Financial analysis of qantas and fly emirates essays examples

Business, Company

- Ability to pay long-term debt

This section uses solvency ratios to assess the ability of Qantas to repay long-term obligations and compares it with that of Fly Emirates.

Debt to total assets ratios

The ratio shows the relationship between total debt and total assets (Graham & Smart, 2011, p. 44). In the year ended June 2014, Qantas had a debt to total assets ratio of 0. 8345 implying that it financed 83. 45% of its total assets using debt. The ratio increased from 70. 85% in 2013 to 83. 45% in 2014 indicating a decline in the company's ability to pay its long-term obligations. The high debt ratio indicates that the company has a weak ability to repay long-term debt.

In the year ended 2014, Fly Emirates had a debt ratio of 0. 7493 implying that it financed 74. 93% of its total assets through borrowing. The decrease in the debt ratio in 2014 shows an increase in the solvency of Fly Emirates. The debt ratio for Fly Emirates is lower than that of Qantas indicating that Fly Emirates has a better ability to repay its debt than Emirates. In addition, Fly Emirates solvency is improving while that of Qantas is deteriorating.

Long-term debt to assets ratio

In the year ended June 2014, Qantas' long-term debt to assets ratio was 0. 4 showing that it financed 40% of its total assets through long-term borrowing (Horngren et al, 2010). It increased from 0. 3766 in 2013 showing a decline in the company's ability to meet its long-term obligations. In 2014, the long-term debt ratio for Fly Emirates was 0. 4302 implying that it acquired 43% of its total assets through long-term borrowing. It increased from 0. 4267 in

2013 meaning a decline in the company’s solvency. The long-term debt ratio for Qantas is less than that of Fly Emirates indicating that Qantas had a better ability to pay its long-term debt.

Debt-equity ratio

Debt-equity ratio for Qantas in 2014 was 5. 00 indicating that the value of its total liabilities was five times that of its equity. It indicates the company's solvency is weak. In the event the company is winding up, unsecured debts have their security on the company’s equity hence a high debt-equity ratio implies the ability of Qantas to repay its debt is low (Brigham & Ehrhardt, 2013, p. 104). It increased from 2. 43 in 2013 showing that the company’s solvency decreased.

In 2014, Fly Emirates’ value of total liabilities was only twice the value of its total equity. It declined in 2014 implying an improvement in the stability of the company. Compared to Qantas, Fly Emirates had a better solvency since its debt-equity ratio was less than that of Qantas.

Times interest earned ratio

Times interest earned ratio for Qantas in 2014 was -18 implying that its earnings before interest and tax were not adequate to meet its interest obligations. The ratio for Fly Emirates was 4. 57 indicating that its earnings before interest and tax were 4. 57 times the amount of its interest expense (Brigham & Ehrhardt, 2013, p. 105). The ratio for Fly Emirates is higher than that of Qantas implying that Fly Emirates has a better ability to honour its interest obligations than Qantas.

The above analysis indicates that Fly Emirates had a lower debt to total

assets ratio although its long-term debt ratio is higher than that of Qantas. In addition, Qantas debt to equity ratio is less than that of Fly emirates. Holders of debt instruments in Fly Emirates had a better interest cover than their counterparts in Qantas. Therefore, Qantas ability to repay its long-term debt was less than that of Fly Emirates during the period covered by the years 2013 and 2014.

- Cash flow analysis

Sources of cash

In both companies, operating activities form the largest source of funds. In 2014, Qantas had net cash flows from operating activities of $1069 million down from $1417 million in 2013. Fly Emirates' net cash flow from operating activities was $12, 649 million down from $12, 814 million in 2013. Therefore, both companies experienced a fall in their net cash flows from operating activities.

Operating cash flows to net sales

As shown above, Qantas made $0. 07 from every dollar of income in 2014. The number decreased from $0. 09 in 2013 indicating a decline in the efficiency of the company to generate cash flows from its revenue. Fly Emirates generated $0. 16 from each dollar of its net sales in 2014. The amount declined in 2014 showing deterioration in its efficiency to create money from its total net revenues. The figures indicate that Fly Emirates is more efficient in generating cash from its net sales.

In addition to operations, the companies got cash from investing activities. They include the sale of plant, property and equipment, interest incomes,

dividends from investments, and movements in short-term deposits, among other activities.

Qantas generated cash flows from financing activities such as proceeds from borrowings and sale and finance leaseback of non-current assets. It had a positive net cash flow from financing activities.

Uses of cash

The companies used cash in investing activities such as purchases of property, plant and equipment, additions of intangible assets, among other activities. Both companies' net cash flows from investing activities were negative in 2014 and 2013. They also used cash in financing activities such as repayment of loans. Qantas had a positive net cash flow from financing activities while Fly Emirates' net cash flow from financing activities was negative.

Free cash flows

In both years, Fly Emirates had higher free cash flow than Qantas indicating that Fly Emirates is more financial stable than Qantas.

Past and future performance

Solvency ratios above imply that Fly Emirates had a better ability to pay long-term debt than Qantas. In addition, the cash flow analysis indicates that Fly Emirates was more financially stable during the period from 2013 to 2014. In 2014, Qantas made a loss of $2, 922 million, a decline from the profit of $404 million in 2013. On the other hand, Fly Emirates made a profit of $3, 417 up from $2, 408 in 2013. The above data indicate that Fly Emirates performed better than Qantas.

Solvency ratios indicate that the solvency of Qantas declined in the year

2014. The company also encountered a decline in its net revenue and net income. On the other hand, analysis indicates that the stability and profitability of the company improved in 2014. Therefore, it is expected that Fly Emirates will perform better than Qantas in future.

References

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Horngren, C. T., Harrison, W. T., Oliver, S., Best, P., & Willett, R. (2010). Accounting (7th ed.). Upper Saddle River, N. J.: Pearson Prentice Hall.