Finance analysis essay

Finance

ASSIGN BUSTER

RATIO1999200020012002Gross Profit/Margin Ratio= Gross profit sales10702 *100%313575= 3. 41%28868*100%558942= 5. 16%45180*100%918671= 4. 92%1471.

7*100%9428. 4= 15. 61%20032004200520061550. 7*100%9070. 0= 17.

1%5257*100%19723= 26. 7%7879*100%29181= 27%3872*100%63366= 6. 11%Net profit margin ratio= Net profit after tax Sales Revenue19992000200120025977*100%313575= 1. 91%20694*100%558942= 3. 70%36083*100%918671= 3. 93%1111*100%9428. 4= 11. 8%2003200420052006(1223.

5)*100%90700=(13. 5%)5307*100%19723= 26. 9%1449*100%29181= 4.

97%2282*100%63366= 3. 60%Return on Investment= Net profit after tax Total assets1999200020012002 20694*100%171016= 12. 10%36083*100%285648= 12. 63%1111*100%13764. 2= 8. 07%2003200420052006(1223. 5)*100%12796.

0= 906%5307*100%12601= 7. 31%2448*100%114749= 2. 13%2282*100%217698= 13. 05%Return on Equity= Net profit after tax Equity1999200020012002 20694*100%171016= 12%36083*100%285648= 12. 63%1111*100%3131.

535. 4%2003200420052006(1223. 5)*100%1679.

1=(72. 8%)5307*100%29054= 18. 3%1449*100%12415= 11. 67%2282*100%13952= 9. 19%RATIOS1999200020012002CURRENTRATIOS= Current Assets Current

Liabilities16336882815= 1. 97: 1272313136792= 2: 11376444992003200420052006127965077.

7= 2. 5: 14121718638= 2. 2: 1147417139030= 1. 06: 1191624180733= 1. 06: 1Acid Test Ratio= Current Assets-Stock   Current Liabilities19992000200120021633368-4850982815= 1.

39: 1272313-79457136792= 1. 4113764-17. 74499= 3.

06: 1200320042005200612796-18. 45077. 7= 2.

5: 14121718638147417-282139030= 1. 06: 1191624-268180733= 1. 06: 1From the financial ratio calculations, the following can be inferenced. The profitability of the firmThis is measured by the profitability ratios i. e. the gross profit/margin ratio and the net profit margin ratio. Profitability can also be measured in relation to investments. In 1999, DHL gross profit margin was the lowest at 3.

41%. There was a slight improvement in 2001 with the gross profit margin ratio being 5. 16% before a decline was witnessed in 2001. Between 2002 and 2004, profitability of DHL improved with a record of 15. 61%, 17. 1% & 26. 7% respectively. However, in 2006, the ratio declined to 6.

11%This ratio is an indicator of how the firm controls its cost of goods sold expenses. For instance, in 1999, of the 100% revenue generated, 3. 41% resulted into gross profits while the remaining were cost of goods sold. The net profit margin ratio was 1. 91% in 1999 improving to 3.

93% and 11. 8% in 2001 and 2002 respectively. There was a decline in profits in 2003 as shown by a negative ratio of -13. 25%. In 2004 profitably improved significantly with the net profit margin ratio being 26.

9%. However in 2005 and 2006, this declined to 5. 07% and 3. 60% respectively. The net profit margin ratio is an indicator of how efficient a firm is able to control three types of expenses:-Cost of goods sold expensesOperating expensesFinancing (interest) chargesIn 2005 for instance for every 100% of the total turnover that DHL realized, only 5. 07% remained as net profits. 94.

03% was incurred in paying off the above expenses including tax. The above two ratios indicate that DHL's profitability is not stable but keeps on fluctuating over time. But this variability can be as a result of overhaul costs being incurred in financing major projects and investments of the firm. Profitability in relation to investmentThe return on investment is an indication of how well DHL is utilizing assets on its disposal to generate earnings.

For instance the ratio of 2. 13% in 2005 shows that for every €100 of total assts, only € 2. 13 after tax were generated. In 2006, DHL made the worst results in terms of asset utilization with a ratio of 1.

05% Between 200 and 2001, there was both good performance and improvement of 12. 10% and 12. 63% respectively.

The return on equity shows a similar trend. 2004 recorded the best results of 18. 3% meaning that it was in this year that the company made use of

owner’s capital (investments) to generate earnings. It further means that for every €100 worth of equity capital supplied by the owners, € 18. 3% after tax was generated. This declined to 9. 19% in 2006.

This is a ratio that most investors look at when making their investment decisions preferring a firm with a higher ratio since it is even likely to pay more dividends. Liquidity of DHLThe current ratio of DHL overally indicates that the firm is highly liquid. The preferred ratio for the current ratio is 2: 1 i. e for every € 1 current liability.

In the years 2001, 2002, 2003 and 2004, the firm’s liquidity surpassed the 2: 1 standard. The current ratio was 2: 1, 3: 1, 2. 5: 1 and 2. 2: 1 respectively for the years. In 2005 and 2006, the ratio was constant at 1.

06: 1. ImplicationThe implication of these ratios to DHL is that the firm can be able to meet its short – term maturing financial obligations as and when they fall due for payment. It can also be able to payment. It can also be able to pay its creditors on time. As shown through the acid test ratios, DHL is highly liquid. This ratio indicates the ability of the firm to pay its financial obligations from the most liquid assets.

The recommended ratio is 1 but in all the years the firm exceeded this point. In 2000 it was 1. 39: 1, 1. 41: 1 in 2001, 3. 06: 1 in 2002 and a constant 1.

06: 1 in 2005 and 2006. Stock is excluded from measuring the financial capability because it might be difficult to convert stock into cash quickly. Stock is also valued on historical basis (LIFO, FIFO, e.

t. c and the amount indicated in the balance sheet may not be fully realized on sale of stock. Dividend PaymentFor the year ended 2006, a € o. 75% dividend per share (D.

P. S) was proposed. The E. P.

S for 2006 was 1. 60. This translates into a divided payment ratio of 46. 8%. This shows a high dividend payment policy.

This policy may affect the retained earnings which should be sufficient to finance future investments of the company. REFERENCESJeff Madura, Introduction to Business, South Western, 2001Health V. S Kaveri, Financial Ratios as predictors of Borrower’s Health , Sultan Publishers, 1980101 Business ratios, Mc Lane Pubns, A Manager’s Handbook of Definations, Equations and Computer Algorithms.