

Security analysis

Finance



SECURITY ANALYSIS SECURITY ANALYSIS Ratio Analysis To have a clear understanding of the ratios of the companies and how they influence what the companies are worth, the average P/E ratio and EPS growth rates are used. In this regard, it is seen that the average P/E ratio of Carnival Corp is 19.90 while that of Capital First is 10.27. Meanwhile, higher average P/E ratio gives shareholders confidence about their earnings per the current share price of the company. This means that as far as shareholder confidence is concerned, Carnival is worth higher than Capital First. With regards to the EPS growth rate, Carnival Corp has as high as 15.79 when Capital First has only 2.98. This means that the quarterly year on year growth rate of Carnival Corp. is far impressive and suggests progressive growth when compared to that of Capital First.

Valuation

To know the real value of the two companies, the estimates of the companies as given in terms of intrinsic value from year 1 to year 10 is used. This means that there is emphasis on intrinsic value per share. From this position, it is seen that the intrinsic value per share for Capital First is \$159,195,855 while that of Carnival Corp. is \$5,452,000.25. The valuation of the companies give a very sharp contrast to their ratio analysis as the intrinsic value per share for Capital First far outweighs that of Carnival Corp. There are core financial disciplinary principles that can account for this situation. For example, Carnival has over the years been recording declining numbers with their incomes and assets while they have been seeing increases in liabilities and debts. Once this happens, even though the ratios of the company may be good on paper, they cannot guarantee needed value in principle.

Susceptibility to bankruptcy measures

From the above analysis, it has been seen that that two companies have their own financial issues, one with ratio analysis and the other with valuation. This has been seen to be translated very directly to the companies' susceptibility to bankruptcy. This is because using Altman Z score, the score for Carnival is 0.3553 while that of First Capital is 0.29583. Meanwhile, Altman Z scores that are below 1.8 mean high probability of bankruptcy. But because the ratios of Carnival are quite good, the company will be continued to be monitored to begin recording improved revenues and assets. The susceptibility to bankruptcy for Capital First is however too high and so the company will not be monitored any longer.

Decision on buying company

The decision to buy any of the companies will be taken based on their margin of safety. On the whole, where the margin of safety is 50% or more, the company will be bought. When the margin of safety falls within 20% and 50%, there will be consideration to buy, but where the margin of safety is less than 20%, the company will be put on watch list. With this said, it can be seen that the margin of safety for Capital First is only 1% while that of Carnival is also 1%. This means that both companies will be put on watch list.