

Rolls-royce group plc individual report



INTRODUCTION

Rolls-Royce is one of the most well-known brands in the world.

Rolls-Royce name is one of its most valuable assets. It helps open doors, it attracts talented people, it differentiates Rolls-Royce and it is a reassurance of trust in its technical capability.

Today, its brand means more than engineering excellence. There is a standard of quality across all its activities. Its brand guides their actions and behaviours and the way they present themselves to the world as a leading-edge, international power-systems business.

It is at the heart of everything they do and everything they say. As a global company, active in 50 countries with governments, partners, customers and suppliers, having a strong, consistent brand is a great asset.

Great brands are driven by a powerful central organising thought.

‘To be Trusted to Deliver Excellence’ is its central organising thought. It is what they aspire to become. It is the embodiment of the promise it make to their customers. In today’s competitive environment, it is not enough to build great products: Rolls-Royce customers are looking to the company to deliver the best in service solutions. When it does, it builds enduring relationships with its customers, partners and other stakeholders. As the emphasis shifts towards transparency and high standards of governance and ethics, the integrity of its brand demonstrates its commitment to providing clean, affordable power to drive economic and social development in a responsible way.

Its values

Reliability – our customers place their trust in us. We are committed to responding to their needs and the needs of those we work with.

Integrity – at the heart of the way we operate and behave.

Innovation – we strive to be open minded and flexible in our work. A forward-thinking culture creates a well-managed and contemporary organisation that is always seeking to improve

The reasons because I choose Rolls-Royce for the analysis is the following:-

Civil Aerospace

Roll-Royce success in aerospace is based on its wide product portfolio, Rolls-Royce access to global markets and the strength of its gas turbine technology.

Powering over 30 types of commercial aircraft

Over 13, 000 engines in service with 650 airlines

4, 000 corporate operators

Underlying revenue of £4, 481m

50 Trent engines hold a 50 per cent share in wide-bodies aircraft Orders for Trent 700 and Trent XWB exceed 1, 000 engines for each programme

More than 4, 000 V2500 engines flying with 190 customers worldwide

Defence Aerospace

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Rolls-Royce engines power aircraft in all of the major military aviation market sectors, from military transport aircraft and helicopters, to trainers and combat aircraft.

Number one military aero engine manufacturer in Europe

Number two military aero engine manufacturer in the world

Powering approximately 25 per cent of the world's military fleet

18, 000 engines in service for 160 customers in 103 countries

Our operational base reflects our global position

It have whole engine design, engineering and manufacturing facilities in the UK (Bristol), Germany (Dahlewitz) and the U. S (Indianapolis)

* Market position statements are based on figures from third-party AVSOFT and reflect installed engines on operational aircraft, excluding the CIS and China.

Marine

A worldwide capability in marine technology

Rolls-Royce is committed to the marine market and maintaining its world leading position in the design, development, supply and support of products and systems for commercial and naval customers worldwide.

With a primary focus on power, propulsion and motion control solutions, Rolls-Royce serves more than 2, 000 customers and has equipment installed on 30, 000 commercial and naval vessels operating around the world.

Its comprehensive range of products and services includes established names such as Kamewa, Ulstein, Aquamaster and Brown Brothers which, together with a strong focus on research and development, has made Rolls-Royce the pioneer of many important 20th Century technologies including aero-derivative marine gas turbines, controllable pitch propellers and waterjets.

Customer focus is maintained through four business units that address specific market segments – Merchant, Naval, Offshore and Submarines. A global support network underpins all activities and ensures contracts can be undertaken, and Rolls-Royce support is at hand anywhere in the world.

Energy

Rolls-Royce has supplied products to customers in over 120 countries. They are investing in new products and capabilities for the oil and gas industry and for distributed electricity generation.

As a world leading supplier of energy solutions, Rolls-Royce can be truly regarded as both a global and local company. From manufacturing centres to overhaul bases, its presence can be felt throughout the planet.

Rolls-Royce activities reach far beyond gas turbine-based generating sets and reciprocating engines serving the power generation market. Both onshore and offshore, Rolls-Royce gas turbine packages have been serving the oil and gas industry since the 1960s.

Rolls-Royce also has an excellent reputation for supplying high specification, small land and sea energy solutions for battlefield and naval applications in the defence market through the Rolls-Royce Distributed Generation Systems business.

Rolls-Royce meets the needs of the energy market with:

a total solutions capability

a wide range of power systems

a world-wide local presence

through-life customer support

Because of these reasons and its 20 years of growth track record, expanded product portfolio, its increasing contribution from services, its Brand Value, its strong record of investment in research and development all these are counted in my selection.

Rolls-Royce Recent History

On 6 April 2004, Boeing announced that it had selected both Rolls-Royce and General Electric to power its new 787. Rolls-Royce submitted the Trent 1000, a further development of that series. GE's offering is the GENX, a development of the GE90.

On 13 June 2004, Rolls-Royce was awarded a £110m deal with the Ministry of Defence to supply engines for its C-130 Hercules transport aircraft for the next 5 years.

In July 2006, Rolls-Royce reached an agreement to supply a new version of the Trent for the revised Airbus A350 (XWB) jetliner. It is likely that the so-called Trent XWB will be significantly larger than the Trent 1700, basically a throttle-push of the Trent 1000 intended for the original A350 proposal.

In October 2006, Rolls-Royce suspended production of its Trent 900 engine because of delays by Airbus on the delivery of the A380 superjumbo. Rolls-Royce announced in October 2007 that production of the Trent 900 had been re-started after a twelve month suspension caused by delays to the A380. The plant in Derby, UK employs 11, 000 workers and will continue to produce engines for Bombardier and Boeing, including those for the new 787 series and other Airbus aircraft such as the A330 and A340.

On the military side, Rolls-Royce has been (in co-operation with other European manufacturers) a major contractor for the RB199 which in several variants powers the Panavia Tornado, and also for the EJ200 engine for the Euro fighter Typhoon. Two modified RB199 engines also powered the EAP demonstrator which evolved into the Typhoon. Rolls-Royce has matured the Rolls-Royce Lift System invented by Lockheed Martin for the Joint Strike Fighter (JSF) F-35 Lightning II to production level, planned to be produced in significant numbers.

At the 2005 Paris Air Show, Rolls-Royce secured in excess of \$1 billion worth of orders. The firm received \$800m worth of orders from Air China to supply its 20 Airbus A330 jets.

On 18 June 2007, Rolls-Royce announced at the 2007 Paris Air Show that it had signed its biggest ever contract with Qatar Airways for the Trent XWB to power 80 A350 XWBs on order from Airbus worth \$5.6 billion at list prices. On 11 November 2007, another large contract was announced at the Dubai Air show from Emirates Airline for Trent XWBs to power 50 A350-900 and 20 A350-1000 aircraft with 50 option rights. Due to be delivered from 2014, the order is potentially worth up to 8.4 billion US Dollars at list prices, including options.

17 September 2007, Rolls-Royce marks investment programmes totalling around £100 million by formally opening two additional world-class aerospace facilities in the city – a manufacturing centre for aero engine components, and one of the world's largest test beds.

On 20 December 2007, Rolls-Royce Group plc has previously announced that it proposed to make a lump sum contribution of £500 million across its three main UK defined benefit pension schemes as part of a strategy to reduce the overall deficits.

22 December 2008, Rolls-Royce announced agreement with Goodrich Corporation to form Rolls-Royce Goodrich Engine Control Systems Limited, trading as Aero Engine Controls.

June 2009, Rolls-Royce invests \$1 Million to expand On-Wing Care services in North America. Rolls-Royce has secured \$4.1 billion in new orders during the Paris Air Show, demonstrating the resilience created by its global reach, strong portfolio and continued investment in technology.

In January 2010, Rolls-Royce, the global power systems company, has today confirmed its intention to become a founder member of the King Abdullah University of Science and Technology (KAUST) Industrial Collaboration Programme. Rolls-Royce has strengthened its position in Italy by acquiring the remaining 49% share in Europea Microfusioni Aerospaziali SpA (EMA) from Finmeccanica, taking its holding in the Italian company to 100%.

21 February 2010, Rolls-Royce unveiled a newly restructured Model 250 Full-service Integrated Rolls-Royce Support Team (FIRST) network, which offers full-capability repair and overhaul (R&O) support to the 4,000 plus operators of M250 turbo shaft and turboprop engines operating around the world. Rolls-Royce and Bell Helicopter have signed a Memorandum of Understanding (MOU) to explore options for the retrofit of the Bell 206B Jet Ranger helicopters with the RR500TS (turbo shaft) engine. Rolls-Royce which

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offers one of the broadest power ranges of helicopter turboshaft engines in the world today forecast a market characterized by emerging near-term recovery followed by long-term growth.

7 April 2010, Further to the announcement on 26 February 2010 regarding the recommended cash offer to acquire all outstanding shares in ODIM ASA (the “ Offer”), Rolls-Royce today announced that 30. 3 million shares have been tendered to its wholly owned subsidiary Rolls-Royce Marine AS.

28 April 2010, Rolls-Royce Group plc hosted its 2010 Annual General Meeting at the Queen Elizabeth II Centre in London.

Rolls-Royce Group plc 2009 half-year results

Order book increased by £2bn to a record £57. 5bn (2008 year-end £55. 5bn).

Group revenues increased by 17 per cent to £4, 923m.

Services revenues increased by eight per cent to £2, 420m.

Profit before financing was £593m (2008 first-half £322m).

Profit before taxation increased by nine per cent to £445m (2008 first-half £410m).

Net cash outflow of £234m (2008 first-half net cash outflow of £92m) before the impact of a negative £194m (2008 first-half £48m benefit) foreign exchange revaluation.

Average net cash for the period of £760m (2008 first-half £265m).

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Interim payment to shareholders of six pence per share, an increase of five per cent over 2008.

Table of Absolutes & Ratio Analysis

COMPARISON OF ABSOLUTES

STATICS

2009 £ Millions

2008 £ Millions

Change £ Millions

09 B/W 08

Revenue

10, 414

9, 082

1332

+14. 66% B

Cost of Sales

8, 303

7, 278

1025

+14.08% W

Operating

Profit

1,174

855

319

+31.31% B

Profit After

Tax

2,217

1,345

872

+64.83% B

Fixed Assets

6,048

6,302

-254

-4. 03% B

Comparison of Balance Sheet

SOURCES

USES

2009

2008

2009

2008

£ Millions

£ Millions

£ Millions

£ Millions

Equity

3, 782

2, 225

Fixed Assets

6, 048

6, 302

Debt

5328

6683

Stock

2, 432

2, 600

Receivables

3, 877

3, 929

Cash

2, 962

2, 471

Others

103

46

Payables

5, 628

5, 735

Liabilities

181

316

Provisions

210

181

Others

293

207

Capital

Employed

9110

8909

T. A - C. L

9110

8909

Ratio Analysis

Ratio analysis

Formulas

2009

2008

Variation

B/W

Profit margin

Operating profit /sales

11. 27%

9. 41%

1. 86%

B

Sales generated per £ of investment

Sales/(total assets-current liabilities)

114. 31%

101. 94%

12. 37%

B

R. O. C. E

Operating profit /(TA-CL)

12. 89%

9. 60%

3. 29%

B

Inventory turnover

Cost of sales/inventory

3. 41

2. 79

0. 62

W

Assets turnover

Net sales/total assets

13. 69%

11. 75%

1. 94%

B

Fixed assets turnover

Sales/fixed assets

172. 19%

144. 11%

28. 08%

B

Return on assets

Net profit/total assets

14. 37%

8. 76%

5. 61%

B

Debtor days

$(\text{Debtor} \times 365) / \text{sales}$

136 Days

158 Days

-22 Days

B

Creditor days

$(\text{Creditor} * 365) / \text{cost of sales}$

247 Days

288 Days

-44 Days

B

Stock days

$(\text{stock} * 365) / \text{cost of sales}$

107 Days

130 Days

-23 Days

B

Current ratio

$\text{Current assets} / \text{current liabilities}$

1. 48

1. 4

. 08

B

Quick ratio

$(\text{current assets} - \text{stocks}) / \text{Current liabilities}$

110%

100. 10%

9. 9%

B

Net working capital

$\text{Current assets} - \text{current liabilities}$

3062

2607

455

B

Debt equity ratio

Debt/equity

1. 40

3. 00

-1. 6

B

Gearing

Debt/(debt + equity)

0. 58

0. 75

-0. 17

B

Return on equity

Profit after tax/equity

58. 61%

60. 45%

-1. 84%

W

Earnings per share

Profit after tax/ no. Of shares

120. 38p

73. 63p

46. 75p

B

INTERPRETATIONS

Profit Margin: It gives an indication of how effective a company is at cost control. The higher the net profit margin is, the more effective the company is at converting revenue into actual profit. Here there is 1. 86% increase in profit margin which very good sign for the company. In 2008 profit margin of the company is 9. 41% and it made an hike in 2009 to 11. 27%. so it's clear from these figures that the company management is successful in converting its revenue into profit.

Sales generated per £ of investment: Its gives a clear cut idea of the selling power of the company, here there is a climb of 12. 37% in sales generated per £ of investment it shows the company is getting more return from its investments comparing to its last year operation. In 2008 Sales generated per £ of investment is 101. 94% and when it comes to 2009 increase to 114. 31%. So the above figure shows that the company have a healthy situation in its investment and sales.

Return on Capital Employed: Return on capital employed (ROCE) is the rate at which the company generate business on its total capital employed. ROCE made an increase of 3. 29% compares with the value 9. 60% in 2008 and it raised up to 12. 89% in 2009.

Inventory Turnover: A ratio showing how many times a company's inventory is sold and replaced over a period. Here the company's inventory turnover has increased by 0. 62 it's not a good sign. In 2009 even thou the company's inventory is less as compared to 2008 but the cost of sales has increased, this is why it shows increased value in 2009 as 3. 41 while it was only 2. 79 in 2009.

Assets Turnover: This ratio indicates that each pound on total net assets was turned over to and 11. 75% in 2008 and 13. 69% in 2009. This is because of the rise in both capital employed and sales. So there is a bit of change in Assets Turnover Ratio.

Fixed Assets Turnover: This ratio indicates how efficiently a company uses its fixed assets to generate sales. Fixed assets such as plant and machinery enable the business to function more efficiently. Here the ratio increased from 144. 11% in 2008 to 172. 19% in 2009 that shows a 28. 08% increase a higher fixed-asset turnover ratio shows that the company has been more effective in using the investment in fixed assets to generate revenues.

Return on Assets: This ratio is an indicator of how profitable a company is relative to its total assets. Return on assets gives an idea how efficient the management is at using its assets to generate earnings. Return of assets has an increase of 5. 61% compared to 2008. It was only 8. 76% in 2008 and had

climbed to 14.37% in 2009. So the above figures show that the company management have been successful in converting its investments into profits.

Debtor Days: This ratio is used to work out how many days on average it takes a company to get paid for what it sells. Debtor's days comes down from 158 Days in 2008 to 136 Days in 2009. So it shows a downward trend of 22 days in 2009, always it is better to have a lower number of debtor days. The company management have managed to reduce the number of debtor days that is a very good positive sign.

Creditor Days: It's a ratio measuring how long on average it takes a company to pay its creditors. Here creditor's ratio has shown a notable drop from 288 Days in 2008 to 247 Days in 2009 and this may be seen as a positive movement regarding handling of reputation and credit handling issues.

Stock Days: Stock days measure how much period the company takes to convert its stocks into revenues. The stock holding period of the company is reduced from 130 Days in 2008 to 107 Days in 2009. It's a very healthy sign for the company compared to last year's figure because now it takes only a comparatively less period to convert stock into revenue.

Current ratio: The current Ratio is a tool for measuring the liquidity of a company by calculating the ratio between all current assets and all current liabilities. It is an indicator of a company's ability to pay short-term obligations. The company current ratio should not be less than 1 which signifies that the company is able to pay its short-term bills. This means that the company has no solvency problems. Here the current Ratio for the year 2008 is 1.4 and for 2009 is 1.48 which made a slight increase in the value

it's also a very good positive sign for the company that is company have sufficient liquid resources available to meets its immediate financial commitments.

Quick Ratio: Quick ratio measure a company's liquidity and ability to meet its obligations. It is viewed as a sign of company's financial strength or weakness (higher number means stronger, lower number means weaker). So it's getting stronger by 2009 it shows 110% and for 2008 it was 100. 10%, from the above figures its clear about the financial strength of the company.

Net Working Capital: Working capital measures the net value of liquid assets a company have available to build its business. Companies that have a lot of working capital will be more successful, since they can expand and improve their operations faster and easier. The net working capital have increased in 2008 it was 2607m and in 2009 it climbs up to 3062m which made an increase of 455m.

Debt equity ratio: This ratio measure the company's financial power. Debt equity ratio is equal to long-term debt divided by common shareholders' equity. The ratio of the year 2009 is 1. 40 and for 2008 is 3. So it made a downward trend in 2009, even thou the figures made a noticeable decrease but clear from the figures that the majority of assets are financed through debt, because the value is greater than 1.

Gearing: Gearing is a measure of financial leverage, demonstrating the degree to which a firm's activities are funded by owner's funds versus

creditor's funds. The gearing has come down to 0.58 in 2009 comparing of 0.75 in 2008.

Return on equity: Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. The return on equity shows a slight down turn of 1.84% it was 60.45% in 2008 and it come down to 58.61% in 2009.

Earnings per share: It is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability. Company made an increase in 2009 to 120.38p than off 73.63p in 2008, it made an increase of 46.75p so it's showing a good sign of profitability.

The Impact of Current Events

Rolls-Royce continued to make solid progress in 2009, despite difficulties in its trading conditions. The order book shows £58.3bn, underlying revenues shows £10.1bn and underlying shows profit before tax £915m all increased. The Group has a strong financial position with average net cash balances improving by £260m to £635m. In 2009 the business was affected by the global economic downturn and by continued delays in a number of major programmes. These include the Airbus A380, the Boeing 787 and the Airbus A400M military transport aircraft. The Group continued to focus on increasing productivity and efficiency across the business, both to improve the long-term competitive position and to mitigate the effects of the recent global downturn.

Average net cash balances were £635m for the year, and year-end cash balances were almost £1.3bn. Debt maturities are well spread and were extended further during 2009 with the successful issue of a 10-year £500m GBP bond designed to refinance a maturing obligation in 2011.

The broad portfolio of products and services that the Group delivers made an improving market position and access to a broad global customer base helped secure orders worth £13.4bn in 2009. At the year-end the order book reached £58.3bn, approximately £16.5bn of which relates to service contracts. Revenues increased by 15 per cent to £10.4bn. This strong performance was aided by weaker average GBP exchange rates, mainly against the USD and Euro. Underlying revenues improved by 11 per cent, with double digit increases in all divisions other than civil aerospace where revenues were stable. The Group's reported profit before tax of £2,957m includes the effects of "mark-to-market" of its financial instruments, for which hedge accounting is not adopted. This effectively reverses much of the revaluation reported in the second half of 2008. There is a £50m increase in payments to shareholders, a slowdown in order flow and associated customer deposits, slightly increased net financial working capital and significant investment in the business. The Group invested £76m in adding capability through acquisitions in the year. This included £71m to acquire a 33 per cent holding in ODIM ASA, a Norwegian company involved in the offshore oil and gas sector.

Basic earnings per share were 120.38p (2008 loss of 73.63p), reflecting the mark-to-market adjustments above, with underlying earnings per share

increasing by eight per cent to 39. 67p (2008 36. 70p), partly reflecting an improved tax rate.

Predictions for the Future

Rolls-Royce benefits from the disciplined application of a long-term strategy. This has given a broad, well balanced portfolio and a strong financial position.

Long-term growth is underpinned by a strong market position, a record number of major programmes, new service facilities and its expanded aftermarket service propositions. They expect these factors to lead to a doubling of revenues over the next ten years.

In the short-term the Group expects the trading environment to remain difficult, with some continuing demand and operational uncertainty. The Group expects underlying revenues, underlying profits and average net cash in 2010 to be broadly similar to those achieved in 2009 with a modest cash outflow in the year.

In 1999, Rolls-Royce had an order book of £13. 2 billion. Today their order book stands at £58. 3 billion, with a record number of major global programmes balanced across their four business sectors. These include the Trent XWB, which is not due to enter service until 2013, yet has already achieved more than 1, 000 orders – a powerful demonstration of the confidence their customers have in Rolls Royce ability to deliver.