and community development projects. Bolstered by strong leadership and a reputation for delivering top-performing fuels, the company's innovative approach, exemplified by its proprietary Phoenix PULSE Technology, sets it apart in the market. Through its nationwide network of well-equipped stations and strategic partnerships, Phoenix Petroleum remains dedicated to providing world-class service that empowers individuals and nurtures the entrepreneurial spirit of every Filipino, solidifying its position as a leading provider of energy solutions in the Philippines.



Phoenix Petroleum Subsidiaries | Source: [Phoenix Petroleum](#)

The Situation

Financial Performance

The Group's revenues for 2022 decreased to US\$2.6 billion (approx. 127.6 billion pesos), down 3.6% from the restated US\$2.7 billion (approx. 132.3 billion pesos) in 2021. This decline was mainly due to a 42.3% drop in total sales volume compared to the previous year, primarily because of a shortfall in working capital. Of this decline in sales volume, 57.4% was from domestic operations and 31.7% from foreign-based subsidiaries. The decrease in sales volume was partially offset by a rise in selling prices driven by a 141% increase in the price of Dubai crude. Similarly, the cost of sales and services decreased by 2.2%, primarily due to the decline in sales volume. These factors contributed to a 25.3% decrease in gross margin.

	2017	2018	2019	2020*	2021*	2022
Revenues	44,543	88,611	97,823	78,300	132,257	127,552
Cost of Sales, Services and Expenses	43,022	86,274	96,379	77,916	133,142	130,765
Net Profit-TOTAL	1,521	2,336	1,444	384	(885)	(3,213)
Non-recurring Income/Expenses						
Excess of fair value over acquisition cost/ FV gains on Investment Properties Pre-acquisition Income	(650)	(10)	0	(43)	(87)	(119)
Net Income-Excluding Non-Recurring Income	871	2,327	1,445	341	(972)	(3,332)
Provision for Preferred Dividends	195	320	683	683	589	577
EBITDA	2,923	2,904	6,222	2,904	3,258	1,166

(All amounts expressed in Millions, unless otherwise stated)

Phoenix Petroleum Financial Performance 2017 to 2022 | Source: [Phoenix Petroleum](#)

Selling and administrative expenses increased by 7% in 2022 compared to 2021, amounting to US\$121 million (approx. 6.080 billion pesos). The company also recognized various provisions totaling US\$13 million (approx. 648 million pesos) in 2022. Due to the decrease in volume, operating income declined by 154% in 2022, resulting in an operating loss. The company incurred a net loss after tax of US\$64.3 million (approx. 3.3 billion pesos) in 2022, compared to US\$17.8 million (approx. 886 million pesos) in 2021. However, gains from the revaluation of land and the post-employment defined benefit program partially offset this loss, resulting in a comprehensive loss of 2.507 billion pesos.

Consolidated resources decreased slightly to US\$1.715 billion (approx. 85.792 billion pesos) as of December 31, 2022, compared to US\$1.718 billion (approx. 85.939 billion pesos) in 2021. Cash and cash equivalents decreased by 15%, while trade and other receivables increased by 1%. Inventory decreased significantly. Non-current assets classified as held for sale increased substantially. Property and equipment decreased by 3%. Investment properties increased by 33%. Other non-current assets increased by 46%. Interest-bearing loans and borrowings increased by 6%. Trade and other payables increased by 2%. Total stockholders' equity decreased by 18%. Retained earnings decreased significantly. Revaluation reserves increased slightly.

Operations and Organizational Management

Phoenix Petroleum, following a strategic review, has launched a cost and productivity program aimed at streamlining its supply chain and logistics, enhancing productivity, and reducing expenses. As part of this initiative, the company has consolidated its real estate management under its wholly-owned subsidiary, Duta, Inc. This move is intended to optimize the use of real estate assets associated with its retail stations, storage facilities, FamilyMart stores, and business offices. By establishing Duta as a separate legal entity with dedicated resources and budgets, Phoenix Petroleum aims to achieve greater financial accountability and maximize the yield of its real estate portfolio.

The company is also focusing on improving efficiency and reducing risks in its road transport operations. Despite a 12% average annual growth in domestic volume since 2016, Phoenix Petroleum faced challenges with truck availability and driver attrition. To address this, shareholders approved the creation of a road transport subsidiary to form strategic partnerships with established operators, thereby minimizing risks and reducing capital

expenditures. This outsourcing strategy has already shown promising results, with truck utilization rates doubling and overall operational output improving significantly.

However, the company was facing operational challenges in its customer operations, particularly with order processing delays and tracking customer interactions. To address these issues and improve customer service, they decided to invest in a Customer Relationship Management (CRM) system. They chose NTT DATA Philippines (NDPH) to implement this system within a short timeframe.

Corporate Governance Code and Report

Phoenix Petroleum's actions exhibit elements related to corporate governance practices, albeit indirectly. One notable aspect is the consolidation of real estate management under a separate entity, Duta, Inc. This move indicates a commitment to enhancing asset management and financial accountability by establishing clearer oversight and governance structures for real estate assets, including retail stations, storage facilities, and business offices. By giving Duta its own organization, budget, and board-approved KPIs, Phoenix Petroleum aims to optimize the use of its real estate portfolio while ensuring transparency and effective management.

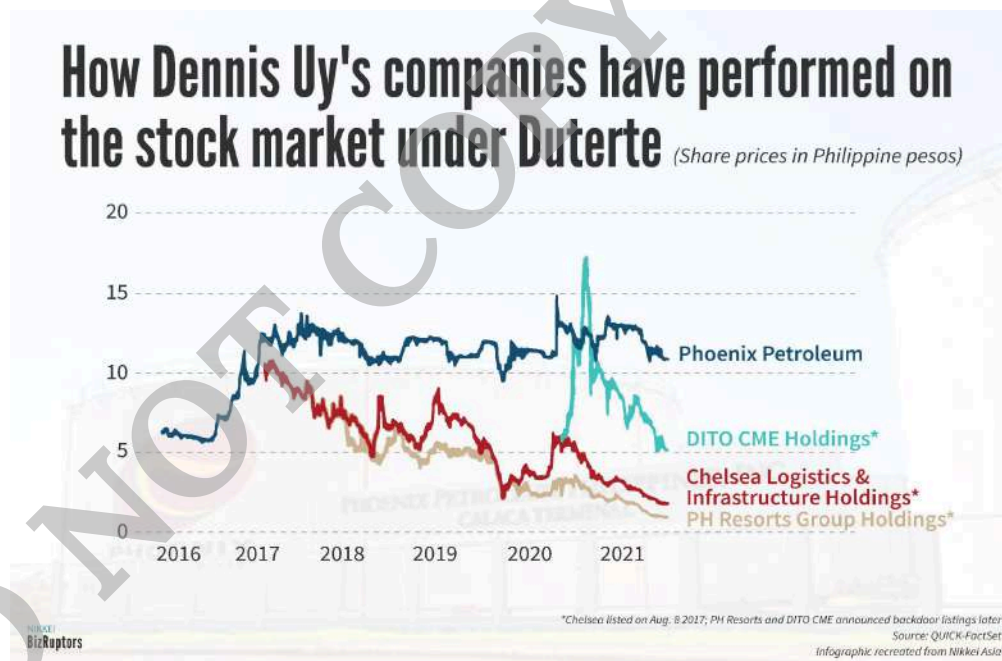
Another governance-related initiative is the creation of a road transport subsidiary to manage transportation operations more efficiently. This decision reflects a strategic approach to risk management and operational effectiveness. By forming partnerships with established transport operators, Phoenix Petroleum aims to minimize risks associated with truck availability and driver attrition, thus enhancing overall operational efficiency and focusing on core business activities. This outsourcing strategy aligns with governance principles aimed at optimizing resource allocation and mitigating operational risks.

Furthermore, Phoenix Petroleum's rationalization of supply chains, such as shifting lubricants and FamilyMart operations to third-party services, demonstrates a focus on operational and cost management. These actions contribute to improving efficiencies and reducing operational expenditures, which are essential aspects of effective corporate governance. By continuously challenging cost structures and driving productivity improvements, Phoenix Petroleum is aligning its operations with governance principles aimed at maximizing shareholder value and ensuring long-term sustainability.

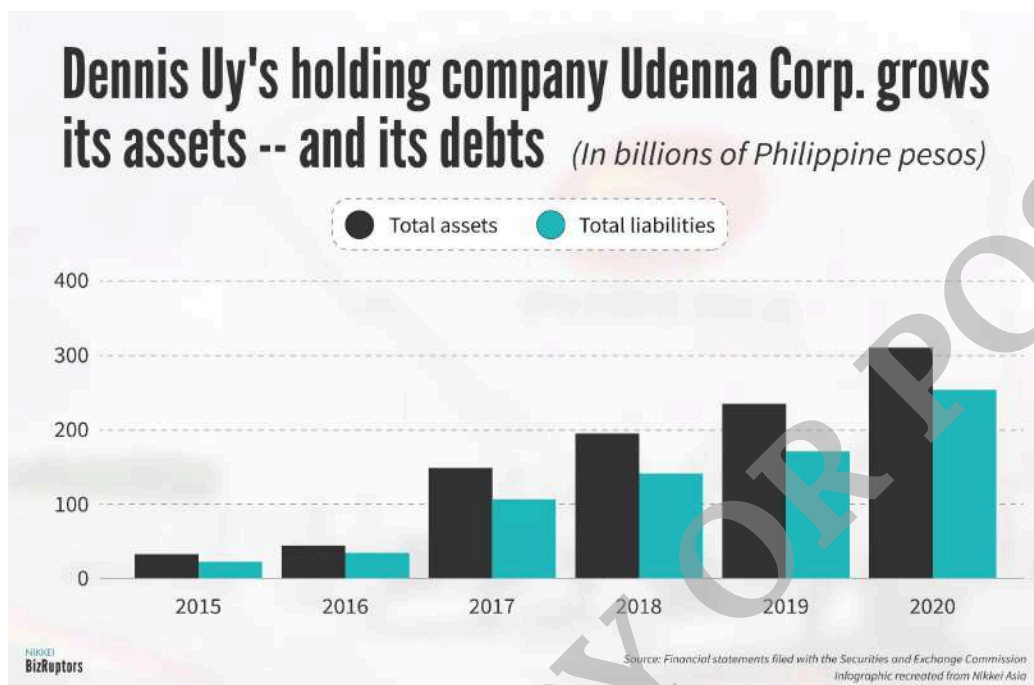
Controversies and Politics

Dennis Uy's business journey has been closely intertwined with the support of President Rodrigo Duterte, whom he actively backed during the 2016 national campaign. This support has translated into significant advantages for Uy, particularly in the realm of mergers and acquisitions within the Philippines. Uy's relationship with Duterte afforded him the leverage to expand his business empire dramatically, acquiring stakes in various sectors like energy, and telecommunications, and even forging partnerships with Chinese state-owned enterprises.

One notable instance of this support was seen in Uy's acquisition moves within the energy sector, particularly the Malampaya gas field, which supplies a substantial portion of the Philippines' power needs. Uy's bid to take over this strategic asset faced challenges as Duterte's presidency neared its end, with senators questioning Uy's group's capabilities and the fairness of the deal. This shift in scrutiny reflects a broader trend where political allegiances can significantly impact business fortunes in the Philippines.



Dennis Uy's companies on the stock market | Source: [Nikkei Asia](#)



Udenna Corp. Assets and Liabilities | Source: [Nikkei Asia](#)

The connection between Duterte and Uy goes beyond mere business transactions; it's emblematic of the broader political landscape in the country. Duterte's impending departure from office has created a climate where previously sheltered businessmen like Uy are now subject to increased scrutiny and pressure, as coalitions fracture and political dynamics evolve in anticipation of the next presidential election.

Uy's alignment with Duterte has also raised geopolitical concerns, especially given Duterte's overtures toward China. Uy's dealings with Chinese entities, combined with the strategic location of the Malampaya gas field in disputed waters, have drawn attention and criticism from various quarters. This scrutiny underscores the intertwining of business interests with broader geopolitical considerations under Duterte's presidency.

Despite the challenges and uncertainties facing Uy as Duterte's term winds down, his business strategy remains optimistic about the Philippines' economic potential. Uy views his expansion as a testament to his belief in the country's growth prospects under Duterte's leadership,

emphasizing his adherence to regulatory frameworks and downplaying accusations of political favoritism.

Uy's business success and expansion, particularly evident in his pursuit of strategic assets like the Malampaya gas field, have been significantly bolstered by his close ties to President Rodrigo Duterte. However, as Duterte's influence wanes with the end of his presidency, Uy finds himself navigating a more complex and challenging business environment, where political support can be fleeting, and scrutiny is heightened in the lead-up to a new era of leadership in the Philippines.

Making The Big Decision

Given the increasing difficulties, the executive team must apply corporate governance principles to guide the company towards a successful future. They are considering different choices while ensuring they prioritize stakeholders' interests, maintain ethical standards, and plan for Phoenix Petroleum's long-term sustainability and resilience.

Proceed with the planned reduction, prioritizing short-term financial stability and shareholder interests

Pros	Cons
Immediate reduction in costs, potentially alleviating financial strain in the short term.	Negative impact on employee morale and company culture.
Demonstrates decisive action to shareholders, which may bolster confidence.	Potential reputational damage and impact on stakeholder relationships.
Aligns with a focus on financial metrics and stability.	May not address underlying operational inefficiencies or strategic issues.

Explore alternative strategies such as restructuring, diversification, or seeking external partnerships to mitigate losses while minimizing layoffs

Pros	Cons
Opportunities to address underlying operational challenges and strategic issues.	Requires significant investment of time and resources to explore and implement new strategies.
Potential for long-term sustainability and diversified revenue streams.	Success is not guaranteed and may involve higher risks in the short term.
Focuses on innovation and adaptation to changing market dynamics.	Delay in achieving immediate financial stability compared to layoffs.

Implement a phased approach to layoffs, offering support services and retraining opportunities to affected employees

Pros	Cons
Mitigates immediate financial losses while demonstrating empathy towards affected employees.	Potential for negative impact on employee morale and company reputation
Allows for strategic workforce planning and reallocation of resources.	Requires careful planning and communication to manage employee and stakeholder expectations.
Supports potential organizational restructuring and efficiency improvements.	May not fully address underlying operational or strategic challenges.

Discussion Questions

Imagine you are part of the leadership at Phoenix Petroleum. You are faced with this upcoming decision to make and you have a few options:

Option 1: Proceed with the planned reduction, prioritizing short-term financial stability and shareholder interests.

Option 2: Explore alternative strategies such as restructuring, diversification, or seeking external partnerships to mitigate losses while minimizing layoffs.

Option 3: Implement a phased approach to layoffs, offering support services and retraining opportunities to affected employees.

Question 1

How do the options align with Phoenix Petroleum's strategic objectives across different perspectives, including financial performance, customer satisfaction, operational efficiency, and organizational learning?

Question 2

How can each option strengthen the risk management and control layers within Phoenix Petroleum, ensuring clear roles and responsibilities for risk oversight and mitigation?

Question 3

Based on your analysis, which option would you choose as the president of Phoenix Petroleum? Explain your rationale, considering the potential impacts on financial stability, stakeholder interests, organizational resilience, and long-term sustainability.

Sources & Further Reading

Further Reading

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- [The Balanced Scorecard—Measures that Drive Performance | Harvard Business Review](#)
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- [Losses are not small, they are substantial, serious, real: Dennis Uy plans layoffs to stop the bleeding in Phoenix Petroleum | Bilyonaryo](#)
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- [Duterte defends Dennis Uy Malampaya buyout, energy chief Cusi | Rappler](#)

- [Philippines Tycoon, Duterte's Ally Dennis Uy's Stocks Tumble on Default Notice | Bloomberg](#)
- [Dissecting Dennis Uy's mountain of debt | ABS-CBN News](#)
- [Banner Image by Photocreo via Canva](#)

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