Good essay about wall-mart financial performance analysis

Business, Company

Financial ratios are crucial in evaluating a business' performance over time and in comparison with industry peers. That is because the ratios provide an overview of performance for various business aspects ranging including profitability and market valuation. With that respect, the following is an overview of Wall-Mart's performance regarding profitability and market ratios. The analysis entails P/E, ROE, and D/E ratios calculation and interpretation.

Company Description

Wal-Mart Inc. is an organization operating a retail stores business through various formats across the globe. Its operations are in three segments including Wal-Mart International, Sam's Club and the Wal-Mart U. S.

Ratios Analysis

P/E

The ratio measures the value that investors are paying for a dollar of a company's earnings, and lower values are better (Damodaran, 2010). The following is the current and past two years P/Es for the company.

P/E ratio = [Stock price / EPS]

Source: (Yahoo finance, 2015c; Nasdaq, 2015b).

The company recorded an increase in market valuation in 2014 compared to 2013 as reflected in the increase in the P/E and reflected in the rising price that occurred with a fall in earnings. That shows an overvaluation in 2014 given the earnings change. On the other hand, the current P/E is lower than the 2014's value given the same EPS. That is an indication of investors' loss of confidence in the stock's future reflected in falling price (Damodaran, 2010).

ROE

The ratio measures the management's efficiency in generating profits given the company's equity hence a good profitability measure (Damodaran, 2010). The following table summarizes the company's two years performance.

ROE = [Net income / Equity]

Source: (Yahoo Finance, 2015a; 2015b)

The figures and the chart show decreasing profitability with a lower value in 2014 compared to 2013. That could be a result of decreasing efficiency in equity allocation and the creation of wealth for shareholders.

D/E

It measures the proportion of the company's earnings paid out to investors in terms of dividends. Increasing proportion shows better receipts by shareholders (Damodaran, 2010).

D/E = [Dividends / Earnings per share]

Source: (Nasdaq, 2015a; 2015b)

Although the company experienced a decrease in EPS in 2014, compared to 2013, it increased dividends payout hence increasing the D/E. That was good for shareholders and could have been a result of dividend policy that requires consistent dividend payout.

Conclusion

Given the analysis, the company's current P/E shows lower valuation by investors compared to 2014 that could have resulted from its profitability decreased as shown by the ROE. On the other hand, the company increased its dividend payout despite a decrease in EPS.

Works Cited

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