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In response to this, the investment committee of PUFF has proposed that some portion of the fund be invested in the Philippine stock market, which was observed to have experienced an increase of more than 150 percent in 1993.

In line with this, Patricia Tan of ABA Capital was tasked to design a portfolio for the fund In which she plans to Include mostly “ blue chips” and other sound “ second liners”, thereby taking Into consideration Puff’s conservative stance.

So far, Patricia Tan has come up with an analysis of the various stocks included in the portfolio as preparation for a possible inquiry from the investment committee on the fund’s performance. In the same year, Peter So was hired by ABA Capital and Investment Corporation and signed to handle the remaining companies which have not yet been analyzed by Patrol Tan. These companies Include Jollied Foods Corporation AFC), Loyal Land, Inc. (ALAI and Philippine Long Distance Telephone Company (PLOT).

As of late, Peter has already submitted a report which included an analysis of the companies’ respective industries and a description of the companies’ operations, management and business prospects. Peter So was also able to perform financial ratio analyses on the three companies. However, Patricia Tan thought that a cash flow analysis, which loud provide Information on the long-term availably of the companies and its ability to generate positive cash flows and pay its obligations, should also be included in the report. An evaluation and a comparison of these statements have to be made across the companies we are studying because some of these companies may still be dropped from the list if the analysis shows some financial weaknesses in this area,” Patricia told Peter. Mall Problem Which of the three companies should ABA Capital and Investment Corporation include in its portfolio for PUFF? Areas of Consideration t Is Important to note Tanat PUP Is simply looking Tort a stats Ole Investment.

Slice tenet previous investments in treasury bills have begun to deteriorate, they feel the need to revisit their investment options.

This is what the stock market is offering them – an opportunity to earn steady returns for their relatively constant financial needs. ABA Capital and Investment Corporation must remember that investing in the stock market is something new to PUFF; hence, they are only willing to set aside a small amount from its fund for such an investment.

However, it is very probable that PUFF would be willing to raise and shift its investments into the stock market once it experiences good, steady returns from it. Contrastingly, PUFF would also be reluctant to raise its investments, if not completely avoid the stock market in the future if ever it experiences less than favorable returns. Analysis of Data The primary goal of ABA Capital and Investment Corporation in analyzing the three companies is to determine which of the three can assure a steady return to PUFF (in the form of cash dividends) each year.

From the data above, we can observe that both ALIAS and Plat’s total net cash flow is composed mostly of cash provided by financing activities.

ALIAS cash flow, in particular, despite being positive by the end of 1994, is actually being fueled by a large positive cash inflow from its financing activities. This proportion of 85. 21% of total net cash flow is significantly larger than an inflow of only 35. 31% provided by operating activities. Going a step further, it can also be observed hat much of these cash inflows came from additions to long-term debt and issuance of new stock.

This simply means that much of the positive cash flows attained by ALL and PLOT are temporary, unlike that of a company whose influx of cash is mostly hinged on those provided by operating activities. Jiff’s net cash provided by operating activities carries all of the weight of its total net cash flow. From 1992 until 1994, JEFF has enjoyed cash inflows solely attributed to its operating activities, which Lies In stark contrast Walt Proceeding now to analyzing the potentials of the companies for future growth, we secretaries take into consideration the investment decisions of each company.

From the cash flow statements, we perform a horizontal analysis through 1992 to 1994 so as to obtain a clearer picture of each company’s expansionary actions. Table 5 Net cash used investing activities (229, 731 , 783) As we can observe from the table above, JEFF has been able to maintain increasing additions to investment which is necessarily essential for a company’s future growth.

Unlike that of ALL and PLOT, whose investments through 1992 to 1994 have been somewhat fluctuating, JEFF has managed to increase its investments by 59% on 1993 room sass’s 144, 490, 178 peso amount, and by another 100% the following year.

Taking a look at the Table 4 above which reflects the different cash flows provided by the operating and financing activities of the three companies, it could also be observed that Jiff’s investing activities can be serviced solely by the cash inflows provided by its operating activities. However, this cannot be said of the other two companies which tend to rely on the cash inflows provided by its financing activities to supplement its investing activities.

Furthermore, if we were to take a look at the verbal investing trends of the three companies, we can deduce their respective outlooks towards investing. JEFF always maintains a total investment amount that is less than the total amount of cash inflows it receives from its operating activities.

It hardly calls on its financing to provide for any additional cash. PLOT, on the other hand, tends to perform huge investments per year, raking up cash inflows from its financing activities which surpasses what it actually earns from its operating activities.

AL’, which appears to be the looseCanonamong the three, invests irregularly each passing year. Recommendation In performing analyses relating to the companies’ ability to give steady returns and their potential for further growth, it is in Puff’s best interests and our recommendation that only JEFF and PLOT should be included in their portfolio. JEFF is a relatively conservative company which can assure its investors of continued stability.

It invests reasonably each year, indicative of stable growth in the future.

It hardly relies on leaderless Ana teats Tort I TTS cans requirements; TN s It does not also need to worry about the resulting obligations which come with such a reliance. Also, since JEFF merely obtains majority of the cash used for its investments from its operating activities, it has the ability to sustain continuous expansions in investment. Although it has only started to give out cash dividends in 1994, it shows promise that if ever it does continue to give out dividends, its returns would be very stable. PLOT is the perfect complement to JEFF stocks.

As a stockholder of PLOT, one can be assured of receiving cash dividends each year.

Although the actual amount of cash dividends is still in the dark (due to a lack of information), its high payout ratio relative to the there two companies reflect Plat’s concern for satisfying its shareholders’ financial needs. Despite Plat’s heavy reliance on financing activities for its cash requirements, it has its investments to show for it. PLOT is currently making huge investments in property, plant and equipment which could in the future translate to an explosive growth in PLOT.

Furthermore, investing in more than Just one company allows for risk aversion which would highly coincide with Puff’s conservative stance in investing. The main reason why we recommend excluding ALL from Puff’s portfolio is its indecency to be unstable.

Offhand, ALIAS fluctuating investing activities seems to indicate that it is still testing out the waters with regards to investments. Compared with the investing actions of the two other companies, ALL seems to be lost in the dark when it comes to investing.

However, we must remember that real estate industries such as ALL are very much dependent on real estate prices, which in turn, is greatly influenced by the economic conditions of the country. If the economic conditions of the country at present were bad, then ALL investments would also be adversely affected. Thus, it can be deduced that ALIAS future growth would be similarly unstable. Moreover, ALIAS 1994 cash flow statements indicate a large inflow of cash coming from its financing activities (mostly from long-term borrowings).

However, unlike PLOT which invests what it had borrowed, ALL has yet to show for its borrowings. All in all, ALIAS cash flows from 1992 to 1994 have been less than favorable with respect to cash dividends. It has been constantly negative, until 1994 when it managed to borrow a large amount leaving its net cash flow extremely positive. And lastly, despite being able to give cash dividends each year, the total amount of which relative to its net income has actually been decreasing through the years.

So that JEFF can become better investment options for shareholders, it should continue giving out cash dividends as it did in 1994. Also, it should try to handle its idle assets more effectively.

The cash flow statements of JEFF reflect a large amount of cash held simply idle in the company. If ever some of this cash is not needed for its operating activities, it should consider making more investments. This would acclimate greater growth in the future. PLOT, on the other hand, should take caution in its borrowings.

These borrowings will indeed finance its planned investments; however, it also entails having to pay large obligations each year. Such obligations can go out of control and greatly affect investor confidence on the company.

The irregularity of ALIAS net cash flows and investing activities can have detrimental erects on Interested Investors. IT tense companies can reassess tense weaknesses, then maybe all three companies can be considered as good investment options for PUFF.