Good research paper on financial ratios analysis

Business, Company

Company and Industry Averages Ratio Analysis

This graph shows the current ratio and quick ratio for the two companies. In it we can see that Union Cement Company has a higher current and quick ratio compared to Umm Al Qaiwain Cement and that the former's two ratios are slightly higher than the industry standard.

This graph shows how Umm Al Qaiwain Cement has fallen below industry standards in terms of Total Debt Ratio—which is a good thing and how Union Cement Company exceeded the industry standard in that indicator. In terms of Debt Equity Ratio, it is the Umm Al Qaiwain Cement that exceeded the industry standards.

This graph shows the Inventory and Receivable Turnover ratio. It also shows how Umm Al Qaiwain Cement has managed to maintain sustainable levels of turnovers which fall below industry standards (a positive thing) compared to Union Cement whose turnover levels are above the industry standards..

This graph shows the two company's ROA and ROE relative to the industry standards. At this point, it is the Union Cement Company that outperformed Umm Al Qaiwain Cement, beating the industry standards on the process.

This graph shows how the two companies have managed to keep up with the industry standards in terms of Market to Book Value Ratio—although Union Cement Company's rate went slightly above the industry standards. We can also see how Union Cement Company's total asset turnover was significantly higher compared to that of Umm Al Qaiwain Cement and relative to the industry standards.

Lastly, this graph shows how Union Cement Company underperformed the cement industry in terms of profit to earnings ratio and profit margin. Among the two, Umm Al Qaiwain Cement was the company that has the higher P/E and Profit Margin that is also well above the industry standards.

All in all, both companies were able to surpass the cement industry average when matters and underperform the same average when matters. A case in point would be the debt ratio indicator which showed that Umm Al Qaiwain Cement's 2 year average total debt ratio was lower than the industry average which is a positive thing. On the other hand, Union Cement Company's total debt ratio was slightly higher than the industry standard but not by a huge margin. Another significant finding would be Union Cement Company's high inventory and receivable turnover that are at the same time, higher than the industry standards. Lastly, it is worth mentioning that the Union Cement Company's price to earnings ratio and profit margins are considerably lower than the industry standards. All in all, we can summarize that among the two companies reviewed, it is the Umm Al Qaiwain Cement that has the sounder financial condition.

Abstract

Basically, the cement industry suffered from tremendous losses brought about by the sudden decrease in the price and demand for construction materials. It is worth mentioning that cement is one of the essential construction raw materials and that it is used in almost any type of construction job. It may well be considered as the life blood of the worldwide construction industry. One of the industries that heavily rely on the stability of the construction industry is the real estate industry. A world economy that has an unstable construction industry cannot really have a stable real estate industry. The same principle is in fact true for the real estate and the cement

industry not only in the UAE (United Arab Emirates) but also in other countries . The objective of this paper is to compute for the ratio of two of the most significant cement manufacturers in the UAE's cement industry. The analysis will focus on the different ratios such as Price to Earnings ratio, debt to equity ratio, return on assets, return on equity, and price to book value ratio, among others. Each of the company's two year average values for every fundamental factor (i. e. the ratios) would also be compared relative to the cement industry averages to examine for strengths and weaknesses. By the end of the analysis, it turned out that Umm Al Qaiwain Cement managed to surpass industry standards and one of its peers in the industry, the Union cement Company in terms of profit margin, earnings per share, and other fundamental variables for both the years 2012, and 2013.

Introduction

When the global financial crisis hit the Middle Eastern shores and later on the entire world economy, the price of real estate properties plummeted to record low levels, prompting real estate property developers to slash their properties to record low levels as well. The result of that cycle of events was a sharp decrease in the demand and price for construction materials such as cement and wood, among others. To get a clearer picture of the direness of the situation in UAE's cement industry, the record high levels of demand for cement which was at 27 million tons per year a few months to a few years prior to the great financial crisis plummeted to as low as 5 million tons per year in 2009 and in the succeeding years. Cement production dropped by as low as 13 percent compared to the year 2008. The most devastating part for the entire UAE cement industry was the sharp decrease in the prices per ton rates of cement. In mid-2009 alone, the price per ton of cement was at 136 USD. A few months after mid-2009 to as early as the first month of 2010, the price per ton rate dropped to as low as 54 USD. This happened only in just a matter of months. Taking the entire industry into consideration, the sharp decline in prices in just a matter of months could be equated to sharp declines in individual UAE cement manufacturer’s earnings too. Pair the price declines with the staggeringly low level of demand for cement and that may be enough for them to need a government bailout to avoid bankruptcy .

The two companies that will be analyzed in this paper are some of the most prominent companies in the UAE cement industry. However, the analysis showed that between Union Cement Company and Umm Al Qaiwain Cement, Umm Al Qaiwain Cement turned out to be the leader, thanks to its high level of profitability and earnings, among other fundamental factors that we can consider.

Conclusion

During the most recent global financial crisis, a lot of countries’ economies suffered from heavy recessions, huge job losses, and severe limitations on financial liquidity, thanks to the high level of banks’ and financial institutions’ non-performing assets—basically their liquid assets or cash resources got stuck in real estate and other non-performing assets. The UAE’s economy was not an exception . In fact, it turned out to be one of the heaviest hit countries not only in the Middle Eastern region but also in the international market. One of the hardest hit sectors in the UAE economy was the cement industry. In summary, the two companies have managed to beat the 2 year cement industry average values for majority of the ratios and fundamental factors computed. In terms of the debt to equity ratio, for example, both the Umm Al Qaiwain Cement Corporation and the Union Cement Company managed to beat the cement industry average. The only significant difference that we can see from the two companies is that the Union Cement Company has a considerably lower profit margin percentage value compared to the Umm Al Qaiwain Cement Corporation and the UAE cement industry’s value on that category (i. e. the profit margin category). This only means that aside from the profit margin category, both cement companies, at least in the past two years have presented with strong fundamentals. However, it is worth mentioning that for the year 2008 up to early 2010, the values and ratios not only for these two companies but also for other companies from other sectors in the UAE economy do not look as attractive as the values in 2012 and 2013.

References

Al-Jarallah, M. (2003). Construction Industry in Saudi Arabia. Journal of Construction Engineering and Architecture.

Al-Qaydi, S. (2012). Industrial Soild Waste Disposal in Dubai, UAE: A Study in Economic Geography. Journal of Middle Eastern Studies.

Cordesman, A. (2012). Saudi Arabia enters the twenty-first century: the political, foreign policy, economic and energy dimensions. Journal of Construction and Engineering.

Pananond, P. (2007). The Changing Dynamics of Multinationals After the Asian Economic Crisis. Journal of International Management.