

# [Main fact about jp morgan chase and co](https://assignbuster.com/main-fact-about-jp-morgan-chase-co/)

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JP Morgan Chase & Co. is a global financial services firm that operates as: Investment bank, Treasury and securities services, Commercial banking and Asset and wealth management. It also participates in Retail financial services and Card services.

In examining the company’s Liquidity Ratios, the current ratio is 1. 162, which means its Current Assets are slightly higher than its Current Liabilities, making it easier to liquidate since there are enough assets to pay away the liabilities if they need to. This is supported by the Working Capital of $153, 484 Million dollars. However, compared to the industry’s average Current Ratio of 1. 5, JP Morgan Chase is not considerably high in liquidity. The company has significantly increased its Working Capital from 85, 945 in 2003 to nearly double that amount in 2004, meaning that its Current Assets has been growing in a much faster speed then it’s current liabilities, which is good for the company. The Current Cash Debt Coverage Ratio is negative, but it is so close to zero it should be viewed as insignificant. However, it is clear that JP Morgan Chase lacks the ability to pay off all their short-term debts.

Because companies in the financial industry do not have inventories, we cannot calculate any Activity Ratios for them. However, a look in the Profitability Ratios gives us great insight of how the company is doing. The company has a Net Operation Margin Percentage of 0. 710, showing that 71% of the company’s Revenues are from Operating Activities. This number has been very stable in both years, decreasing only 0. 01 from 0. 720, showing that they have stable management procedures and considerable Operating Profits. Simply putting this ratio in consideration, it is desirable since they are stable in ratios while expanding.

Another Profitability Ratio, the Cash Return on Sales, has decreased a big amount from 0. 437 to -0. 506. This is because even though Net Sales has increased, net operating cash decreased by a substantial amount. It seems to be that even though JP Morgan Chase was growing, its cash inflows are diminishing. This shows that JP Morgan Chase is not running the business effectively and might result in future problems. Furthermore, from the Total Asset Turnover, we could tell that the company is growing larger but losing quality. Both Net Sales and Average Total Assets increased by a considerable portion, but the ratio only had a 0. 001 increase. The company seems to be less efficient in terms of making money with their assets since their Asset Turnover is about half the amount of the average in the industry. Even worse, the Return on Assets has decreased from 0. 009 in 2003 to 0. 005 at the end of 2004. Compared to the average 0. 011 in the industry, JP Morgan Chase is only half the efficiency it has with its assets. JP Morgan Chase has its Common Stockholders Equity at 0. 059 – again, another big drop from 2003’s 0. 152. Compared to the industry, this again falls short of the 0. 133 it has and is shown to be less profitable for the stockholders.

JP Morgan Chase & Co.’s Earning Per Share is 1. 243, which shows the net income earned with each share of common stock. Again, we see a decrease from 2003’s 1. 891. Since the Weighted Average Common Shares Outstanding hasn’t changed much, this decrease is a result of 2004 having only $4, 466 in net profit Million even though both it’s assets and Liabilities has increased, and at 2003 the net income was 6719.

After all the ratios below the industry, we finally see some prevalence in JP Morgan’s Price Earnings Ratio. It has increased from 2003’s 198. 95 to 2004’s 31. 44, which is more than double the amount of the industry’s 14. 7. However, this is not a good thing for the investors. A P-E Ratio of 31. 44 simply means the investor needs to pay $31. 44 instead of a lower one for everyone dollars of earnings. This seemingly optimistic number spells more tragedy to the company. The Payout Ratio of the company is -0. 879, which is negatively two times the amount of 2003’s -0. 426. This shows that earnings that are distributed into Cash Dividends doubled during 2004. This is not good for the company because from the ratios above we already acknowledge that the company is not functioning with efficiency, and so taking money away from this entity will only do it more harm.

The Solvency Ratios of JP Morgan is now examined. It has a Times Interest Earned of 2. 212, which is better compared to 2003’s 2. 170 because it indicates that the company is more able to pay its interests. The Total Debt to Equity Percentage is 2. 21 which is an increase to 2003’s 2. 17 and is almost two times the industry’s 1. 33. This is bad for the stockholders because debt is more than equity and it will be difficult to get a good share. The Total Debt to Total Assets Ratio for the company is 0. 909, which surprisingly is a decrease from last years 0. 940. It is good thing that debts are lower than 10% of assets. The Revenue Employee Ratio of the company is $268, 000 and the Net Income Employee Ratio is $28, 000. Compared to the industry’s $353, 000 and $58, 000 respectively, JP Morgan is far from being efficient in using its employees to generate the most profits. This is not promising for an investor.

In addition to the ratios, on November 15, 2004, JP Morgan announced that JPMorgan Chase Bank, Bank One, N. A., Chicago, Illinois, and Bank One, N. A., Columbus, Ohio b. shall emerge. JPMorgan Chase Bank converted its charter to a national bank for this reason. Although this is good for the investor, on December 30, 2004, JP Morgan was sued for helping finance hedge fund Canary Capital Partners LLC’s improper trading in mutual-fund shares. This could hamper the potential of any development the stock has to offer.

As we can see, JP Morgan Chase & Co. is a firm that is growing in rapid speed. However, it’s quality and efficiency does not justify its expansion. Its net income has decreased even though the size of the entity has increased and it does not retain enough cash as it should. The P/E Ratio is high and low cash flows contribute to a risk of not being able to pay up the short-term debts. It is quite convincing that this stock should not be purchased. However, in the long run, when its quality has caught up to its size, JP Morgan should have a good potential and should be considered.