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A CRITICAL APPRAISAL GROUP REPORT ON 6 DIFFERENT COMPANIES OPERATING IN AUSTRALIA

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| --- | --- | --- | --- | --- |
| **Name of the Company** | **Stock code** | **Student name** | **Student ID** | **Agreement** |
| **API Limited** | **API** |  |  |  |
| **Retail Food Group Ltd** | **RFG** |  |  |  |
| **JB Hi Fi Limited** | **JBH** |  |  |  |
| **The Reject Shop Limited** | **TRS** |  |  |  |
| **Super Retail Group Ltd** | **SUL** |  |  |  |
| **Blackmores Limited** | **BKL** |  |  |  |

# **EXECUTIVE SUMMARY**

The purpose of this report is to present the analysis of the financial statement of six different Australia’s companies, which are publicly listed. The six companies, whose financial statements are analysed and presented in this report are API Limited, JB Hi Fi Limited, Retail Food Group Limited, The Reject Shop Limited, Super Retail Group Ltd, and Blackmores Limited. It also presents the financial position of these companies based on the financial ratio of the FY 2018 to indicate how each company performs in the market. The report also presents detailed on how various financial ratios are calculated, which is an important aspect in business management and operation. Therefore, the financial ratios presented in this report are net profit margin, current ratio, inventory turnover, leverage ratio, asset turnover, return on equity, return on total assets, earning per share, and net debt to equity ratio and the total return to shareholders. After the analysis of the financial statement of the six companies, the recommendation is also presented based on the position of the company.

# **INTRODUCTION**

The financial statement is an essential aspect for efficient management and operation of companies. It provides proper understanding of the financial capability and uncertainty of a company and therefore, it can be used to manage risk in business. According to Amadeo (2018), it is applied by the investors to analyse the market and evaluate the financial health of a company. Investors depend on the financial statement for a broader understanding of the position of a company and therefore, it used to determine whether it is worth investment or not. Financial statement is also an important tool for business since it helps companies to understand their market performance and therefore, it is utilized to ensure that risk are prevented and the company is managed to profitability. As stated by Sharma (2015), financial statement provides an overview of performance of all the aspects of a company. Therefore, it is utilized to analyse market situation and also to establish both weakness and strong points of the company.

However, in this paper, the financial ratio of six companies are analysed to determine their performance and market position. These companies are, Reject Shop Limited, Retail Food Group Limited, JB Hi Fi Limited, Super Retail Group Ltd, Blackmores Limited and API Limited. It presents and compares the financial performance of these companies based on the financial ratios. In order to established the true position of these companies in the market, the asset return, Net Profit Margin, Net Debt to Equity Ratio, Return on Total Assets, Total Return to Shareholders, Leverage Ratio, Current Ratio and the Earnings per share of the six companies are calculated and utilizes to understand the performance of the six companies. The purpose of this report is to present vivid statement on the performance of the six companies in the Australian’s market. The performances are presented based on their financial ratios for the financial year 2018.

# **FINDINGS**

**The Net Profit Margin**

The Net Profit Margin is described as the percentage of the revenue which is remaining after the deduction of the operating expenses, preferred stock dividends and interest rate. It is used to measures the performance of a company by indicating how efficient a company is able to convert revenue into profit. The profit margin of tabulated by deducting total expenses from the total revenue of the company and then divide by the total revenue. Therefore, the total net profit margin API Limited during the FY 2014 is established to be -2.71%$, FY 2015 1.25% and the FY 2016 is 1.35% and the FY 2017 is 1.29%. The analysis of the financial statement also established that Retail Food Group Limited net profit margin is for the FY 2014 is 0.66%, FY 2015 0.28%, FY 2016 0.36%, and the FY 2017 0.25%. It is also established that JB Limited has a net profit margin of 3.6% for the FY 2014 and in the FY 2015; it had a net profit margin of 3.74%, FY 2016 3.85 and the FY 2017 3.06%. Super Retain has a good net profit margin a good during the three consecutive years.

**Graph 1: Net Profit margin**

**Current Ratio**

The current ratio is the liquidity ratio is indicates the ability of a company to pay its debts. It shows investors how effective a company can utilize its current assets to make profit in the market. Most investors view the current ratio to determine the viability of a company to pay its debts and therefore, it is a measure for investment by many investors. The current ratio is obtained by dividing the current assets by the current liabilities. The analysis of the financial statement as indicated in the graph below indicates that Reject Shop Limited registered the highest current ratio between the FY2014 and the FY2016. The graph shows that Reject shop had a current ratio of 145.20% during the FY 2014, and in the FY 2015183.22% and FY 2016 the current ratio was 148.64%. It means that it has the highest ratio compared to the rest of the companies. However, the ratios of all the six companies are above 1.0 except Retail Food Group Limited, which had a current ratio of 0.92 and therefore, in 2014 the company had the lowest.

**Graph 2: Current ratio**

**Inventory Turnover**

The inventory turnover is described as the number of times a company replaces its stock during the financial year. According to Raimi (2016), it provides detailed insight on how a company manages costs and how the sales of the company has been during the financial year. the inventory turnover is obtained by dividing sales with average inventory of a company. However, the financial analysis of the six companies revellaed a unique trend as reported in graph 2 below. The analysis indicates that in the FY 2014 API did not have any invetsory turnove and in FY 2015 it had 8.5 and FY 2016 was 8.64. The analysis indiates a unique trend of the growth of inventory turnover and thereore, Super Retail Group Limited and Blackmores Limited has the lowest inventory turnover of less than 4.0 for Blackmores Limited and less than 3.0 for Super Retail Group Limited. The graph below illustrates the inventory ratio obtained for each company between 2014 and 2016 and therefore, it shows that API Limited has the best performing stock management for between the FY 2014 and FY 2016 because of its high inventory turnover. Based on the analysis of the inventory turnover, it us evident that API, and Retail Food Group Limited are the best companies in turns of stock management. The highest inventory turnover means that the two firms experience high sales compared to the rest of the companies.

**Graph 3: Inventory Turnover**

**Net debt to Equity ratio**

The debt to equity ratio is an important financial ratio, which is utilized in determination of the financial viability of a company (Crooks, 2018). It determines the financial health of a company because it indicates the equity and debts which a company has incurred during the financial year. The analysis of the financial statement of the six companies indicates a unique trend of how each company performances in terms of management of debts. It is calculated by dividing the total liabilities by the total equity realized during the financial year. The analysis shows that during the FY 2014 Supper Retail Group had the highest debt to equity ratio of 0.48 and the lowest debt to equity ratio are Rejected Shop Limited of 0.10. It is therefore, important to point that as indicated in the graph 4 below, all the six companies had an acceptable debt to equity ratio between the FY 2014 and the FY 2016.

**Graph 4: Net debt to Equity ratio**

**Asset turnover ratio**

The asset turnover is regarded as the value of sales or revenue in relative to the value of assets of a company (Chung, 2016). The low assets turnover ratio means that a company is not able or efficient to utilize its assets to generate sales. The asset turnover is obtained by dividing the revenue or sales of a company by net assets of a company. The analysis of the financial statement of the six companies indicate that Retail Food Group has the lowest asset turnover ratio at 0 in the FY 2014 and during the FY 2015 it had an asset turnover of 3.36, and the FY 2016 it had 3.46. However, it is realized that its asset turnover grows every financial year which indicates an improvement in performance. The JB Hi-Fi had the highest asset turnover between the FY 2014 and the FY 2016 of 4.0 in the FY 2014, FY 52015 3.8 and FY 2016 3.8, as indicated in the graph below. It is therefore, means that JB Limited is best performing company among the six companies in terms of utilization of assets to generate sales.

**Graph 5: Asset turnover ratio**

**Leverage Ratio**

Leverage in also an important financial ratio used to measure the performance of a company. It indicates the level of debts incurred by a company (Balle, 2015). The analysis of the leverage ratio indicates that how a company utilize its debts. The analysis indicates that JB Hi-Fi Limited has the highest leverage ratio during the FY 2014 of 3.8, and the FY 2015 3.5 and the FY 2016 3.78. It is therefore, means that JB Hi-Fi has borrowed a lot of money to finance its assets. It therefore, means that Retail Food Group Limited has borrowed little money to finance its operations and therefore, it has fewer debts compared to the rest of the companies.

**Graph 6: Leverage ratio**

**Total Return to Shareholders**

It measures the performance of companies in the stock and shares over a period of time. It is useful for investors and most investors use it as a benchmark to decide whether to invest in a company or not. During the FY 2014 and 2015 Blackmores had the highest return to shareholders in the FY 2014 with API also having return to shareholders of 1.75. The company with the lowest return to shareholders was JB Hi-FI and Super Retail Group Limited of less than 0.5 for both JB and Super retail. In terms of investment decision, an investor is more likely to invest in API and Blackmores because of high return to share between 2014 and 2015. However, in 2016 the companies registered the lowest return to shareholders of a negative. Therefore, there could be a problem in the company, which drove it to lose.

**Graph 7: Total return to shareholders**

**Return of Total Assets**

The return on assets is applied to determine how efficient a company utilizes its assets to generate revenue. The analysis indicates that Blackmores has the highest return on assets compare to the rest of the companies. This means that Blackmores earns a lot of profit based on the resources or from the resources it utilized in the operation. The analysis established that it had a return on asset of 0.38 during the FY 2015 and 0.278 for the FY 2014 and 0.18 during the financial 2016. The lowest return on assets was registered by API at 0.016 in 2015 and the highest of 0.024 during the FY of 2016. The graph below indicates the return on assets of the six companies.

**Graph 8: Return on Total Assets**

**Conclusion and Recommendation**

The analysis of the financial statement of the six companies, which are publically trading in Australia’s stock market, revealed a unique trend of performance. First, it is established that none of the six companies are in financial risk, since the debt to equity ratio for the six companies at the end of the FY 2016 was above 1.0, which is the acceptable debt to equity ratio. It is also established that all the six companies are profitable though the level of profitability is different. It is clear all the six companies are making profit because the analysis of the net profit margin indicates that none of the companies has a negative net profit ratio, which would mean that the company has been making losses. In terms of total to shareholders, most of the six companies register total return throughout the three years from 2014 to 2016 except during the FY 2015, where Reject and Blackmore which registered negative total return to shareholders. From the analysis of the six companies it is evidence that companies need improvement in performance. It is therefore, recommended for Retail Food Group and Super Retail to improve their performance by deploying a new strategy marketing and sales strategies which would allow the companies to improves their sales revenue and general performance.

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