

Dividend policy and capital structure

Countries



“ Comparative Analysis of Dividend Policy & Capital Structure” Prepared For: Lutfur Rahman Senior Lecturer, Department of Business Administration, East West University. Course Code: FIN-435 Course Title:

Managerial Finance Prepared By: Md. Habibur Rahman Utpal Kumar Ghosh ID: 2006-2-10-175 ID: 2006-2-10-179 Date of Submission: August 11, 2009 East West University 43, Mohakhali C/A, Dhaka-1212 Introduction ?? Origin of the Report: Mr. Lutfur Rahman, Senior Lecturer, East West University, has assigned this report to us, as this report is a requirement of the course “ Managerial Finance”.

Objectives of the Report: The broad objective of the report is to build a strong familiarity about the Dividend policy & Capital Structure to measure the performance of the company. By preparing this report we are trying to acquaintance of the overall dividend policy & capital Structuring. Moreover the superficial objective of the report is to acquire knowledge about the insights of interpreting the ratios. Preparing this report such kind of topic is extremely beneficial for us as the students of finance. Scope of the Report: This report is based on the dividend policy & capital Structuring.

Through this report we are try to focus on the area related to the financial performance of the companies. We particularly focus on dividend policy & capital Structuring and related ratios; as those are the major indicator of the performance assessment of a firm. Methodology: For execution of the report we use MS office software. Topic of the report is not permitting us to input data from primary sources. As the report must be factual, the data source of this report is basically secondary sources. We gathered our relevant data from the different periodicals published by the two cement companies.

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We also collect our relevant information from different books as well. We also collected some data from the internet to broaden our scope of analysis.

Dhaka Stock Exchange websites, Meghna Cements mills website, Confidence Cement Ltd, websites are few of them. Limitations: • Inadequate knowledge in studying reports. • Lack of in-depth understanding of certain terms and concepts prevented us from going into details. • Lacks of research. •

Unavailability of updated data. • Time limitation is also been there. • Lack of information and coordination. Confidentiality of data was another imperative barrier that was faced during the conduct of this study. • Power Crisis. ? ? ?

2| Page Dividend Policy ? Dividend: Dividends are payments made by a corporation to its shareholders. It is the portion of corporate profits paid out to stockholders. When a corporation earns a profit or surplus, that money can be put to two uses: it can either be re-invested in the business (called retained earnings), or it can be paid to the shareholders as a dividend. Many corporations retain a portion of their earnings and pay the remainder as a dividend.

For a joint stock company, a dividend is allocated first as a fixed amount per share. Therefore, a shareholder receives a dividend in proportion to their shareholding. For the joint stock company, paying dividends is not an expense; rather, it is the division of an asset among shareholders. Public companies usually pay dividends on a fixed schedule, but may declare a dividend at any time, sometimes called a special dividend to distinguish it from a regular one. Cooperatives, on the other hand, allocate dividends according to members' activity, so their dividends are often considered to be a pre-tax expense. Dividends are usually settled on a cash basis, as a

payment from the company to the shareholder. They can take other forms, such as store credits (common among retail consumers' cooperatives) and shares in the company (either newly-created shares or existing shares bought in the market.) Further, many public companies offer dividend reinvestment plans, which automatically use the cash dividend to purchase additional shares for the shareholder. ? Forms of Payments: ? Cash dividends (most common) are those paid out in the form of a check.

Such dividends are a form of investment income and are usually taxable to the recipient in the year they are paid. This is the most common method of sharing corporate profits with the shareholders of the company. For each share owned, a declared amount of money is distributed. Thus, if a person owns 100 shares and the cash dividend is \$0.50 per share, the person will be issued a check for 50 dollars. ? Stock dividends are those paid out in form of additional stock shares of the issuing corporation, or other corporation (such as its subsidiary corporation).

They are usually issued in proportion to shares owned (for example, for every 100 shares of stock owned, 5% stock dividend will yield 5 extra shares). If this payment involves the issue of new shares, this is very similar to a stock split in that it increases the total number of shares while lowering the price of each share and does not change the market capitalization or the total value of the shares held. ? Property dividends are those paid out in the form of assets from the issuing corporation or another corporation, such as a subsidiary corporation.

They are relatively rare and most frequently are securities of other companies owned by the issuer, however they can take other forms, such as products and services. ? Other dividends can be used in structured finance. Financial assets with a known market value can be distributed as dividends; warrants are sometimes distributed in this way. For large companies with subsidiaries, dividends can take the form of shares in a subsidiary company. A common technique for " spinning off" a company from its parent is to distribute shares in the new company to the old company's shareholders. The new shares can then be traded independently. | Page ? Types of Dividend Policies: ? Constant-Payout-Ratio Dividend Policy: A dividend policy based on the payment of a certain percentage of earnings to owners in each dividend period. ? Regular Dividend Policy: A dividend policy based on the payment of a fixed-dollar dividend in each period. Often firm that use this policy increase the regular dividend once a proven increase in earning has occurred. ? Low-Regular-and-Extra Dividend Policy: A dividend based on paying a low regular dividend, supplemented by an additional dividend when earnings are higher than normal in a given period. Argument for Dividend Relevance : Gittman (10th edition) divided stock into two types, such as common stock and preferred stock. He also showed that dividends are the outcome of investment. So, common stocks are an ownership claim against primarily real or productive asset (Higgins, 1995), but he also said that if the company prospers, stockholders are the chief beneficiaries, if it falters, they are the chief losers. Smith (1988) presented that stocks are one of the most popular forms of investment.

People buy stocks for various reasons: Some are interested in the long-term growth of their investment by buying low priced stock of a new company in the hope of substantially growth of share price over the next few years. Another reason he suggested that in a well established firm stockholders expect the stock growth will be stable over the long run. (Smith. 1988). Stockholders expect dividend but it is not promised (Gitman, 10th edition). Common stocks are hold by true owners of the business. Sometimes they are known as residual owners' as they receive whatever left after winding up of the company (Gitman, 10th edition; Higgins 1995).

Another type of stock is known as publicly owned stock. Common stock owned by a broad group of unrelated investors or institutional investors is called as publicly owned stock. However, all common stock of a firm owned by a small group of investors is denoted as closely owned stock. When all the stock is owned by a single person is known as privately owned stock. Due to the limit of number of share, stock can be classified in to four types. Such as authorize share, outstanding share, treasury stock and issued stock (Gitman, 10th edition). Authorized shares represent the maximum number of shares a firm allows to issue.

Outstanding shares are hold by public. Treasury stock is repurchased by firm itself and it is no longer considered as outstanding share. Issued shared are the shares that have been put into circulation. Recently stock repurchase option is very popuLar as it is able to increase stock value by decreasing outstanding stock number (Port. 1976). Port also suggested that firms should avoid issuing stock to pay dividend as they slow down company growth. According to Short and Wclsch (1990), Johns (1998) and Port (1976), a <https://assignbuster.com/dividend-policy-capital-structure/>

dividend is a usually distributed in cash form to stock holders of a corporation approved by the board of director.

It may also include stock dividend or other forms of payment. A stock dividend represents a distribution of additional shares to common stockholders (Higgins, 1995). On the other hand, Ross et al. (2005) divided earnings into two parts; either it is retained or paid as dividend. Whereas Wild et al. (2001), Johns (1998) and Kieso et al. (2004) argued that retained earnings are the primary source of dividend distribution to the stockholder. Dividends are only cash payments regularly made by corporations to their stockholders (Johns, 1998).

He also specified that they are decided upon the declaration by the board of the directors and can range from zero to virtually any amount the corporation can afford to pay. 4| Page Jones (2005) said that dividends are the only cash payment a stockholder receives directly from firm and these are the foundation of valuation for common stocks. Stock price response to an unexpected dividend change announcement is related to the dividend preferences of the marginal investor in that firm where other things remaining same (Denis et al. , 1994). In addition, a company. Which changes dividend policy, is expected to xperience upward or downward trends in share returns (Gunasekarage et al. , 2006). They also said that for the initiating firms, the share prices continued to rise even after the initial public offering (IPOs). Higgins (1995) said that if the company will have less money to invest or it will have to raise more money from external sources to make the same investments stockholders claim on future cash flow, which reduces share price appreciation. Moreover, during dividend announcement period <https://assignbuster.com/dividend-policy-capital-structure/>

stock price also fluctuate due to announcement of dividend. Mulugetta et al. (2002) examined the impact of Standard and Poor's ranking changes on stock prices. In addition, Affleck-Graves & Mendenhall (1992) found that stock price reacts after 8 days on average up to 54 days of such earning announcement. With this believe, Hampton (1996) said that value of stock increase by more dividend and share remain undervalued by lower dividend policy. In addition, he also showed that there are two schools of thought regarding with the effect of dividend on stock price, one is dividends do not affect market price and the another one is dividend policies have profound effects on a firm's position in the stock market. Benartzi et al. (1997), Ofer and Siegel's (1987) and Bae (1996) found a positive correlation between share price and dividend. Furthermore, Campbell and Shiller (1988) found a relationship between stock prices, earnings and expected dividends and he drives a conclusion that earnings and dividends is powerful in predicting stock returns over several years. Wilkic analyzed a 76 months share price index and dividend announced. He found a correlation coefficient. Which was under 0.7 for the period 76 months and he also get that the maximum value of the regression coefficient being reached after 79 months.

Moreover, Shiller (1984, 1989) recommended investors in his study to buy the stocks when price is low relative to dividends and to sell stocks when it is high payoffs. On the other hand to their opinion, Jensen and Johnson (1995) suggested that, dividend cut results reduction in share price. More interesting matter is that if capital markets are perfect, dividends have no influence on the share price (Miller and Modigliani, 1961). Miller and

Modigliani (1961) also states that if the market is imperfect, dividend may affect stock price. ? Current Practices of Dividend Policy in Bangladesh:

As Bangladesh is a developing country, the corporate culture is growing very slightly in our country. Dividend policy is a major financing decision that involves with the payment to shareholders in return of their investments. Every firm operating in a given industry follows some sort of dividend payment pattern or dividend policy and obviously it is a financial indicator of the firm. Thus, demand of the firm's share should to some extent.

Dependant on the firm's dividend payment pattern. Many investors like to watch the dividend yield, which is calculated as the annual dividend income per share divided by the current share price.

The dividend yield measures the amount of income received in proportion to the share price. If a company has a low dividend yield compared to other companies in its sector, it can mean two things: (1) the share price is high because the market reckons the company has impressive prospects and isn't overly worried about the company's dividend payments, or (2) the company is in trouble and cannot afford to pay reasonable dividends. At the same time, however, a high dividend yield can signal a sick company with a depressed share price.

Dividend yield is of little importance for growth companies because, retained earnings will be reinvested in expansion opportunities, giving shareholders profits in the form of capital gains. 5 | Page MEGHNA CEMENT limited

(MCML) ? OVERVIEW OF THE COMPANY The Meghna Cement Mills Limited

(MCML) was the first undertaking Bashundhara Group in the manufacturing

sector. This enterprise produces world-class cement and, as a testimony to this, stands the fact that the concern has been awarded the ISO-9001 certification for sustained quality control effort. The Company markets its cement under the registered trademark of King brand". ? Basic Information: Market Category: A 400. 0 225. 0 100 2250040 Foreign 0 Public 10 Listing Year: 1995 Authorized Capital in BDT (mn) Outstanding Capital in BDT (mn) Face Value Total no. of Securities Share Percentage Sponsor/Director 58 Govt. 0 Institute 32 Graph 1: The Market price of share of MCML in 2008-2009 (Highest Value: 678. 25, Lowest Value: 336. 25) 6| Page ? Dividend Policy Followed By Meghna Cement Ltd: EPS Dividend Payout Cash Ratio 24. 15 279 216% 25. 00 22. 80 348 164 25. 00 7. 37 246 75 25. 00 5. 93 277 54 25. 00 5. 35 352 46 30. 00 65. 6 1502 75 130 13. 12 300. 75 26 Table 1: Financial Data of MCML from 2004-2008 P/E ratio Share Price(MKT.) Dividend Bonus Share 0 0 0 0 0 0 0 Total 25. 00 25. 00 25. 00 25. 00 30. 00 130 26 Year 2004 2005 2006 2007 2008 Total Average 11. 57 15. 25 33. 38 46. 71 65. 86 172. 77 34. 554 Interpretation: According to the above information it is visible that the company is following regular dividend policy (according to definition as given above). From 2004-2007 though the profit has increased subsequently but it was not sufficient for payment of dividend at a rate of the preceding years to all share holders of the company.

For upholding the benefit and interest of general public the sponsors shareholders/Directors have decided to give up their dividend during those years under review of maintaining 31 consistent dividend policy for the 30 general public shareholders. So the 29 board of directors of the company 28 pleased to recommend cash dividend 27 26 @ 25% on par value of shares

for the 25 public share holders taking into 24 consideration the profit and liquidity 23 position of the company during that 22 period under reviewed. 004 2005 2006 2007 2008 But In 2008, the EPS increased by almost Total Dividend 25 25 25 25 30 Paid 50% from previous year. So the directors ? Dividend decided to increase the dividend percentage to 30% instead of 25%. The company paid 25tk per share as dividend from 2004-2007 but in 2008 as the income increased by almost 50% than the previous year it paid a dividend of 30tk for the earnings of 2008. Total Dividend Paid Share Price(MKT.) 400 350 Share Price (MKT.) 300 250 200 The dividend policy that followed by the company has an impact on its share price. 150 As the graph shows the share price has 100 an increasing trend.

As the company 50 declared 25% dividend per share from 0 2004-2005 this was more than its EPS so 2004 2005 2006 2007 2008 the share price increased and reached to Share Price(MKT.) 279 348 246 277 352 350tk. But in 2006- 2007 the dividend was lower than its EPS so the share price declined and again increased in 2008 with an increase in dividend. 7| Page

Confidence Cement Limited (CCL) ? OVERVIEW OF THE COMPANIES

Confidence Cement Limited is the first private sector cement manufacturing company in Bangladesh established in early 90's with having 4, 80, 000 M/T annual production capacity at Chittagong, 16 K.

M away from Chittagong port, besides Dhaka Chittagong highway. CCL is the first ISO-9002 certified cement manufacturing in Bangladesh. It has a unique management system in quality Assurance, Marketing, Sales, and Procurements. It manufactures ordinary Portland cement. Our company aims to be the number one cement manufacturing company in Bangladesh, <https://assignbuster.com/dividend-policy-capital-structure/>

through continuous development and by producing high & consistent quality cement to meet all customers requirement at all time.

To achieve these objectives CCL uses modern machineries, calibrated testing equipment's, computerized packing & raw materials mixing devices in its production process. Additionally the company frequently arranges internal & external training program for the staff of all level to develop the potentiality and skill of its human resources. CCL is always keen to keep the customers satisfied by proving the best possible service. ? Basic Information: Market Category: A 500. 0 209. 0 100 2090000 Govt. 0 Institute 25. 37 Foreign 0 Public 49. 17 Sponsor/Director 25. 46

Listing Year: 1995 Authorized Capital in BDT (mn) Outstanding Capital in BDT (mn) Face Value Total no. of Securities Share Percentage Graph 2: The Market price of share of MCML in 2008-2009 (Highest Value: 627. 25, Lowest Value: 268. 5) 8| Page ? Dividend Policy Followed By Confidence Cement Ltd: Earnings per share -12. 65 10. 95 21. 65 27. 73 -14. 98 Diluted Earnings per share n/a n/a n/a n/a -13. 62 Net Asset Value Per Share 319. 83 326. 28 332. 93 345. 66 330. 67 Diluted Net Asset Value Per Share n/a n/a n/a n/a 300. 62 Net Profit After Tax (mn) -24. 04 20. 81 41. 13 52. 8 -28. 46 Year End P/E -9. 50 10. 78 6. 40 13. 30 n/a % Dividend % Dividend Payout Ratio 46% 69% 54% Year 2004 2005 2006 2007 2008 5. 00 5. 00 15. 00 15. 00 10%B

Interpretation From the above information it is visible that the company follows the regular dividend policy. That is the policy of the company is to pay a perticular dividend amount and if there's higher earning for perticular year and if earning per share increases they also increase their Dividend

amount. In 2004, due to tough competition the company could not earn desired profit. This year EPS is tk(12. 65).

However considering the interest of shareholders the board of 14 directors declared 5% dividend from 12 dividend equalization fund. In 2006 and 10 2007 , as the EPS increases than the 8 previous year so the board of director 6 decided to pay dividend of 15% per 4 share. But in 2008 the company 2 declared a 10% bonus dividend which indicates the company has used 0 2004 2005 2006 2007 their earnings for farther investment so the company didn't give any cash % Dividend 5 5 15 15 dividend. Dividend From the graph it is easily identifiable that the share price had strong relationship with dividend.

In 2004 the company declared a dividend of 5% per share when it had a EPS of (12. 65) the increased. In 2006-2007 for an increased dividend of 15% the share price also maximized and again declined in 2008 due to 10% Bonus dividend declared by the company. Share Price (MKT) 400 350 300 250 200 150 100 50 0 Share Price (MKT) 2004 289 2005 250 2006 225 2007 368. 8 2008 318 9| Page Capital Structure Capital structure refers to the way a corporation finances its assets through some combination of equity, debt, or hybrid securities.

A firm's capital structure is then the composition or 'structure' of its liabilities. For example, a firm that sells \$20 billion in equity and \$80 billion in debt is said to be 20% equity-financed and 80% debt-financed. The firm's ratio of debt to total financing, 80% in this example, is referred to as the firm's leverage. In reality, capital structure may be highly complex and

include tens of sources. Gearing Ratio is the proportion of the capital employed of the firm which come from outside of the business finance, e. g. by taking a long term loan etc.

The Modigliani-Miller theorem, proposed by Franco Modigliani and Merton Miller, forms the basis for modern thinking on capital structure, though it is generally viewed as a purely theoretical result since it assumes away many important factors in the capital structure decision. The theorem states that, in a perfect market, how a firm is financed is irrelevant to its value. This result provides the base with which to examine real world reasons why capital structure is relevant, that is, a company's value is affected by the capital structure it employs.

These other reasons include bankruptcy costs, agency costs, taxes, information asymmetry, to name some. This analysis can then be extended to look at whether there is in fact an optimal capital structure: the one which maximizes the value of the firm. 10 | P a g e Capital Structure Meghna

Cement Mills LTD. Items Total Current Asset Fixed Asset Total Asset Current Liability Long term Debt Total Debt/ Total Liability Total Equity Share

Outstanding Net Income Earnings Before interest and tax Retained Earnings Interest Charges/ Financial Expenses Market Price Per Share Debt to Total

Assets ?????????????????????? ?????????????????????? ?????????????????????? ?????????? ?????????????????????? Long term Debt

ratio ?????????????????????? ?????????? ?????????????????????? = ?????????????????????? ?????????????????????? Debt to

Equity ?????????????????????? ??????????????????????

= ?????????????????????? ?????????????????????? Year 2004 1, 003, 252, 653

higher short term debt than it's long term debt. Time interest earn ratio indicates that the company has enough liquid asset to payback its interest expenses. However Debt/Equity ratio shows the company had a capital structure containing higher debt than its equity. The total debt amount fluctuates throughout this given 5 years but it remains almost three times than its total equity. 11 | P a g e Capital Structure: Confidence Cement Mills LTD.

Financial Information Items Year 2004 Year 2005 482627000 570818000
 1053645000 429290000 4421000 52985936 433711722 619933000
 1900000 20814000 176, 319, 775 208362754 21573000 250 Year 2006
 424937956 580334331 1005272287 362205475 10501799 61807398
 372707274 661065000 1900000 41132000 201, 332, 892 220862754
 17559894 225 Year 2007 535307861 564884690 1100192551 413902667
 1040702 97073198 414943369 685249000 1900000 52684000 236, 610,
 206 240862754 19968848 368. 8 Year 2008 564074297 590057449
 1154131746 525841496 0 58606753 525841496 628290000 1900000 -
 28459000 278, 378, 580 221862754 26294826 318

Total Current Asset Fixed Asset Total Asset Current Liability Long term Debt
 Account Payable/ Trade Creditors Total Debt/ Total Liability Total Equity
 Share Outstanding Net Income Earnings Before interest and tax Retained
 Earnings Interest Charges/ Financial Expenses Market Price Per Share
 357315000 579526135 936841360 329088697 83293 39197784 329171990
 607669370 1900000 -24039000 195, 208, 573 207412754 25264715 289 12

| P a g e Long Term Debt Solvency Debt to Total Assets ??????????????????????
 ?????????????????????? = ?????????????????????? ?????????????????????? 2004 35.

1% 2005 41. 2% 006 37. 1% 2007 37. 7% 2008 45. 6% Long term Debt
 ratio ?????????????????????? ?????????? ?????????????????????? = ??????????????????????
 ?????????????????????????????????? Debt to Equity
 = ?????????????????????????????????? ?????????????????????????????????? ?????????????????????????????????? ?????????????????????
 ?????????????????? 0. 00% 0. 4% 1. 0% . 01% 0. 00% 0. 05 0. 02 . 02 . 01 . 01 Times
 Interest Earned ??????????????????????
 = ??? -1.

951485 -0. 035183 2. 54968 2. 9453453 -2. 0823 Interpretation: According to the above information we can say that the company has a lower debt in its capital structure.

As its Debt/Asset ratio shows from 2004-2008 it has been maintaining increasing amount of debt in its capital structure which was 35. 1% in 2004 & reached to 45. 5% in 2008. It indicates the company is a moderately levered firm and risky in terms of debt. According to Long term debt ratio the company maintained nonexistence long term debt only 2% in 2006, which also indicates that the company had higher short term debt than its long term debt. Time interest earn ratio indicates that the company has did not had enough earning to payback of its interest other than the year of 2006 & 2007.

However Debt/Equity ratio shows the company had a capital structure containing lower debt than its equity. The total debt amount remained almost constant throughout this given 5 years which is very negligible than its total equity. 13 | Page Comparative Analysis 14 | Page Dividend Policy Comparative Financial Data Analysis The financial data we gathered to find out the relationship between various variables with price of two different <https://assignbuster.com/dividend-policy-capital-structure/>

cement companies are given. We attempted to explore some conclusion on the behavioral pattern of changing the share market price due to dividend, dividend policies followed.

The data are extracted from annual reports of two selected companies that are The Meghna Cement Mills Limited (MCML) and Confidence Cement Limited. The annual data of these companies has been taken from the annual reports and other annual publications of Dhaka Stock Exchange.

Confidence Cement Ltd Net Net Year % Asset Profit End Dividend Value After

P/E Per Tax Share (mn) Meghna Cement Ltd Net Year % Profit End Dividend

After P/E Tax (mn) Industry Average Net Year % Profit End Dividend After P/E

Tax (mn) Year Earning per share % Dividend Payout Ratio Earning per share

Net Asset Value Per Share Dividend Payout Ratio Earning per share Net Asset

Value Per Share % Dividend Payout Ratio 2004 2005 2006 2007 2008 -12. 65

10. 95 21. 65 27. 73 -14. 98 319. 83 326. 28 332. 93 345. 66 330. 67 24. 04

20. 81 41. 13 52. 68 28. 46 -9. 5 10. 78 6. 4 13. 3 n/a 10%B 5 5 15 15 46%

69% 54% 11. 57 15. 25 33. 38 46. 71 65. 86 273. 44 26. 02 277. 17 34. 31

298. 15 320. 42 275. 20 75. 11 105. 10 148. 18 24. 21 25. 00 20. 61 25. 00

216% -0. 54 164 13. 1 75 27. 515 54 37. 22 46 25. 44 301. 72 315. 55 333.

04 302. 93 27. 56 58. 12 78. 89 59. 86 15. 69 7. 02 9. 61 5. 35 15 20 20 30

105 72 54 46 296. 63 0. 99 7. 5 15 216 7. 64 5. 92 5. 35 25. 00 25. 00 30. 00

15 | Page Interpretation: Earnings Per Share: The industry average of EPS

is tk. (. 54), 13. 1, 27. 51, 37. 22, and 25. 44 for the year 2004, 2005, 2006,

2007, 2008 consecutively. In 2004 EPS of Meghna Cement Ltd was 11. 57 &

after that EPS has increased and reached up to 65. 86 in 2008, So that, the

graph shows that the EPS of Meghna Cement is well above of the industry

average EPS. In 2004 EPS of Confidence Cement Ltd was (12. 65) & after that EPS has increased and reached up to 27. 63 in 2007. After that EPS has decreased again and reached to (14. 8) So that, the graph shows that the EPS of Confidence Cement is well below of the industry average EPS.

Comparative EPS 70 60 50 40 30 20 10 0 -10 -20 2004 2005 2006 2007 2008

Confidence -12. 65 10. 95 21. 65 27. 73 -14. 98 Cement Ltd Meghna 11. 57

15. 25 33. 38 46. 71 65. 86 Cement Ltd Industry Average -0. 54 13. 1 27. 515

37. 22 25. 44 So, according to our Comparative EPS analysis, we can easily say that Meghna Cement Ltd. is in the best position where Confidence

Cement Ltd is the worst position. Price Earnings Ratio: The industry average of P/E ratio is tk. 7. 5, 15. 69, 7. 02, 9. 61, and 5. 5 for the year 2004, 2005,

2006, 2007, 2008 consecutively. In 2004 P/E ratio of Meghna Cement Ltd

was 24. 21 & after that P/E has decreased gradually and reached to 5. 35 in

2008, so according to Industry average, the graph shows that the P/E ratio of Meghna Cement is well above up to 2006 of the industry average P/E, then in

2007 it's ratio falls below the industry average and in 2008 equal to industry average due nonexistence of P/E ratio of Confidence Cement in 2008.

Comparative P/E Ratio 30 25 20 15 10 5 0 -5 -10 -15 Confidence Cement Ltd

2004 -9. 5 2005 10. 78 2006 6. 4 7. 64 2007 13. 5. 92 2008 Meghna 24. 21

20. 61 Cement Ltd 5. 35 In 2004 P/E ratio of Confidence Cement Ltd was

Industry 7. 35 15. 69 7. 02 9. 61 5. 35 Average (9. 5), after that EPS has

increased to 10. 78 in 2005, then again decrease in 2006 and in 2007 it has

increased to 13. 3. In 2008 there is no existence of P/E due to no cash

dividend declared by the company. So, according to Industry average, the

graph shows that the P/E ratio of Confidence Cement is well below up to

2006 of the industry average P/E, then in 2007 its ratio rise above the industry average and in 2008 no P/E as discussed earlier.

So, according to our Comparative P/E ratio analysis, we can easily say that Meghna Cement Ltd. is in the best position where Confidence Cement Ltd is the worst position. 16 | P a g e Comparative Dividend Dividend Per Share: The industry average of DPS is tk. 15, 15, 20, 20, and 30 for the year 2004, 2005, 2006, 2007, 2008 consecutively. From 2004 to 2007 DPS of Meghna Cement Ltd was 25 & after that DPS has increased to 30 in 2008 due to extra earning as discussed before. So according to Industry average, the graph shows that the DPS of Meghna Cement is well above up to 2007 of the industry average DPS.

In 2008 DPS is equal to industry average due nonexistence of Dividend of Confidence Cement in 2008. 35 30 25 20 15 10 5 0 Confidence Cement Ltd
Meghna Cement Ltd Industry Average 2004 5 25 15 2005 5 25 15 2006 15 25 20 2007 15 25 20 2008 30 30 From 2004 to 2005 DPS of Confidence Cement Ltd was 5 & from 2006-2007 DPS has increased to 15 in 2008 due to extra earning as discussed before. So according to Industry average, the graph shows that the DPS of Confidence Cement is well below up to 2007 of the industry average DPS.

In 2008 there in no DPS of Confidence Ltd. due nonexistence of Dividend. So, according to our Comparative DPS analysis, we can easily say that Meghna Cement Ltd. is in the best position where Confidence Cement Ltd is the worst position. Dividend Payout Ratio: The industry average of Payout ratio is 216, 105, 72, 54, and 46 for the year 2004, 2005, 2006, 2007, 2008

consecutively. In 2004 Payout ratio of Meghna Cement Ltd was 216 which is equal to the industry average payout ratio because of non existence of payout ratio of Confidence Cement Ltd. in 2004.

After that payout ratio has decreased gradually and reached to 46 in 2008, so according to Industry average, the graph shows that the payout ratio of Meghna Cement is equal to the industry average payout ratio in 2004, then it's ratio rise above the industry average up to 2006 and in the last two years equal to industry average. Compative Payout Ratio Compative Payout Ratio

Year	Confidence Cement Ltd	Meghna Cement Ltd	Industry Average
2004	0	216	164
2005	0	216	69
2006	0	105	75
2007	0	105	75
2008	0	72	54

Average Average In 2004 there was no Payout ratio of Confidence Cement Ltd as mentioned earlier. After that payout ratio has increased in 2006 and then again decreased in 2007. In 2008 there is no payout ratio because there is no cash dividend. So according to Industry average, the graph shows that the payout ratio of Confidence Cement is well below compare to the industry average payout ratio in 2005 & 2006, and then its ratio is equal to the industry average in 2007. In 2008 there is no payout ratio as discussed before.

So, according to our Comparative DPS analysis, we can easily say that Meghna Cement Ltd. is in the best position where Confidence Cement Ltd is the worst position. 17 | Page Capital Structure Interpretation: Debt/Asset Ratio: The industry average of Debt/Asset Ratio for the year 2008 is 62. 1%. Debt/Asset Ratio of Meghna Cement Ltd is 78. 6% and Confidence Cement

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Ltd. is 45.6%. So, according to industry average Confidence Cement is in the best position while Meghna Cement Ltd is in the worst position. Long Term Debt Ratio: The industry average of Long Term Debt Ratio for the year 2008 is 14.%. Long Term Debt Ratio of Meghna Cement Ltd is 28.8%, and Confidence Cement Ltd. Is 0%. So, according to industry average Confidence Cement is in the best position and Meghna Cement Ltd is in the worst position. Debt Management Ratio 4 3 2 1 0 -1 -2 -3 Debt to Total Assets Confidence Cement Mills LTD 2008 Industry Average 0.456 Long term Debt ratio 0.288 0.144 Debt to Equity 0.013 0.681 1.845 Times Interest Earned -2.0823 2.79 0.35385 Meghna Cement Mills LTD 0.786 0.621 Debt to Equity Ratio: The industry average of Debt/equity Ratio for the year 2008 is 184.5%.

Debt/equity Ratio of Meghna Cement Ltd is 368%, and Confidence Cement Ltd. is 1%. So, according to industry average Confidence Cement is in the best position Meghna Cement Ltd is in the worst position. Time Interest Earned: The industry average of Time Interest Earned for the year 2008 is 0.5385. Time interest earned for Meghna Cement Ltd is 2.79; Confidence Cement Ltd. is -2.0823. So, according to industry average Meghna Cement is in the best position and Confidence Cement Ltd is in the worst position. Return on Assets: The industry average of Return on Assets for the year 2008 is 2%.

Return on Assets of Meghna Cement Ltd is 5.1%, and Confidence Cement Ltd. Is (2.5%). So, according to industry average Meghna Cement is in the best position Confidence Cement Ltd is in the worst position. Return on Equity: The industry average of Return on equity for the year 2008 is 0.26%.
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Return on Equity of Meghna Cement Ltd and Confidence Cement Ltd. Is (4.5%). So, according to industry average Meghna Cement is in the best position Confidence Cement Ltd is in the worst position. Profitability Ratio 30.

00% 25. 00% 20. 00% 15. 00% 10. 00% 5. 0% 0. 00% -5. 00% -10. 00%

Meghna Cement Confidence Cement industry Average Return on Asset 5.

10% -2. 50% 2% Return on Equity 23. 90% -4. 50% 26% 18 | P a g e

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