Example of essay on financial analysis: apple inc

Business, Company

Introduction:

In this report, we will be analyzing the financial position of Apple Inc using the tool of ratio analysis where the following set of ratios will be discussed:

- Liquidity Ratios
- Profitability Ratios
- Asset Management Ratios
- Debt Management Ratios
- Market Value Ratios

As we all knows, Apple Inc is a globally recognized company headquartered in California. The company is known for its innovative products that primarily include, I-Phone, I-Pad, I-Pod and Macbook. We are sure that by the end of this report, we will be able to arrive at a rationale investment decision for Apple' s stock.

Liquidity Ratios:

These ratios are accessed to judge the ability of an organization to honor its short-term debt payments. Below discussed are two popular liquidity ratios:

i)Current Ratio: Current Assets/ Current Liabilities

ii)Quick Ratio: Cash + Inventories/ Current Liabilities

Liquidity Analysis:

Noted from the above calculations, we can infer that over the period of three years, the liquidity position has been quite volatile. As for the year 2013, the company witnessed increase in their liquidity roots. For Instance, during 2013, the current ratio of the company increased from 1. 50 to 1. 68, while the quick ratio increased from 1. 24 to 1. 40. This indicates that the company had finally managed to strengthen their liquidity roots again during 2013.

Profitability Ratios:

These ratios indicate various levels of profit margins being earned by the company from its business activities. Profitability ratios are of keen interest for the shareholders and analysts as it have the capacity to shape their investment decisions. Below calculated are some of the profitability ratios of Apple Inc:

i)Net Margin: Net Income/ Revenue

ii)ROE: Net Income/ Average Total Equity

iii) ROA: Net Income/ Average Total Assets

iv)Basic Earnings Power: EBIT/ Total Assets

Profitability Analysis:

Noted from the above calculations, we can infer that while the company witnessed increase in profit margins during 2012, the trend turned downside with significant fall in profit margins during 2013. During 2013, the net margins declined from 26. 67% to 21. 67%, however, the major concern will be fall in ROE multiple from 42. 84% to 30. 64% as this may influence the confidence of the shareholders. Similar trend were witnessed in ROA and Basic Earnings Power that declined from 0. 31 to 0. 23.

Asset Management Ratios:

Also referred to as ‘’ Efficiency Ratios’’, these multiples indicate the efficiency of the management to use their asset base. Below calculated are the four efficiency ratios of Apple Inc:

i)Inventory Turnover Ratio: COGS/ Average Inventory

ii)Total Asset Turnover: Revenue/ Average Total Assets

iii)Fixed Asset Turnover: Revenue/ Average Fixed Assets

iv)Days Sales Outstanding: 365/ Debtor Turnover Ratio

Efficiency Analysis:

Referring to the above analysis, we find that during the year 2013, Apple Inc has also lost over its asset utilization. All the above ratios have signaled a downward trend indicating concerns for the company. For Instance, inventory turnover ratio declined from 112. 12 to 834. 45 indicating that it now takes more time for the company to sell of its inventory. Similarly, the decline in receivable turnover ratio indicates that the debtors were slow in making their payments. Overall, the efficiency roots of the company have gone weak during 2013.

Debt Management Ratios:

Popularly known as Solvency Ratios, these ratios indicate the ability of the entity to honor their long-term obligations. Below calculated are the debt management ratios of Apple Inc:

i)EBITDA Coverage Ratio: EBITDA+ Lease Payments/ (Interest Payments+ Lease Payments)

ii) Total Debt-Total Asset Ratio: Total Debt/ Total Asset

iii) Interest Coverage Ratio: Operating Earnings/ Operating Expenses

Market Value Ratios:

i) Price-Earnings Ratio: Market Price/ EPS

= 96. 26/6. 20

= 15. 52

ii) Price/ Cash Flow Ratios: Market Price/ CFO

= 96. 26/9. 41

= 10. 22

iii) Market/ Book Ratio: Market Price/ Book Value per share

= 96. 26/20. 19

= 4. 76

Conclusion:

Considering only the ratio calculations above and not considering any other fundamentals of the company, we would like to issue a rating of Hold to the company’s stock as it would be rationale for the investors and the bondholders to view the next trend in the upcoming financial quarters of the company.

However, as of the current position, I would have not purchased the stock as all the ratios are in negative trend. In addition, since the company acquired debt for the first time during 2013, we cannot comment on the feasibility of a bondholder of the company and it will be most advisable to look for trend in the debt management ratios.

Works Cited

Apple Inc. (n. d.). Retrieved October 16, 2014, from http://finance. yahoo. com/q/ks? s= aapl+Key+Statistics

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EBITDA Coverage Ratio. (n. d.). Retrieved October 16, 2014, from Financial Analysis: Apple Inc