Finance report example

Business, Company

Analytical Framework

Section-A

There are two different companies which have been taken into consideration for the analysis and the names of the companies are Royal Dutch Shell and Endeavor International Corporation.

Net Present Value Analysis

Net present value (NPV) is a financial tool that is deemed as the difference between current value inflows and outflows. Generally, it is used for calculating budgeting to analyze the probability of an investment on any project that. It is required to analyze the NPV and IRR on the basis of two years like 2012 and 2013.

The NPV of Shell Plc. is -250, 386 $ while it is, -1, 006. 83 $ for Endeavor Plc. Both of the NPV are in negative terms and it is found that the companies are still in the queue of financing the things accordingly and effectively.

Internal Rate of Return (IRR) Analysis

In the setting loan and saving, the IRR is additionally called the effective interest rate (Khan and Jain, 2005, pp. 25-29). The term internal is refers to the way that its estimation does incorporate an environmental factor

The IRR of the company is quite low as compared to the hurdle rate of the company which is not a good sign from the viewpoint of both of these companies in particular.

Free cash flow

Free cash flow is paramount on the grounds that it permits an organization to seek after chances that improve shareholder value (Brigham and Houston, 2012, pp. 41-46). Without cash, it is hard to create new products, make acquisitions, pay profits and decrease debt.

The Free Cash Flow (FCF) of Shell was in positive term in the year 2012 while; it is in the negative term in the year 2013. On the other hand, the FCF of Endeavor is in negative term for years (FYs) 2012 and 2013 respectively.

Financial Analysis

Different tools would have to be taken into account for the same analysis

Net Profit Margin Analysis

The Net Profit Margin of the companies are mentioned below

Gross Profit Margin (GPM)

GPM is yet another important measure to assess the financial competitiveness of an organization. The GPM of the companies are mentioned below

Commodity Price

Commodity Price of both of the companies is perfect and it is found that the commodity price of Shell is comparatively higher than that of the commodity price of Endeavor Plc. Higher Commodity Price of Shell, is the one which induces the company to earn more profit than that of the profit of Endeavor. The success of the company lies in this particular thing and it is found that Shell Commodity Price is stable while the prices of commodities of Endeavor are fluctuating.

Budgeting

The essences of budgeting of both of these companies are perfect and well organized and both of the companies played a vital role as far as managing their operations is concerned and the provision of the same could be effective for the same thing (Moyer and Mcguigan et al., 2011, pp. 42-49). The capital investment appraisal techniques of both these companies are perfect and well organized which would be effective for the company in the near future in particular. The management of both of these companies are perfect and well organized and both of them manage the things effectively and it also adhering with the current budget of the company which are quite high. The figures of the same are perfect and the companies should place the things for a long span of time.

Section-B

Both of the companies have traditional approaches to making their cash flow effective and well organized. The companies use effective budgeting techniques to cover all of their problems in particular and they are doing the things in an efficient way.

CAPM

(Correia, 2007, pp. 34). The model considers the asset's affect ability to non-diversifiable risk or in other words, the market risk and systematic risk.

The Formula for CAPM equation is like this

CAPM = Rrf + Beta (Rm – Rrf)

Where

Rrf = Risk Free rate

Beta = Risk

RM = market Risk (Risk Premium)

It is important to analyze risk premium, beta covariance and other important tools before computing the expected returns in particular, let's now move towards the same analytical provision

Risk premium:

On the other hand the expected return on a low risk asset, keeping in mind the end goal to impel a single person to hold the risky asset as opposed to the risk free asset (Brigham and Houston, 2007, pp. 9-17).

Both of the companies which have been taken into account are related to commodities and the risk associating the same is mentioned below

Risk Premium = Market Return – Risk Free

Market Return = 8%

Risk Free = 3. 5%

Risk Premium = 8 – 3. 5

RP = 5. 5%

Beta:

The computed Beta of both of these companies is somewhat similar and it is 0. 6, which is quite effective and it is showing that the market returns of these companies are somewhat higher as compared to the market return.

Co-Variance

However, if the variance shows an opposite behavior, then it would be surely considered as the co-variance is negative.

Expected Return Analysis

CAPM = Rrf + Beta (Rm – Rrf)

Expected Return = 3. 5% + 0. 6 (5. 5)

ER = 3. 5 + 3. 3

Expected Return = 6. 8%

The expected return in this particular analysis is 6. 8% which is quite effective and the co-variance among the share price of both of these shares is positive and it is 2. 95, which is showing that both of the returns would have been moved accordingly with each other.

Dividend Discount Model

Dividend Discount Model is an effective model to analyze the true intrinsic value of an organization. We have used the model to predict the actual intrinsic value of the share of the companys

DDM = D0 / KE – G

Price of Royal Dutch Shell = 78$ (from this particular analysis, it is found that the price of Royal Dutch Shell is 78$ while the amount of actual share is 72$ it means that it is lower estimated and it needed to be enhance accordingly and effectively at the same time. DDM is the best method to analyze the intrinsic value of the share of a company and most of the companies used the same analytical technique to reach on a certain conclusion

Price of Endeavor plc = 1. 23$

Conclusion & Recommendations

The main perspective of this assignment is to analyze the IRR, NPV and other provisions. There are two different questions that needed to be complete in this particular assignment and both of the questions have different finance based concepts. From the entire analysis, it is found that Royal Dutch Shell Plc and Endeavor are some of the major companies which are having some expected returns and from the tools like NPV, Project Evaluation, Capital investment appraisal and other, it is found that the company would be effective in the near future which would be effective for the company as far as their future consequences are concerned.

According to the analysis, it is found that investment should have been done in Royal Dutch Shell because it has a high intrinsic value, however investment should not part in the Endeavor Plc as it has low intrinsic value. Royal Dutch Company has positive NPM and GPM as well, however it is not as effective for Endeavor International Corporation in particular, which is showing that the company is effective in terms increasing their financial belongings and giving their investors effectiveness for a long span of time.

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