Myer holdings limited (myer)

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Prospective analysis – forecast

The previous reports have already approached the industry and financial analysis of Myer. This report will analyze the forecast, valuation and application of Myer, including forecasting the major data, valuating share price under four model and discussing the opportunity and challenge of Myer. 1. Forecast sales growth rate As one of the most important indicators, sales can reflect directly Myer's financial performance and influence other indicators. Therefore, the forecast of sales growth rate is the foundation for forecasting Myer.

Based on the previous annual reports from 2007 to 2011, Myer's sales are not optimistic and the average growth rate is negative 2. 89%. The decline of both global economy and purchase power of consumers in Australia will lead to thedepressionof whole industry and unsatisfied performance of Myer in 2012. Additionally, growth of 20% online shopping shows that more and more consumers prefer to purchase online instead of in the shops . Therefore, negative 1% of sales growth rate for Myer can be assumed in 2012. However, Australia would have a weakening global economy impact and have strong national growth in the future .

According to IMF, Australian economy growth rate is expected up to 3. 5% in 2013 . Considering the previous performance of Myer, 2% of growth rate can be assumed for 2013. After that, 3% of growth rate can be assumed from 2014 to 2017 and the sales would approximately even to 2007. (See below chart)

According to the past five years' data, Myer's Assets Turnover ratio (ATO) declined slowly following the decrease of sales, apart from 2011 down quickly. Therefore, the average rate 2. 05 can be used to predict the future years. (See below chart) ? 20072008200920102011Average rate ATO2. 02 2. 282. 152. 001. 772. 05 3. Forecast PM & calculate NOPAT Profit Margin (PM) is another important indicator in forecasting Myer's performance. This indicator relates between the sales and cost of goods sold and operating costs. The competition in retail industry is stronger than before.

That means through increasing sales or decrease COS to increase PM is more difficult. The change of PM fluctuated markedly in the last five years. In order to fairly predict the data, the average of 7. 5% can be used as the future PM growth rate. (See below chart) ? 20072008200920102011Average rate profit margin4. 7%13. 4%4. 9%7. 8%6. 6%7. 5% 4. Forecast net dividend payout Dividend payout is a significant indicator to influence share price. Therefore, estimating this rate means the people can determine Myer whether focuses on benefiting shareholders and beautifies share price or not.

According to the past 5 years, only 3 years Myer paid dividends. After calculation, the average rate based on 3 years is 45% and 5 years is 27%. However, 27% is too low for shareholders if Myer earn more profit base on the forecast. In addition, most of dividends payout is higher than 50%. Therefore, the forecasting dividend payout rate is estimated by 45%. (See below chart) ? 20072008200920102011Average rate(3yrs)Average rate(5yrs) Forecast cost of debt and debt balance Basically, cost of debt means the expense of liabilities.

Determining the cost of debt is as well as setting up the financial structure such as how much debt Myer plan to borrow. According to the previous data, Myer repaid a huge amount of debt in 2010 and led to the cost up and net debt down. However, the debt did not rise up again and kept the similar level as 2010. Therefore, concerning about the cost of debt, the average of 10. 75% seems more reasonable to predict the future.

Prospective - Valuation Four methods are used to valuate Myer, DDM, DAE, DAOE and DCF. In addition, two ways are used to determine cost of capital, which are CAPM and WACC. In CAPM model, risk-free rate, risk premium rate and ? are assumed separately 4. 5%, 6. 5% and 1. 1. It is not easy to determine ? because it changes every day. Assuming 1. 1 for? means the fluctuation of Myer share price is a little stronger than the market but not too much . Therefore, cost of capital (Re) is calculated by the formula and equals to 11. 65%. This Re is used in DDM and DAE. In WACC model, because Re is 11. 5%, Rf is calculated by formula and equals to 11. 43%. This Rf is used in DAOE and DCF. The share price is calculated by these 4 different models. (See below chart) ModelForecast Share price in 2012 DDM1. 7423 DAE2. 4548 DAOE2. 5603 DCF2. 5603 DDM is influenced strongly by dividends because this model uses dividends to calculate value of shares. If the company does not pay dividends, the share price would be lower. Myer is estimated to pay dividends in 45% and the share price closes to market share price. (See below chart) DateLast % Change High Low Vol * 24 Oct 20121. 950-1. 27% 1. 621. 9306, 259, 477 This model is easy to understand Myer’s business conditions. However, this is affected by dividends too much and dividends are not always linking the value creation , the valuation model seems very limited. Obviously, this cannot reflect the Myer’s real value and conditions. Additionally, compared to DDM, DAE involves in other indicator abnormal earnings to value Myer share price and is better to present Myer’s conditions. Myer share price in DAE is higher than DDM because it reflects book value of equity and PV of future abnormal earnings to add share value.

Therefore, this is more close to the real performance of Myer. Also, DAOE model is similar with DAE apart from that DAOE focuses on the equity which is determined by operating abnormal earnings. This eliminates the influence of Myer’s financial activities to calculate abnormal earnings. However, Myer’s financial value has been added to the equity finally. Therefore, this can reflect Myer’s condition in operating. Finally, DCF model focuses on cash flow which results in the equity increases. Usually, it can get the same share price with DAOE, but does not affected by accounting rules.

However, investments are treated as losses for cash flow, which can bring more future benefits to Myer. Therefore, if Myer plans to use investments to produce free cash flow, then this model is very close Myer’s real conditions. Prospective – Sensitivity On one side, Myer is department store and compete in retail industry. Seasonality is more significant aspect in retail industry. The boom seasons for Myer are the end of financial year and Christmas holidays. Also, the weather, new products in season or other factors are the aspects which Myer is sensitive.

On the other side, according to Appendix 4, the four models of sensitivity can be analyzed. For the indicators of sales, ATO, dividend payout, DDM is the most sensitive, while DCF and DAOE are not sensitive. However, DDM is not sensitive in debt, while DCF and DAOE are most sensitive. Application

Opportunities According to the forecast analysis and valuation, Myer has some possible opportunities to improve herself and get rid of the difficult conditions although the depression of condition expands the whole retail industry. Myer is predicted to pay more dividends to their shareholders in forecast analysis.

This will addict more investor to buy shares and this can push the share price to rise up. Also, the book value of equity for Myer can be increased and this leads to no one can buy Myer's share lower than book value. Therefore, a higher merger value or acquisition value can be created. Eventually, Myer will get more capital to investment. Therefore, Myer has an opportunity to invest this implemental capital. Concerning about the future economy, Australia will have strong domestic economy increase . As a result, Australian consumption and requirement will be up.

Therefore, keeping and maintaining domestic consumers are still the main tasks for Myer. With the online shopping eroded the traditional shopping stores, Myer should improve their online shopping services, such as beautifying and making it convenient for customers. Myer's CEO announced they would launch a new " omni-channel" service to stimulate consumers shop online . Obviously, Myer has already recognized online shopping is the main method to regain market share. Additionally, expanding the overseas market seems a good lamb for Myer to increase profit.

Recently, Australia government has signed two Free Trade Agreement negotiations with China and Japan separately. This provides a firm foundation to encourage more foreign investments between Australia and both of countries . Therefore, Myer can be provided more supports to invest in China and Japan. There are three reasons for Myer to choose China rather than Japan to set up the first overseas branch. Firstly, 1. 34 billion of China population is more stable for consumption foundation than 127million of Japan . Secondly, the advantage of exchange can provide more benefits for Myer to invest in overseas.

Thirdly, more products of Myer are produced by China; therefore, setting up branch in china can save the delivery cost and tax. Challenges Although Myer's forecasting is more profitable, it still has a potential challenge for borrowings. First of all, the purpose of loan for Myer may be to expand its shops or update its online shopping. These have more chances to be long-term debts instead of short-term debts. However, when they are in the lack of cash flows, Myer may pay dividends through borrowings. Although this can be short-term debts, it is not for earning profit.

Therefore, both of these are risky for debtors. Secondly, the figure shows that Myer would not plan to increase its financial expenses. That may be Myer prefer to get more funds from shareholders and her own operates rather than debts. This looks lower risky than people's anticipation while it also means Myer would slow the repayment of debt and the previous debt risky will be raised up. Thirdly, the steady growth rate of dividend payout shows Myer would pay more dividends to benefit their shareholders when they earn moremoneyinstead of pay the debt or reinvest.

In other words, Myer prefer has more long-term debt than short-term debt and maybe the benefits will be impaired. Therefore, the debt's risk of Myer tends to be increased by Myer's trend. Fourthly, the debt leverage looks healthy. However, the decrease of debt leverage is because not only the debt decreases, but also the net operating assets increase. Above all, Myer probably has problem when debt from debtors. Therefore, a detailed loan structure should be planned to make debtor have more confidence and willing to borrow money to Myer.

This loan structure need to concern about the percentage of debt and equity for Myer. Also, the percentage of long-term debt and short-term debt should be considered. In addition, the purposes of debt need to be clear, easy to understand and report to debtors and shareholders. Conclusion To sum up, these analyses are really useful to approach Myer's conditions and performance, and also can give some particular information through valuation. However, there are not perfect analyses; people still need to look for more effective analyses to value the firm.