

# Example of report on fundamental analyses of company shares

[Business](#), [Company](#)



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## **Executive Summary**

Fundamental analyses of company shares involve the review of the financial aspects of a company and generate metrics, such as the price and book value of a security or the enterprise value and the EBITDA to value of a stock. Conversely, the technical analysis of a company shares involves the valuing of company shares on the historical information about pricing and volume. In this analysis several assumptions are used: the market value is taken to reflect the demand and supply of the security, the demand and supply are driven by factors such as economic and information analysis which are rational and speculations which are irrational factors, there are trends that move the markets and individual shares, and lastly, the shifts in both demand and supply cause a shift in the market trend and are detectable.

Despite the differences, this study will use a model that values the company shares by integrating the fundamental and technical analysis and using both

as complements rather than substitutes. This research which is practical in nature will focus on nine equities in the UK market that are expected to perform well in the next four weeks. It is hoped that through this study two small ethical portfolios will be built one from equities and another on bonds.

### 1. Equities

The main aim is to create a small ethical portfolio for a UK based firm through a fundamental and technical analysis of nine equities in the UK equity market. This will be created on the basis of key fundamental ratios: equity ratio, Return on invested capital (ROIC), Return on equity (ROE), PE, PB and net debt to asset among others. The study findings demonstrate the importance of both fundamental and technical analysis in creating an ethical portfolio that will determine the performance of the equities in the market and the attractiveness to investors.

The two portfolios will be used in producing an equity fund that should deliver an annual rate of return of at least 20% and a bond fund aiming at delivering an annualized rate of return of 12% with a holding period of 4 weeks, trading allowed during this period.

The 9 Company shares chosen from the UK equity market based on three sectors expected to perform well in the next 4 weeks are:

- a. Industrials
- b. Consumer services
- c. Consumer goods

## **Chosen equities:**

1. Glaxo SmithKline PLC
2. BT Group PLC
3. Royal Dutch Shell PLC
4. British American Tobacco PLC
5. Unilever PLC
6. AstraZeneca PLC
7. Compass Group PLC
8. Legal & General Group PLC
9. Centrica PLC

## **Equity fund**

This fund invests in companies in the United Kingdom that meet ethical requirements. The scope of this fund is to seek out and enable investors invest in the market directly through a process that screens out ethical issues that affect the activity, products and services offered by a company and their effect on the society and the environment. The management definition of ethical responsible company includes the companies that do not associate in gambling and arms dealing. The analysis scope will cover the EPS, current and expected price earnings ratio and sales forecast of the company.

## **The EPS of a company**

Formula=  $EPS \text{ (stock market series)} = \frac{(\text{sales}) - (\text{operating margin}) - (\text{depreciation} - \text{interest})}{\text{number of shares}} \times (1 - \text{tax})$

Where:

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Sales= the sales per share of the series estimated: this is done through regression

Operating margin= the percentage of sales

Depreciation= calculated by the trend of the current depreciation or effect of expected capital expenditures on the dividends in the future

Interest= the interest rate on the outstanding debt

This study will use the capital asset pricing model as the basic model of analyzing and forming the two small portfolios for the equity fund. This model was developed by Sharpe (1964), Black (1972), and Lintner (1965), and it is considered as one that has contributed to the stock valuation and finance practices. This is because it postulates that all risky assets have an equilibrium rate of return that is a linear function of their covariance with the market portfolio (fama and French, 2006).

### 1. Glaxo Smithkline

This is a research based pharmaceutical company listed on the London stock exchange. It develops, produces and sells vaccines, prescriptions and medicines and other consumer products related to health therefore in the pharmaceutical industry. The products are for treating depression, infections, skin conditions, heart attacks and cancer. The company's stock information is as follows;

Earnings per share= 1. 1403

Current price/earnings ratio = 13. 5711

Expected price/earnings ratio= 11. 2967

Sales forecast= 1, 421. 5000

## 2. BT group

This is a company that provides telecommunication services to consumer. These include local and long distance calls including related products and services in the United Kingdom. It also offers international calls in the UK, web hosting to corporate world, network ADSL, ISDN, broadband network solutions and IP services. This is normally to companies dealing the communication industry as well as narrow and broad band internet access and related services. The company stock information is as follows:

Earnings per share= 0. 2378

Current price/earnings share= 9. 720

Expected earnings per share= 9. 3803

Sales forecast= 219. 5000

## 3. Royal Dutch shell PLC

This is a company that explores for, produces and refines oil through subsidiaries. The products it manufactures include fuels, lubricants and chemicals. It also owns and operates worldwide gasoline filling stations. The company stock information is as follows:

Earnings per share= 4. 9794

Current price/earnings ratio= 6. 8026

Expected price/earnings ratio= 7. 4743

Sales forecast= 2, 125. 0000

## 4. British American Tobacco PLC

BAT PLC is a holding company for a group of companies that are in the production industry by manufacturing, marketing and selling cigarettes and other tobacco products. Other products include cigars and roll-your-own

tobacco. The company stock information is as follows:

Earnings per share (GBP)= 1. 5599

Current price/earnings ratio= 20. 2353

Expected price/earnings ratio= 14. 8681

#### 5. Unilever PLC

Unilever is in the manufacturing industry that brands and packages consumer products. The products manufactured include foods, fragrances, home and personal care products and detergents. This company is listed twice with UNA NA. The company stock information is as follows:

Earnings per share (EUR)= 1. 5100

Current price/earnings ratio= 16. 1442

Estimated price/earnings ratio= 15. 1306

Sales forecast= 2, 014. 0000

#### 6. Astra Zeneca

Astra Zeneca is a holding company and through subsidiaries it does research, manufactures and sells pharmaceutical and medical products.

Astra Zeneca focuses its business operates on 8 therapeutically fields:

oncology, cardiovascular, respiratory, central nervous system, pain control, gastrointestinal, infections and anesthesia. The company's stock information is as follows:

Earnings per share (USD)= 7. 3115

Current price/earnings ratio= 6. 1206

Estimated price/earnings ratio= 7. 3115

Sales forecast= 2, 801. 0000

#### 7. Compass group PLC

The company provides catering and support services throughout the world. The company's clients are located in offices, hospitals, factories and care homes, schools and universities, sport venues, military facilities, factories among other remote places. The company's stock information is as follows:

Earnings per share (GBP)= 0. 3640

Current price/earnings ratio= 17. 7885

Expected price/earnings ratio= 15. 1639

Sales forecast= 648. 5000

#### 8. Legal and general group PLC

This is a holding company listed on the London stock exchange. Through its subsidiaries it provides to consumers, savings, investment and risk management services. These services include annuities, long term services, life assurances and financial protection products. The company services are sold through banks, building society relationships, independent financial advisers or direct sale to consumers. The company stock information is as follows:

Earnings per share (GBP)= 0. 1246

Current price/earnings share = 10. 0344

Expected price/earnings ratio = 8. 6207

Sales forecast= 125. 0000

#### 9. Centrica PLC

This is an integrated company in the energy supply sector that offers a wide range of home and business energy solutions. The company sources, generates, processes, stores, saves, trades and supplies energy as well as



providing a variety of related services. The company stock information is as follows:

Earnings per share (GBP): 0. 0860

Current price/earnings ratio= 36. 6977

Expected price/earnings ratio = 11. 4764

Sales forecast = 315. 6000

### BONDS VALUATION

The bond valuation involves determining its fair value. This process includes determining its present value of its future interest payments or cash flow. It also involves calculating its value once it matures and this is its par value.

Normally, its par value and interest payment are fixed, the rate of return is calculated for an investment. This enables an investor make a decision whether the bond is worthy to invest in. the bond's present value is calculated as follows:

Present value= present value of payment+ present value of par value

This study selected the top 9 bonds that are expected to perform well in the next four weeks. They are listed on the London stock exchange.

### **Performance monitoring**

Equity performance monitoring for the next four weeks

This process involves the continuous process of tracking the progress of the fund and the developments made by the fund's manager. The goal of this process is to ensure that the value of the investment is maximized as well as fund's manager relationship. It is an indication of the diligence for the

decision of investment regarding future investment fund as well as prior investment funds.

The performance monitoring is a framework comprising of both quantitative and qualitative methods of monitoring that are based on the step by step gathering of data and knowledge through an information technology platform. The process in general addresses the concerns of all the stakeholders involved, that is, the fund manager and the investors as well as the company which the equities and the bonds are purchased.

The monitoring process of the equity and bond fund normally requires the commitment be laid to the level of funds and the progress being made on the portfolio company and their financial performance. The elements that are to be monitored and the reasons why they are as follows:

1. An evaluation and a comparison of the characteristics of the deal to the overall mergers and other acquisitions market and this may include the entry price, the financing structure and the themes for the investment. The private equity market such as the transaction sources and the strategy, for example the sourcing from network to family to business and entrepreneurs, the fund manager has declared should also be evaluated.
2. A comparison of the public companies where applicable is done to the development of the portfolio companies such as margins or the sales. This is done to similar investments of funds managers in the same field and to the initial plan and strategy of the investment. The interim valuations every week may not be directly comparable and so they must be standardized into a format that will make comparison possible to similar transactions, valuation of public company or investments of other equity fund managers

that are comparable.

3. In order to review the practice of valuation by a manager the book value based on prior to the sale must be made to the realizations. The realization is normally the critical point for the determination of the performance of the fund. The unrealized values should also be catered for when doing the benchmarking process whereas the development of the funds developed should be compared to the funds that are competing.

4. The aggregate portfolio should also be controlled. The sensitivities of the overall portfolio with regards to the factors such as leverage ratio and consumer behavior should be done especially in markets that are unstable. Information that is derived from the bottom to up evaluation enable the scenario and risk sensitivity analysis to be done for the portfolio.

## **Conclusion**

Critical evaluation of the portfolio against benchmark selected

The fund has a value of 12, 000, 000 dollars as investment with the equity fund having a bench mark of a return of more than 12% and the bond fund having a return of 20%. Normally the benchmark is a market index and this helps the manager form a starting point for constructing the portfolio as well as directing its direction based on the perspectives of the risk involves and the return expected. A Sharpe ratio of the investment portfolio is determined to enable a comparison of the investment performance and the benchmarks.

The Sharpe ratio measures the performance of a portfolio considering the assumed risk. This is because investment has a down side whereby the

degree of volatility increases with increase in the returns level. This ratio therefore assesses the returns a portfolio generates for each unit of risk that is undertaken. In this case the standard deviation of the portfolio is taken to be the risk involved and this therefore indicates the volatility of a security in its returns. The difference between the returns in a portfolio over the returns to be earned on an investment that is risk free divided by the portfolio's standard deviation is the Sharpe ratio

$$\frac{\text{Return of the portfolio} - \text{risk free rate of return}}{\text{standard deviation}}$$

A high Sharpe ratio represents a high return for a unit of risk, however this ratio can only be taken for comparison purpose and in isolation it has no use

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