

Singapore airlines essay test

[Business](#), [Industries](#)



Singapore Airlines is engaged in the aviation travel industry and is presently the national airline of Singapore. The corporation is adopting a diversification strategy and holds a group of companies to cater for such plan. SilkAir is involved in regional flights to secondary cities, while Singapore Airlines Cargo caters for freight and manages the cargo of passengers too. The firm operates to 65 destinations in 35 different countries covering 5 continents from its main hub in Singapore (Wikipedia 2008).

Singapore Airlines was incorporated on 12th October 1947 with the inception of Malayan Airways Limited (Wikipedia 2008). Through an aggressive growth strategy, the company managed to grow considerably in the market. Indeed as at 31st March 2007 the corporation possessed 94 aircrafts. In addition, the firm is considered as the largest operator of Boeing 777 aircraft (Singapore Airlines Annual Report 2007, p 16). In 2007 the company was also ranked 17th in the Fortune Most Admired Organizations (Wikipedia 2008). The services that the organization provides are classified between in-flight services and ground services.

The in-flight services encompass cabins, which are available at first class, business class and executive economy class. The latter selection is only available on the Airbus A340-500. The economy class seats, cuisine and entertainment system and communication also form part of the aforesaid in-flight services. The ground services basically entail check-in and lounge services. Lounges are located in Adelaide, Amsterdam, Bangkok, Brisbane, Hong Kong, Kuala Lumpur, London, Manila, Melbourne, Osaka, Penang, Perth, San Francisco, Singapore, Sydney and Taipei (Wikipedia 2008).

1. 1 Ratio Analysis - Financial Health of Singapore Airlines The financial health of Singapore Airlines will be examined by looking at three main areas, being profitability, liquidity and financial stability. These are outlined in the forthcoming sub-sections.

1. 1. 1 Profitability of Singapore Airlines The efficiency of management in resource utilization has decreased slightly during the periods under consideration. This is outlined by the return on capital employed ratio, which outlines the effectiveness of management in generated income from the firm's resources.

The return on capital employed of the company is also fairly low standing at 5.1%. A high percentage in the return on capital employed is constantly desirable since it implies that the profitability of the organization is considerably safe from unexpected movements in the external environment, such as the adoption of new competitive measures, economic slowdown and more (Randall 1999, p 467). It is important to outline that from the market analysis performed in the previous section corporations in this industry operate in a very dynamic and volatile market.

In this respect the return on capital employed ought to be high to ensure a sound margin of safety. The operating profit margin remained stable during both years. Such ratio reveals the operating profit generated out of every \$100 of sales revenue. However, the net profit margin, which outlines the net profit derived from every \$100 of sales rose drastically (McKenzie 2003, p 250). This is a good element for profitability but one would ponder the reason behind such conflicting movements.

An examination of the consolidated profit and loss account reveals that in 2006-07 the company incurred exceptional income of \$421 million and

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attained a favorable tax adjustment of \$246.7 million. Both elements fall outside the day-to-day operations of the organization but lead to an increase in the profitability of the company. Therefore with the exception of these two elements there was a slight decrease in the profitability of the company as portrayed by other ratios, namely the primary profitability ratio (return on capital employed).

1.1.2 Liquidity of Singapore Airlines The current ratio, which signifies how many times the current assets of the firm cover the short term liabilities improved. Likewise the acid test ratio also increased. This ratio is a solvency ratio that analyses the coverage of the assets that can be quickly converted into cash with the current liabilities. In this respect, the stock value is deducted from the current assets, because it is the least liquid asset (Randall 1999, p 468). Overall both ratios outline a good management of working capital.

It is viable at this stage to further amplify the financial position of the company by looking at separate elements of the current assets and current liabilities. The time taken by the trade debtors to pay the amount due increased by 5 days as shown by the debtors collection period ratio. An increase in such ratio is never desirable because the company is taking more to convert the revenue income into cash. Such rising trend in the debtors collection period may quickly indicate rising risk for cash flow problems (Weetman 2003, p 368).

The ratio outlined above immediately necessitates an examination of the cash and cash equivalents of the organization. In this respect, the operating cash flow ratio, which portrays the capability of cash from operating

activities to cover current liabilities, is examined (Investopedia 2008). An increase in this ratio of 12.50% highlights an improving cash flow from operations and thus surpasses the debtors issue. In addition, an examination of the cash flow statement reveals that in 2006-07 the net cash inflow was 334.6% higher than the previous year. Therefore the cash management is sound for Singapore Airlines.

1. 1.3 Financial Stability of Singapore Airlines The organization is a low-g geared company as indicated by the gearing ratio. Therefore the interest commitments arising from the long-term debts are not a serious concern for the stability of the organization due to its immateriality. However it is always advisable to compute the interest cover ratio to examine the capability of the organization to meet the interest expense out of the profits generated (McKenzie 2003, p 213-215). In this respect a decline in the interest cover ratio is noted during the periods under consideration.

The main reason for such a decrease stem from rising financial charges as outlined in the profit and loss account. The cash flow to debt ratio, which examines the ability of the corporation to cover its debt from the operating cash flow increased by 4.8% during the latter two years (Investopedia 2008, Debt Ratios: Cash flow to Debt Ratio). This is a positive element for the stability of the organization. Such increase arises from the decreasing gearing ratio and the improving cash flow identified in the previous subsection.

From the equity investor point of view, the declared dividend rate and dividend cover are particularly interesting. Shareholders apart from assessing the risk of the investment also are keen to identify the return they

will attain in the form of dividends (International Accounting Standards 2000, p 44). In this respect, the declared rate of dividend increased and also the dividend cover. The dividend cover portrays the firm's ability to be able to maintain the dividend policy currently undertaken (Randall 1999, p 471).

These ratios entwined with the good financial stability of the organization are thus positive elements for equity investors. 1. 1. 4 Overall Financial Health of the Firm In light of the improving financial position and stability, which are key strengths of the corporation, one can immediately contend positive aspects of the firm. The only negative element is a slight decrease in profitability. However, if cost control exercises are conducted by management such issue can be mitigated and resolved. It is risky to base a financial analysis solely on the financial measures computed in the previous section.

For instance, there are qualitative characteristics, like customer satisfaction that are not measured by accounting ratios, but non-the-less are important for a financial analysis. In order to counterbalance such risk of over-emphasis, the balance scorecard will be applied in the examination of Singapore Airlines. The balance scorecard is a method that lays down four main areas of examination, which comprise Financial Perspective (already carried out in section 1. 1), Customer Perspective, Internal Business Perspective and Innovation and Learning Perspective (Drury 1996, p 512, 521-523).