

Investment analysis example

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



EXECUTIVE SUMMARY

The major points in this report regard ideas on viable investment ventures. The investment idea will be that of a turnaround of a company in the United States of America. The United States of America has one of the largest stock exchange markets in the world (Arnest 2011). The stock exchange markets in this country have attracted potential investors from all over the world. Investment in stocks has integrated many investors into one big market where shares and bonds are bought. More so, in these markets, there has been exchange of financial assets from one person to another. This has enabled easier and effective monetary management in the country.

The idea is specifically based on the turnaround of one of the companies that takes part in the stock exchange markets of the United States of America. RadioShack Corporation was formerly known as Tandy Corporation. People who have invested in this country must confess that it has not been a smooth path for them for the past few years. This is because of the fluctuating performance of the company in the stock markets (Dodson 2012). Despite this, there are other factors that have affected the overall performance of the company. The poor performance of the company has led to its devaluation in the stock market. However, its decline has been mainly attributed to various factors that have affected the operations of the company.

Most of the investors of RadioShack Corporation have associated themselves with risky ventures. This means that a lot of speculation has taken place in the investments of this company. Despite the unattractive performance

made by the company over the past few years, there are some improvements that can be noticed in the company. The company is on its path to recovery (Dodson 2012). This is therefore the major reason why investors should invest in the shares of this company. Many shareholders of this company had sold their shares since they feared that the company would be taken over by major companies. However, things have begun to change and improvements are expected in the near future.

INTRODUCTION

The purpose of this report is to explain the idea of investing in the stocks of RadioShack Corporation. This is an electronic company that sells its products in the United States of America as well as Europe (Samson 2011). It also sells its products in some parts of Africa. Its products include speakers, televisions, radios, laptops and desktop computers. These products have yielded high sales for the company. This is the major reason why there are many investors who have invested in the stocks of the company.

In order to provide a clear investment analysis, the report is going to show the financial performance of the company with a view to show its strengths as well as its weaknesses. This will include the valuation of the company in the stock market. This will also determine the attractiveness of the stocks of the company in the country. The report is also going to show some performances in the balance sheet of the company. This will help in analyzing the account receivables and payables, the debts and the assets of the company. The analysis will also include a chart that will summarize

information regarding the trends of the company's performance in the stock exchange market.

The management of a company is important since it provides leadership on stewardship basis. For this reason, the report will consider the action of the management in the stock market. This will include their decisions as well as their opinions regarding the stock market. Fundamental trends in the company are also going to be pointed out since they are important in analyzing the financial performance of the company. The report will also include relevant suggestions on the investment idea that has been made. This will also include a preview of the possible solutions for any expected problems in the future.

INVESTMENT ANALYSIS REPORT

The financial performance of this company has been fluctuating over the past ten years. Initially, this company was earning high profits due to increased sales (Bob 2011). This is one of the reasons why the company had expanded its operations in the country between 2000 and 2011. The company had also engaged itself in the sponsorship of sports such as bike cycling. The team that was sponsored by the company was named Team RadioShack. In the year 2009, the company made connections with the T-Mobile company. According to the management of this company, this partnership would help in increasing the sales of the company.

A review of the financial blogs made in respect to the company's performance show that the company has had various financial implications, especially in the year 2011. Various financial analysts had anticipated loss of

profits for the company in the 2011 financial year. The anticipated losses were due to the closure of some of the kiosks that were mobile. The comparison of the financial results of the company has been easier since its financial period ends on 31st December. During the downfall periods of the company, there were less people who were willing to make investments in the company. This was mainly due to the weakening of some of the financial aspects of the company (Fincher 2011).

There are around 239 institutions which hold shares with the company. A previous analysis of the company shows that the company has been paying out dividends to its shareholders in most of the financial periods. The only time when the company did not pay out dividends was in the year 1999 (Donson 2012). In this period, the company had made a stock split, where a share was split into two. During the other periods, dividends were paid in form of cash. Therefore, people willing to invest in this company should not worry as to whether the company will pay dividends. Further evaluation of the investment report of the company will involve an analysis of the valuation of the company.

Valuation of the Company

The valuation of the company has not been satisfactory to the investors recently. In fact, the low valuation of the company had created worries of the corporation being taken over by larger companies (Samson 2011). Some financial analysts anticipated that the large electronic companies in the United States of America would be attracted in taking over this company. However, recent reports have shown that the company is in the process of

reengineering its operations in order to increase its value in the stock market.

The valuation reports have showed that the market capacity of the company is approximately 685.33 million. The enterprise value of the company is estimated to be 764.23 million. The profit margin of the entity has been estimated to be 1.65%. The operating margin is 1.43%. Based on the dividends paid in all the past years, the average dividend rate for the company is \$0.5. This is reasonable, taking into consideration the various fluctuations in the financial market. However, this value has been stagnating in some of the years (Arnest 2012). It is therefore the work of the management to ensure that the sales of the company increase so that the dividend rate increases. This should help improve the welfare of the investors.

The balance sheet of RadioShack Corporation has helped in the analysis of its financial and investment performance. An investor is also interested in knowing the risks that are faced by the company. For instance, debts owed by the company should be paid at a future date. The investors should therefore consider the creditworthiness of the company now and even in the future to ensure that his investments in the company are not greatly affected. The balance sheet of this company shows that the company has no long term investments. Between 2010 and 2011, the trade payables increased from \$ 600, 100, 000 to \$ 663, 600, 000. It is also notable that the long term debts of the company increased from 2010 to 2011 (Bob 2011).

The balance sheet of the company has also shown the number of stocks in the company. The total shareholders' equity in the year 2010 was \$842, 500, 000 while in the year 2011, the value was \$ 753, 300, 000. The value of the common stock for the company was \$191, 000, 000 in the year 2009. In the next two years, this value stagnated at \$146, 000, 000. This shows that there was a decrease in the shareholders equity and the common stock in the company. The downfall experienced by the company between the year 2010 and the year 2011 led to the decline in the goodwill of the company. The goodwill declined from \$41, 200, 000 in the year 2010 to \$37, 000, 000 in the year 2011 (Donson 2011).

The income statements show that the total operating income has decreased from the year 2010 to the year 2011. The earnings before interest and tax in the year 2009 were \$358, 700, 000. This value dropped to \$352, 800, 000 in the following year. In the year 2011, the earnings before interest and tax were \$154, 100, 000. The decline in the earnings before tax and interest show that the company has not been at its best performance in the last three years (Arnest 2011).

Fundamental Trends in the Stock Market

The stock price of this company has been fluctuating over the years.

Recently, the investors have been worried that the price of the company's stock is decreasing persistently. This means that there were no indications that the price would shoot up. Currently, the average price of the stock of this company in the New York Stock Exchange is \$6. 9 (Dodson 2012). The low price of stock is unfavorable for the existing investors of the company.

However, it may be favorable for the potential investors since they will be in a position to buy the shares at a lower price. The company is undergoing reform and that is why financial analysts are anticipating better performance in the next financial year. This means that the value of the company is likely to increase and subsequently the price of the stock will increase. The investors will be able to sell their stock at the high stock price and gain profits.

The fundamental trend in the prices of the stock of RadioShack Corporation would be best viewed using a chart. The following chart shows the trend of the price of the stock of the company over the last three years.

The Healing Process of the Company

Despite the undervaluation of the company due to the declining stock prices and unsatisfactory financial performances, the management of the company held a series of meetings to address the issues affecting the company. The healing process of the company also involved the laying off of some of the employees who were considered to be incompetent and unproductive (Dodson 2011). The management of this company accepted the fact that the company was facing problems. Currently, the measures to bring the corporation back to track have been set in place. For instance, in November 2011, the company extended sales promotion with a view to increase the sales of the company. By the end of the 2012 financial period, the income of the company is expected to increase due to increase in the number of stores and the increase in the demand for electronic goods.

RECOMMENDATIONS

Based on the financial problems that the company had experienced in the past three years, it would be important for the company to increase its income through reducing the costs. A reduction of the costs of the company does not necessarily mean the laying off of many staff. The laying off of employees may lead to the sacking of effective workers who make important contributions in the company. Costs can be reduced through effective cost management. Another recommendation is that the company should avoid the splitting of its stock until the company has fully recovered. This is because the stock split will reduce the price of the shares, which may have adverse effects in the valuation of the company.

CONCLUSION

From the above view points, it is clear that the company has undergone transformation in the financial market. Based on the action of the management to intervene on the unsatisfactory performance of the company, it is expected that the company's value will increase in the next financial period. The financial analysts also expect that the healing process of the company will attract investors in the corporation. Investors should purchase the stocks of the company now before the demand for the stock increases. Once the demand increases, the price will increase and it would be difficult for the low income earners to buy the stock. The initial investors should hold on to their investments since the price of the stock is expected to rise. They will therefore earn profits in future when the price is anticipated to be high.

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