

# Financial statement analysis of abf

Business



INTRODUCTION TO ASSOCIATED BRITISH FOODS PLC Associated British Foods (ABF) is a diversified international company that deals with food, ingredients, retail textile products, research and technology. The company's business falls under five (5) major segments namely: \* Grocery \* Agriculture \* Sugar \* Ingredients \* Retail From its inception in November 1935 as Food Investments Limited and its rapid change to Allied Bakeries Limited five weeks later, the business grew dramatically as a broad-based food manufacturing organisation, becoming Associated British Foods Limited in February 1960.

It finally changed to Associated British Foods plc in May 1982 to comply with legal requirements being a global food and ingredients business, with sales and manufacturing operations across Europe, the Americas, the United Kingdom, Africa, Asia and China. The Grocery segment encompasses a number of major manufacturers of branded and private label products. These include hot beverages; sugars and sweeteners; vegetable oils; bread ; baked goods; ethnic foods; herbs ; spices; meat ; dairy. Agriculture operates extensive international agribusiness operations delivering products, technology and services to the food, drink and animal feed sectors. The sugar segmentation comprises the sugar processing business, based in Europe, Africa and China, which is now the second largest in the world.

The Ingredients segment operates globally in yeast and bakery ingredient production. In addition, it focuses on high-value ingredients for food and non-food applications. Finally the Retail segment comprises a major value fashion retail group Primark trading in the high streets of the UK, Ireland, Spain, Portugal, Belgium, Germany and the Netherlands. Growth has been

predominantly through acquisition and has resulted in a global group operating in 46 countries, employing 102, 000 employees, with sales of ? 11.1 billion dollars.

Their products carry brand names as Allinsons, Twinings, Patak's, Mazola, Sliver Spoon and Ryvita. Included in ABF's operations are research facilities namely Allied Technical Centre and the Central Laboratories in the UK. Subsidiaries are located in the US (ACH Foods), Australia (Waston Technologies), Germany and Finland (AB Enzymes). Competitors and Current Market Conditions ABF always aim to achieve strong, sustainable leadership positions in markets that offer potential for profitable growth, and deliver quality products and services that are central to people's lives. The company is guided by the watch words Efficiency, Quality, Shareholder Value and Growth. ABF's Chairman, Mr.

Charles Sinclair made a statement in September of 2011 saying that " Good results, and especially those achieved in difficult trading conditions, are not delivered by chance. They are the consequence of the hard work and enterprise of our employees. " In most of its markets ABF's products are considered as number one or a market leader. Competition in the baker's yeast and Australian food business leaves ABF at second place at this time. However, despite ABF's competition from Caterplan (Bestfoods UK Ltd) – one of the most prominent food companies in the world, Northern Foods Limited – one of the UK'S largest food manufacturers, Unilever PLC (London) – provider of washing powder, shampoo, toothpaste, teas, ice cream, oils and spreads for customers all over the world and Diageo – one of the world's leading consumer goods companies, ABF still continues to be profitable

<https://assignbuster.com/financial-statement-analysis-of-abf/>

yearly working around hectic competition from their competitors. The following is the financial highlights of ABF as of September 2011.

Diagrams showing these highlights and additional data from 2007-2011 can be seen in Appendix 1. \* Group revenue up 9% to 11. 1bn \* Adjusted operating profit up 1% ? 920m \* Dividends per share up 4% 24. 75p \* Net capital investment of ? 825m The board reviews annually the material financial and non-financial risks facing ABF's businesses and on a rolling cycle basis, reviews the effectiveness of the risk management process and the resources that the individual businesses devote to them. The principal risks currently identified by ABF's businesses and reviewed by the board are showed in table 1 below which identifies the issues and risks, which consist of People, Environment, Financial and Regulatory.

Table 1 Principle Risks and Uncertainties identified by ABF

ISSUE	RISK
PEOPLE	Reputational damage caused by food hygiene or safety incidents. Non-compliance with regulatory requirements. Safety concerns over use of Bisphenol-A in packaging.   Product safety    Health and nutrition  Health concerns over fat, sugar and salt content of foods.
	Inappropriate advertising to children.   Workplace health and safety  Potential for fatal accidents and serious injuries to employees and visitors.   Employee rights  Non-compliance with internationally recognised standards. Inability to recruit and retain high calibre people at all levels necessary to achieve business performance targets and maintain profitable growth.   Management succession  Failure to plan for succession to key roles could lead to a lack of management continuity and sub-optimal operational or

financial performance. Input costs, suppliers and supply chain reliability|

Damage to brands caused by supply chain weakness e.

g. poor conditions for workers. Disruption to raw material supplies and production caused by problems with suppliers, natural disasters and other incidents. | | | Ethical business practices| Penalties imposed or reputational damage suffered through bribery, corruption or unfair competition. | 2.

ENVIRONMENT| Long-term increase in energy prices.

Physical threats to operations from climate change e. g. flooding. Altered weather patterns affecting crop productivity. Climate change| | Air pollution| Unacceptable impact on environment and offence caused to local communities by emissions to air. | Disposal of water and waste water| Legal sanction and reputational damage because of non-compliance with regulations and licences.

| Water availability| Water shortages and increased cost of water. | Resource efficiency| Unnecessary costs from inefficient use of natural resources. |

Palm oil| Reputational damage from unsustainable sourcing of palm oil. |

Genetically modified (GM) crops| Consumer concern over use of GM food

ingredients. | 3. FINANCIAL AND REGULATORY| Penalties for failing to comply with the 1998 Competition Act, the 2003 Enterprise Act, relevant EU law and all relevant competition legislation.

| Competition rules| | Global economic slowdown and changing consumer demand| Demand for our products declines due to uncertainty over economic outlook and impact on disposable incomes. | Financial, currency and commodity risks| Loss sustained as a result of failure of internal controls

<https://assignbuster.com/financial-statement-analysis-of-abf/>

or fraud, and exposure to foreign currencies, interest rates, counterparty credit risk, liquidity risk, and changes in market prices especially for energy and commodities. Tax compliance| Failure to comply with local tax law resulting in underpayment of tax and exposure to related interest and penalties. | Loss of a major site| The loss of one of our key sites could present significant operational difficulties. | Regulatory and political| Failure to recognise political or cultural differences in many countries in which ABF operate could directly impact the success of ABF's operations.

| | | Major capital projects and acquisitions| Risk of overspending initial cost estimates, overrunning construction timelines and failure to meet design specifications. | | ABF practices four (4) basic principles in its approach to sustainability across its global operations. These are: \* Managing their environmental impact \* Taking care of their people \* Fostering ethical business relationships \* Being good neighbours ABF see sustainability to their business operations as “ Doing Good Business by Doing Good Things. ” Therefore, in evaluating ABF's financial performance John Bason ABF's Finance Director and the other directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly and in accordance with the guidance contained in the document titled ‘ Going Concern and Liquidity Risk: Guidance for Investors of UK Companies 2009’ published by the FRC, they continue to adopt the going concern basis in preparing the annual report and accounts.

AN ANALYSIS AND EVALUATION OF ABF'S ANNUAL REPORTS. An attempt will be made to analyse the financial data and the performance of Associated  
<https://assignbuster.com/financial-statement-analysis-of-abf/>

British Foods as well as changes and developments within its financial markets and its impact on the Company. The data will be used from ABF's Annual Reports. Table two (2) below shows an evaluation and trend of Activity Ratios, Liquidity Ratios, Solvency Ratios, Profitability Ratios, Gearing Ratios and Valuation Ratios for the period 2009-2011. Table 2 An Analysis of ABF's Ratios Performance Area| Years| Trend| Activity Ratios| 2011| 2010| 2009| | Inventory Turnover| 7.

7| 7. 4| 6. 8| An increase occurred| Receivable Turnover| 9. 5| 9. 2| 8.

3| An increase occurred| Fixed Asset Turnover| 2. 6| 2. 7| 5. 3| A decrease occurred| Liquidity Ratios| | | | Current Ratio| 1. 244| 1.

314| 1. 26| A fluctuation occurred| Quick Ratio| 0. 565| 0. 623| 0. 569| A fluctuation occurred| Solvency Ratios| | | | Debt to Equity Ratio| 28.

29| 21. 93| 29. 27| A fluctuation occurred| Financial Leverage Ratio| 65. 33| 63. 51| 64.

02| A fluctuation occurred| Interest Coverage | 11. 0| 11. 3| 9. 5| An increase occurred| Debt to Invested Capital Ratio| 22. 99| 17.

76| 23. 63| A fluctuation occurred| Debt/total assets| 15. 94| 12. 5| 15. 39| A fluctuation occurred| Long term Debt / Total Liabilities| 22. 27| 22.

4| 20. 37| An increase occurred| Profitability Ratios| | | | Gross Profit Margin| 0. 92| 0. 91| 0. 92| Constant| Pretax profit margin| 6.

841| 7. 505| 5. 348| A fluctuation. | Return on Assets (ROA)| 5. 552| 5.

96| 4. 178| Increasing| Return on invested capital| 7. 65| 8. 351| 6. 103| A fluctuation| Net Operating Margin| 7.

293| 7. 937| 6. 786| A fluctuation| Gearing Ratios| | | | Capitalisation ratio| 56. 66| 54. 77| 54.

22| Steady increase| Return on ordinary Equity (ROE)| 9. 412| 10. 32| 7. 561| Great increase between 2010| Pretax interest coverage | 8. 35| 9. 573| 6.

211| A decline| Valuation Ratios| | | | Dividends per share| 4% to 24. 75p| 13% to 23. 8p| 4% to 21. 0p| Steady increase| Adjusted earnings per share| 2% to 74. op| 25% to 72.

2p| 5% To 57. 7P| An increase| Basic Earnings per Share| 1% to 68. 7p| 52% to 69. 3p| 1% to 45. 5p| Increased in 2009 and 2010.

However 2011 there was a decrease. | | | | | | | | | | | | The Activities Ratios A high inventory turnover pattern is seen therefore the higher the inventory turnover ratio, the shorter the period that inventory is held and the lower the DOH. This indicates that there is a highly effective inventory management team. The receivables turnover has increased from 2009 to 2011. Therefore it can indicate that a high receivables turnover for ABF shows a highly efficient credit and collection. ABF's fixed asset turnover decreased as a result of the investment in a high level of capital investment projects in developing markets.

Liquidity Ratios The current ratio for 2009 seem to be the lowest which would have indicated that the liquidity would have been less, implying a greater reliance on the operating cash flow and outside financing to meet <https://assignbuster.com/financial-statement-analysis-of-abf/>



the short term obligations for ABF. 010 increased which indicates a higher level of liquidity which could have been because ABF had a greater ability to meet short-term obligations, whereas in 2011 it went back to a decrease showing less liquidity. The quick ratio was the lowest in 2011 with 2010 being high and 2009 being the lowest. 2010 showed where the liquidity was greater. Solvency Ratios The debt to equity ratio showed a decrease from 2009 to 2010, however 2011 is still lower than 2009 which indicates that 2009 the solvency was weaker but 2010 and 2011 those years were stronger in relation to the amount of debt capital relative to equity capital.

The financial leverage ratio showed the lowest in 2010, however 2009 and 2011 the increase would have indicated that ABF is more leveraged in using debt and other liabilities to finance assets. The interest coverage ratio increased from 2009-2011 which indicated that ABF maintains a strong solvency, offering greater assurance that the company can service its debt from operating earnings. Debt to capital ratio was higher in 2009, decreased in 2010 and increased in 2011 from 2010 figures. The fluctuation was because ABF invested in a high level of capital investment projects in developing markets as observed from the activities ratio. Therefore there is a higher financial risk for ABF.

Debt to asset ratio was the lowest in 2010 and the highest in 2011, therefore higher debt means higher financial risks may occur. Profitability Ratios The gross profit margin increased in 2010 which was a result of higher product pricing and lower product costs. This was not affected because of competition on the market. However 2011 shows that ABF has the percentage of revenue available to cover operating and other expenditures.

<https://assignbuster.com/financial-statement-analysis-of-abf/>

ABF's pretax profit margin was the lowest in 2009 and the highest in 2010 with 2011 being lower than 2010.

Therefore the pretax is declining which is favourable. The ROA for 2009 was the lowest and was the highest last year (2010), however 2011 still shows an increase compared to 2009 which indicates that more income is generated by a given level of assets. Return on invested capital showed an increase 2010 compared to 2009, however 2011 had a decrease due to the investment in projects. The net operating profit showed an increase in 2010 compared to 2009 and 2011 had a slight decrease because of increased expenses however, despite this adjustment it still shows a better view of ABF's potential profitability. Gearing Ratios The capitalisation ratio showed a favourable increase for all three (3) years which shows a continued great way forward for ABF. Return on Equity (ROE) was high in 2009 however not compared to 2007 and 2008 which was 8.

695 and 7. 839 respectively. 2010 showed a great increase of 10. 32 but 2011 had a slight decline. Valuation Ratios – Analysis TABLE 3 | | 2009 | 2010 | 2011 | Earnings attributable to equity shareholders in 2009 were ? 359m, ? 2m higher than 2008, and the weighted average number of shares in issue used to calculate earnings per share fell from 790 million to 789 million.

Earnings per ordinary share were 1% ahead of 2008 at 45. 5p. Adjusted earnings per share which provided a more consistent measure of performance increased by 5% from 54. 9p to 57. 7p.

The interim dividend was increased by 2% to 6.9p and a final dividend had been proposed at 14.1p which represented an overall increase of 4% in dividends for 2009. In accordance with IFRS, no accrual has been made in the accounts for the proposed dividend which was expected to cost ? 111m and will be charged in 2010. The dividend was covered 2.

75 times on an adjusted basis. Earnings attributable to equity shareholders in 2010 were ? 546m, ? 187m higher than 2009, and the weighted average number of shares in issue used to calculate earnings per share fell from 789 million to 788 million. Earnings per ordinary share were 52% ahead of 2009 at 69.3p. Adjusted earnings per share provided a more consistent measure of performance increased by 25% from 57.7p to 72.

2p. The interim dividend was increased by 10% to 7.6p and a final dividend has been proposed at 16.2p which represented an overall increase of 13% for 2010. In accordance with IFRS, no accrual was made in the accounts for the proposed dividend which was expected to cost ? 128m and will be charged in 2011.

Dividend cover, on an adjusted basis, has now returned to three times, a level last seen prior to the restructuring of the EU sugar regime. | Earnings attributable to equity shareholders in 2011 were ? 541m, ? 5m lower than last year, and the weighted average number of shares in issue used to calculate earnings per share was 788 million, consistent with last year. Earnings per ordinary share were 1% lower than last year at 68.7p. Adjusted earnings per share which provides a more consistent measure of performance increased by 2% from 72.2p to 74.

0p. The interim dividend was increased by 4% to 7.9p and a final dividend has been proposed at 16.85p which represents an overall increase of 4% for the year. In accordance with IFRS, no accrual has been made in these accounts for the proposed dividend which is expected to cost £133m and will be charged next year. Dividend cover, on an adjusted basis, remains at three times.

||| Changes and Developments within the financial Markets. TABLE4

Associated British Foods plc results for year ended 12 September 2009.

Financial Highlights • Group revenue up 12% to £9.3bn | • Adjusted operating profit up 8% to £720m | • Adjusted profit before tax up 4% to £655m | • Adjusted earnings per share up 5% to 57.7p | • Dividends per share up 4% to 21.

0p | • Net investment in capital expenditure and acquisitions less disposals of £832m | • Net debt of £999m | • Operating profit up 13% to £625m, profit before tax down 6% to £495m and basic earnings per share up 1% to 45.5p | ABF's revenue increased by 12% to £9.3bn 2009 with substantial growth in every business segment for that year. The food businesses benefited from the weakness of sterling, the flow-through of price increases from 2008, acquisitions and some volume growth. There was continued strong trading from Primark. Being at a constant currency and excluding the impact of acquisitions and disposals revenue increased by 7%.

Revenue from the US packaged oils business that was contributed to the Stratas joint venture has been included in disposed businesses. Since the disposal, the group's interest in the joint venture has been equity accounted

with the result that sales revenue was not consolidated. Adjusted operating profit increased by 8% to ? 20m. At constant currency, and excluding the benefit of acquisitions, it increased by 3% but this ignored the impact that sterling weakness had on import costs which, for a number of businesses, and Primark in particular, was a significant factor in second half margin compression. A net loss of ? 65m arose on the sale and closure of businesses, in line with that reported at the half year of 2009.

This primarily related to the contribution of the US packaged oils business to the Stratas joint venture, ? 37m of which related to the write-off of property, plant and equipment at the two redundant ACH factories. Profit before tax fell from ? 527m to ? 495m. This included the impact of the loss on disposal of businesses in 2009 and an ? 11m reduction, year-on-year, in profits less losses on the sale of property, plant and equipment. 2009 profit before tax included a charge of ? 46m for exceptionals. Adjusted to exclude those items, underlying profit before tax increased by 4% to ? 655m.

Considerable progress was made in the development of the group during 2009 with significant capital expenditure, the restructuring of a number of businesses and growth in adjusted earnings per share of 5%. All of this was achieved against a background of a worldwide economic slow-down and recession in many of the countries in which ABF operates. TABLE 5

Associated British Foods plc results for 53 weeks ended 18 September 2010  
Financial Highlights • Group revenue up 10% to ? 10. 2bn| • Adjusted operating profit up 26% to ? 909m| • Adjusted profit before tax up 26% to ? 825m| • Adjusted earnings per share up 25% to 72. 2p| • Dividends per share up 13% to 23. 8p| • Net capital investment of ? 699m| • Net debt of ?  
<https://assignbuster.com/financial-statement-analysis-of-abf/>

816m] • Operating profit up 31% to ? 819m, profit before tax up 54% to ? 63m and basic earnings pershare up 52% to 69.

3p| Group revenue increased by 10% to ? 10. 2bn as compared to 2009 ? 9. 3bn with growth achieved in every business segment and with notable step changes for Sugar and Primark. This increase benefited from this being a 53 week year and from the translation of overseas revenues arising from the weakness of sterling, particularly those in Australia. At a constant currency and excluding the impact of acquisitions and disposals, revenue increased by 6%.

Adjusted operating profit increased by 26% to ? 909m with a notable improvement in operating margin. The weakness of sterling had less of an impact on profit, constant currency and excluding the impact of acquisitions and disposals, it increased by 25%. In calculating adjusted operating profit, the charge on non-operating intangibles and any profits or losses on disposal of non-current assets were excluded. Together, these items amounted to ? 90m in 2010 compared with ? 83m Of 2009. A net profit of ? 28m arose on the sale and closure of businesses and principally related to the disposal of the Polish sugar operation in November of 2009. This compared with a loss of ? 5m in 2009 which arose on the contribution of the US packaged oil business to the Stratas joint venture.

Profits and losses arising on the sale or closure of businesses are excluded from the calculation of adjusted earnings. Revenue and profit from disposed businesses are disclosed separately in the segmental analysis. Profit before tax rose from ? 495m to ? 763m. The increase included the profit on sale or

closure of businesses for 2010, the non-recurrence of the loss on disposal of businesses in 2009, together with net losses on disposal of non-current assets. 2009 profit before tax also included a charge of £ 12m for an inventory adjustment arising on the Azucarera acquisition. Therefore underlying profit before tax increased by 26% to £ 825m.

TABLE 6 Associated British Foods plc results for 52 weeks ended 17

September 2011 Financial Highlights • Group revenue up 9% to £ 11. 1bn | • Adjusted operating profit up 1% to £ 920m | • Adjusted profit before tax up 1% to £ 835m | • Adjusted earnings per share up 2% to 74. 0p | • Dividends per share up 4% to 24. 75p | • Net capital investment of £ 825m | • Net debt of £ 1, 285m | • Operating profit up 3% to £ 42m, profit before tax down 1% to £ 757m and basic earnings per share down 1% to 68. 7p. Last year included a profit of £ 28m on disposal of businesses, principally the Polish sugar operation.

| Group revenue increased by 9% to £ 11. 1bn with growth again achieved in every business segment. On a constant currency basis and with last year's revenues restated on to a comparable 52 week basis, the underlying revenue increase was also 9%. Adjusted operating profit increased by 1% to £ 920m and movements in currency exchange rates had no material effect on this result. This profit benefited from lower restructuring charges compared with the previous year, particularly in Grocery.

When the 2010 result is adjusted on to a 52 week basis, year-on-year profit growth was 3%. In calculating adjusted operating profit, the amortisation charge on non-operating intangibles and any profits or losses on disposal of

non-current assets are excluded. Together, these items amounted to ? 78m this year compared with ? 90m last year. No profits or losses arose on the sale and closure of businesses this year compared with a profit of ? 8m last year on the disposal of the Polish sugar operation in November 2009. These profits are excluded from the calculation of adjusted earnings, and revenue and profit from disposed businesses are disclosed separately in the segmental analysis.

Profit before tax fell slightly from ? 763m to ? 757m. The reduction included the lower profit on sale or closure of businesses this year, partly offset by this year's small profit on sale of property, plant and equipment compared with last year's loss. Adjusted to exclude these items, underlying profit before tax increased by 1% to ? 835m. A CRITICAL COMPARISON OF ABF AND