Financial ratio analysis of morrison in comparison with tesco

Business

Financial Ratio Analysis of Morrison in Comparison with Tesco Introduction The purpose of this report is to critically analyse the financial ratio results of Morrison 2008 and 2009 as an equity analyst and compare it with like for like by using Tesco supermarket.

To achieve this report will be looked at in four main areas. Firstly, we will use financial ratios obtained from annual reports of 2008 and 2009 to analysis and appraise Morrison's financial performance. This would be followed by a comparative analysis with Tesco, for the same period. In addition, a trend analysis will be done to show the pattern of Morrison's financial performance over the years 2006 to 2009. Furthermore, a comparison will be made with industry average figures where available to show its development in the industry. Finally, a conclusion would be argued to reveal how well the managers and the company have performed and how well they handled the demands of the economic downturn to reduce the shock on their financial performance.

The ratios would be looked at in five broad areas: Profitability, Liquidity, Gearing, Working Capital management and Investors. PROFITABILITY "… Profitability relates profits to the investment made to achieve them. " R. H Parker (2007) it also provides an insight to the degree of success in achieving the purpose of the business. Morrison Tesco Profitability ratios20092008 20092008 ROCE- Return on Capital Employed10.

82%10. 58% 11. 44%14. 03% Operating profit margin4. 62%4. 72% 5.

90%5. 90% Gross profit margin6. 28%6. 31% 7. 76%7. 67% Mark up (Not calculated in class)6.

71%6. 73% 8. 42%8. 31% Asset turnover ratio (useful productivity/ efficiency ratio)2. 35 times2.

24 times 1. 94 times2. 38 times Cost of sales as % of sales93. 7%93. 69% 92. 24%92.

33% Operating expenses as % of sales1. 93%3. 03% 2. 30%2. 17% ROSF/ ROE10. 18%12.

65% 16. 67%17. 90% Morrison had a desirable slight increase of 0. 24% from 2008 to 2009 for ROCE which may have been achieved through an increased sales revenue to capital employed ratio which made up for the small decrease in the gross profit margin. Thus they were more effective at generating sales in 2009 than in 2008.

So for every ? 100 invested they achieved a net profit of ? 10. 82 in 2009. However, they had an increase of 8. 83% from 2006 to 2009 which is very good. Please see appendix1) Although the denominators have increased they still managed to make a profit in the downturn which is not an unhappy result. There is a slight drop of 2.

47% in the ROSF results between from 2008 to 2009, which is not great. However, over a four year period this result looks very impressive. It has gone up by 3. 33% even with the economic downturn. The slight increase in return on asset may mean that the use of these assets is the same for both years. There was a significant increase of 3.

62% in GP for Morrison from 2006 to 2009. The OPM has dropped by 0. 0% from 2008 to 2009 even though the sales have increased the managers have not been able to improve profit from the sales. It may well be that the managers are inefficient or that might be other factors affecting this. Horizontally however, there is a significant increase of 3. 7% from 2006 to 2009, which might keep the shareholders satisfied.

Tesco's ROCE ratio reveals a drop of 2. 59% from 2008 to 2009 which is not good. It is a competitor's environment especially because of the decrease in disposable household income hence Tesco's OPM figures are same for both years. Overall the Tesco's ratio indicates that it has made far better use of its capital in 2009 by achieving ? 11. 44 net profit for every ? 100 invested. Nevertheless, Morrison's figure is still healthy especially because it is higher than the industry average GPM ratio of 3.

53% (Source: London Stock exchange 2009) LIQUIDITY Paul M Collier (2009) stated, ' Improvements in the working capital and acid test ratios are the result of changing the balance between current assets and current liabilities'. Conversely, drawing on liquid funds to repay long term loans or acquiring losses will reduce the working capital used to repay creditors. Liquidity ratios Morrison Tesco Current ratio (CR)0. 53: 10. 49: 1 0.

76: 10. 58: 1 Quick ratio (QR)0. 28: 10. 25: 1 0. 61: 10. 35: 1 A safe margin in liquidity for the retail industry is often below 1: 1.

Morrisons Current Liability(CL) are far too higher than the current assts and that has greatly affected the ratios. Using long term borrowing to fund current assets will improve this ratio as will profits that generate cash flow. These results mean that Morrison's ability to meet its short term obligations have improved slightly. The CR was up by 0. 4: 1 from 2008 to 2009 and the QR by 0. 3: 2 respectively.

However, Morrison may not be able to pay off its bill as quickly as it should and this may keep its suppliers unhappy and unwilling to give eager service. Over four years the ratio has continued to increase with a slight dip in 2007. In general, Tesco showed a better growth margin than Morrison in the two years by improving CR by 0. 18: 1 from 2008 to 2009. Morrison's CR figure in 2009 is unfortunately, not in line with the industry average of 0. 70: 1.

and neither is their QR. Morrison results have fallen behind the Industry figure of 0. 69: 1 (London Stock Exchange, 2009). UTILISATION OF WORKING CAPITAL Working capital management Stock turnover ratio13. 24days13.

28days 19. 44 days20. 31 days Debtor days2. 64days2. 65days 0 days0 days Creditor days38. 68days34.

6days 34. 58 days32. 89 days Morrison has remarkable debtor payment days of only two and half days which have improved in 2009 by 0. 01day. Although this number is insignificant, the low results for the two years are good and indicate that they have good policies in place at recovering debts even in the economic downturn when debtors may not have the finances to make disbursements There is an improvement in stock turnover by 0.

04days from 2008 to 2009. Creditor days have increased from 2008 to 2009 by approximately 4 days Tesco has gone down in stock turnover from 20 days to 19 which is an improvement. Although Tesco had a fall in ratio as well, their ratio is not as good as Morrison’s. So based on these ratios Morrison has done better in shifting stock, however, if we look more closely it may be because Tesco sells more hardware and electrical gadgets than Morrison. Overall the ratio is good when compared to the major players in the industry like Sainsbury and Tesco. This could mean that control over stock level is being managed better by Morrison.

These ratios are a bit high for a supermarket but the fact that they also sell non-perishables and hardware should be taken into consideration. Tesco has even better debtor days of 0. These figures have to be looked at very closely. clusion that the trade receivables is a smaller figure and may not be that useful as a performance indicator of Tesco/ supermarkets anyway, as credit sales are not part of their business activity. You can then decide on a suitable comment to put in your report with regard to T and M in considering this area and working capital management generally.

Inventory days and trade payable days will be more critical This figure, so Morrison takes approximately one month to pay its suppliers. This ratio reveals that Morrison is taking fewer days to collect money from its debtors and much longer days to pay its creditors. It also shows that their payment to suppliers are not affected so much by the recession because they had enough money to fund themselves by utilising finance received from debtors. This is a good move on their part as long as their creditors are happy to wait. SOLVENCY AND GEARING Solvency Gearing ratio18. 85% 16.

27% 55. 89%40. 36% Interest cover11. 91 times 11. 2 times 7. 18 times12.

21 times Gearing This is the relationship of shareholder’s equity compared to long term debts. Debt is not a bad thing because businesses need finance, however, it is not wise to have a lot of debts in the economic downturn. Conclude with the results obtained from all ratios The gearing ratio has gone from 2008 to 2009 by 2. 58%, this is an indication that risks are increasing may be due to the downturn. Debts and equity increased in 2009 thus pushing the ratio up.

Debts might be risky in economic downturn, therefore it would wise not to let these ratio go up. 2006 However, these two figures are relatively low for the two years when compared to Tesco with much higher gearing figures. The debt figures doubled in 2009 thus increasing their ratio from 2008 by 15. 53%. So Morrison did better than Tesco here. In the industry, Sainsbury increased by 3.

9% from 2008, this overall increase in the industry could be due to market volatility. Interest Cover This ratio is a measure of security and looks at gearing from the point of view of the Income statement and not the balance sheet. The ratio for Morrison has gone up by 0. 71 times, which is an improvement. The interest cost remains the same for 2008 to 2009 even though the interest rate has gone up. The PBIT has gone up from 2008 to 2009 and has increased the overall ratio.

This means Morrison’s profit covers its finance cost reasonable and has improved from 2008 to 2009. Tesco’s figure has gone down by 5. 03 times. This is because their interest cost has doubled did not change much. It has a much higher interest cost and gearing figures than Morrison and was highly geared in 2009 than in 2008.

Comparatively, Morrison has done better. INVESTOR RATIOS Investor ratios Earnings per share – I pence17. 39 20. 79 27. 526.

95 P/E ratio15. 57 14. 38 15. 714. 88 Dividend Cover2.

99 times 4. 33 times 2. 29 times2. 47 times Dividend yield2. 14% 1. 61% 3.

34%2. 61% Earnings per Share (EPS) This is Morrison's PE ratios have increased from 2008 to 2009 by 1. 9 which is a good thing since the higher the ratio the more confident investors will be about its prospects. However, the EPS has reduced by 3. 4, so has the share price. This result is a remarkable improvement of 11.

03 from 2006, although there was a dip in 2007. The trend is increasing and this is a good sign. Tesco has also improved by about the same margin. Dividend Cover This is the relationship between EPS and Dividend per share. This ratio is good because the shareholders of Morrison will be looking at getting a third of the available profit. However, the drop from 1.

4 times from 2008 to 2009 is not good. This ratio has improved by about 1. 91 times from 2006 to 2009 which is good. Tesco has been stable and not doing as well as Morrison. This is because Tesco is paying more dividend than Morrison.

Overall Morrison's ratio is better than the other major players in the industry. Dividend Yield This ratio measures the real rate of return by comparing the dividend paid to the market price of a share. Morrison’s ratio has gone up from 2008 to 2009 by 0. 53% because market share price has fallen and dividend payable to ordinary shareholders increased. This increase is good especially because there is economic downturn.

Morrison’s ratio has gone up by 1. 08 from 2006 to 2009 which is an improvement on the part of Morrison. Tesco has improved too with a much higher dividend payable to share holders. Tesco’s ratios are better than Morrison for the two years. Bibliography and References Morrison’s Annual Reprot 2009 Tesco’s Annual Report 2009 Business accounting 11th Edition Frank wood 2008 Business finance theory and Practise Eddie Mclaney Successful Finanace for Non-Accountants, Brian Brown R. H Parker (2007) Paul M Collier (2009)