

Financial analysis of samsung and apple inc



Abstract

This research is a combined peer group assignment that compares two competing companies in the cell phone industry, Samsung and Apple Inc. The companies have been in a literal cell phone war since 2011. According to an article in the *Journal Of East Asia & International Law*, the companies have been “ in domestic courts of multiple states since 2011 concerning patent infringement involving their new digital products”. Based on sound research, this proposal will analyze both companies from a financial perspective rather than cell phone preference. Background of both companies will be provided including details about each company’s current ratio and debt ratios. Using profitability and operating performance ratios will provide a look into each company’s profits over the past three years. Additionally, using the cash flow indicator and investment valuation ratio to discuss which company is more likely to have satisfied stockholders. Finally, the conclusion will include an investor’s perspective based on the combination of all of the researched findings and reveal which company is doing better from a financial perspective.

I Background

A comprehensive look at the economic world and the electronic industrial markets shows that during the past years there has been a movement toward thinking of technology less as a tool and more as a set of processes that should be implemented in today’s business world. The aggregate expectations here lead to consider the progress in one of the many tools of the technological world: the Smartphone. Two companies stand out from the

crowd when it comes to electronics and technology; Apple and Samsung. Although operating in the same market, both companies have their set of challenges and their values. Moreover, each company has its central elements that define the organization as its customers, products, service delivery, financial accountability, and top management (www.rhsmith.umd.edu/files/Documents/Faculty/TheRoleOfMarketing.pdf).

Apple and Samsung differ from one another in many ways. Apple is the result of two visionaries, Steve Jobs and Steve Wozniak, who were two high school dropouts living in Silicon Valley. The two friends had a very innovative mind and created their first Apple computer on April 1, 1976, and launched what has become the most significant revolution in the world of technology thus far. Later on, the pair changed the way people talk on the phone, listen to music, and browse the Internet. By 1980, the newly created company had already 1000 employees and offered a stock of computers that sold well. The Macintosh computer sold at 70, 000 units in a short period following its invention. Throughout the years and its many designs such as the iPhone, iPad and so forth, Apple's vision has transpired; this vision is to bring the best personal computing experience to students, educators, creative professionals, and consumers around the world through its innovative hardware, software, and internet offerings. Whereas, Samsung is a company globally founded in the Southeastern Japanese region. In 1938, Samsung was recognized as a trading company and was later on separated into four subsidiaries companies: Samsung Team, Shinsegea Team, CJ Team, and Hansol Team (retrieved from <http://www.eajournals.org/wp-content/uploads/Samsung-Electronics-and-Apple-Inc.pdf>). Samsung's

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income was similar to 17% of Southern Korea's 1, 082 billion-dollar gross domestic product (GDP) cash (www. google. com/search? q=gdp+definition&ie=utf-8&oe=utf-8&client=firefox-b).

Both companies are doing business in a fast-expanding market where the demand for a particular type of product keeps increasing. The information-technology field is the fastest-growing one in America, with the highest sales growth rates. Both Apple and Samsung have loyal customers who cause a rise in their sales and operate in several industries due to the variety of their products. They work in sectors ranging from personal computers to entertainment media and mobile payments systems.

II Current Ratio and Debt Ratios

The following analysis will consider the ability of both companies to pay liabilities, which one is doing better, which company is more satisfactory to the stockholders, and which would be a better investment based on the health of the Return of Investment (Anderson, Fornell, & Lehmann, 1994). A quantitative analysis will be used to compare Samsung and Apple's current ratio and debt ratio to determine the financial position of the companies. The review will further identify each company's ability to pay current liabilities (debt). This section's conclusion will provide details on which company is doing better and why.

II

1. Current Ratio

The current ratio measures Samsung and Apple's ability to cover its short-term liabilities with its current assets; the formula is current assets divided by current liabilities (retrieved from <https://www.investopedia.com/articles/investing/120513/comparing-pe-eps-and-earnings-yield.asp>). It is important to know that a current ratio only provides small insight as to the company's actual financial position because some assets could take time actually to receive the cash. For example, if Apple sells an asset it may take over a month to receive the funds.

According to Nasdaq, as of September 2017, Apple had the following assets and liabilities: Current Assets \$ 128, 645, 00 and Current Liabilities \$241, 272, 000. Consequently, Apple's current ratio is 1. 55 times. Moving forward, The Wall Street Journal, as of year-end 2017 puts the assets and liabilities of Samsung as followed: Current Assets \$136, 283, 800 and Current Liabilities \$87, 260, 700. Samsung's Current ratio is, therefore, 1. 56 times. It is then safe to say that both, Apple and Samsung, are above a 1. 0, indicating that the companies are well positioned and can cover its current liabilities or debt.

II

2. Debt Ratio

The Debt ratio compares a company's total debt to its total assets, and its formula is the total liabilities divided by the total assets. According to Nasdaq, as of September 2017, Apple had the following total assets and total liabilities: Total Assets \$375, 319, 000 and Total Liabilities \$375, 319, 000. Apple's debt ratio is 0 cents worth of liabilities. Furthermore, The Wall Street <https://assignbuster.com/financial-analysis-of-samsung-and-apple-inc/>

Journal, as of year-end 2017, talks about Samsung's total assets and total liabilities to be the Total Assets \$301, 752, 100 and the Total Liabilities \$301, 752, 100. Samsung's debt ratio has 0 cents worth of liabilities.

Both companies are carrying very zero debt. On the one hand, having a "debt ratio of 1 indicates the company is %100 backed by debt"

(https://ycharts.com/glossary/terms/debt_to_assets). On the other side,

A debt ratio of zero would indicate that the company does not finance increased operations through borrowing at all, which limits the total return that can be realized and passed on to shareholders (<https://www.investopedia.com/articles/investing/120513/comparing-pe-eps-and-earnings-yield.asp>).

In looking at both companies Apple and Samsung, we look at both the Profitability and Operational Performance ratios. Both ratios are equally essential and bear importance on the overall health of each company. Apple and Samsung have cornered the market in personal electronics, and it is easy to assume that both tech giants have seen substantial growth over the past several years. Or have they?

III Profitability and Operating Performance Ratios

Using profitability ratio we need to determine the income for each company and the total expenses. Once those numbers are attained, we subtract expenses from income. For Apple the following numbers are defined by Nasdaq.com;

Year	Income	Expenses	Profitability
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			Ratio
2017	\$88,186,000	45,325,000	\$42,861,000
2016	\$84,263,000	\$41,272,000	\$42,991,000
2015	\$93,626,000	\$42,802,000	\$50,824,000

For Samsung's Profitability ratio we see the following:

Year	Income	Expenses	Profitability Ratio
2017	\$81,589,030	\$52,348,358	\$29,240,672
2016	\$77,171,364	\$50,757,922	\$26,413,442
2015	\$77,927,187	\$52,902,116	\$25,025,071

In comparing the two companies with the profitability ratio, it is observed that Apple generates more income and tends to keep their overall operating expenses lower than Samsung, thereby allowing for a greater profit margin.

The Operational Performance Ratio is equivalent to the dividend of net sales divided by net fixed assets. Apple shows a slight decline in their ratio going <https://assignbuster.com/financial-analysis-of-samsung-and-apple-inc/>

from 0.58% in 2014, 0.60% in 2015, and then ending with 0.43% in 2016. Samsung's Operational Performance Ratio shows 0.57% in 2017, 0.62% in 2016, and 0.68% in 2015. Of the two moguls, Samsung saw the biggest decline with 0.25% over the course of three years.

With, both companies seeing a decline, some of the fall can be attributed to a struggling economy. However, of the two, one could conclude that Apple by and far is performing much better as a company over Samsung. In part, because, of the ever-emerging products and operating systems that they are continually pushing out. Upgrades to the current iPhone platform are catapulting Apple to the front of the pack concerning performance.

When looking at both Samsung and Apple, both companies are doing very well. A look at the price/earnings ratios and dividend payout ratios for each company shows that they are both very close. A dividend payout ratio of 0% to 35% is a good payout (www.dividend.com/dividend-education/what-is-an-ideal-payout-ratio/).

IV Satisfied Stockholder

Both Apple and Samsung have a low dividend payout ratio. Apple's payout ratio is 16.2%, while Samsung's is 17.8%. This element isn't always the first thing that investors are looking at when they decide on the stocks in which they will invest. Investors also look at the price/earnings ratio of the companies. Both Apple and Samsung have a lower P/E. Apple has a P/E ratio of 16.08, while Samsung has a P/E ratio of 9.4. Investors typically like to invest in companies with a lower P/E ratio, especially if they are very stable companies such as Apple and Samsung. It is crucial for investors to <https://assignbuster.com/financial-analysis-of-samsung-and-apple-inc/>

compare companies in the same industry before deciding to invest in them (Gallant, 2017). As a stockholder, from the numbers, shown, it is safe to say that investing in Samsung with a lower P/E ratio would be a better investment. Both companies are doing strong and are continuing to grow. Therefore, an investment in either one wouldn't be a wrong decision. Samsung has had a 30% growth in 2017 which is almost double what Apple had which was only 12% (Walters, 2017).

However, Samsung had a rough 2016, but in 2017 their stock surged more than 70% (Bovaird, 2017). The company is said to be undervalued, but is probably the best opportunity in global technology at the moment, with the P/E ratio being roughly 40% below Apple's, it is the perfect time to invest in Samsung stock. Samsung's net cash could rise to 85 billion by the end of 2018 because of free cash flow rising and capital expenditures declining (Bovaird, 2017).

Apple, Inc. Key Financials

\$ Million	2012	2013	2014	2015
Revenue	156, 508.	170, 910.	182, 795.	233, 715.
	0	0	0	0
Net Income	41, 733.	37, 037.	39, 510.	
(loss)	0	0	0	53, 394. 0
Total assets	176, 064.	207, 000.	231, 839.	290, 479.

	0	0	0	0
Total	57, 854.	83, 451.	120, 292.	171, 124.
Liabilities	0	0	0	0

Samsung Electronics Co., Ltd Key Financials

\$ Million	2012	2013	2014	2015
Revenue	173, 227.	196, 938.	177, 622.	172, 840.
	8	3	9	1
Net Income	19, 971.	25, 687.	19, 882.	
(loss)	6	6	9	16, 103. 3
Total assets	155, 972.	184, 401.	198, 483.	208, 610.
	8	2	1	0
Total	51, 330.	55, 179.	53, 694.	
Liabilities	8	5	3	59, 696. 4

V Investor's Perspective

As a lover of Apple products; owning an iPhone 7, MacBook, and a subscription to apple music and after reading further into it, as an investor, investments should be made with Samsung. Regarding of market cap, Apple's \$894 billion swamps Samsung's \$330 billion. While Apple's name is arguably more well-known in the U. S., Samsung is still the world's biggest smartphone maker, snagging an estimated 22% of the market in the third quarter, compared to Apple's 12. 5% (Walters 2017). Samsung offered \$6.

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45 per share dividend in their last quarter while Apple was only at \$0.63. Samsung also announced as an extra surprise for its investors that its annual profit will double in 2018. Then the dividend will stay at the 2018 level for 2019 and 2020. In total, Samsung plans to return \$26 billion in dividends to shareholders by 2020 (Walters 2017).

Samsung is on the rise, and their future is looking bright, with the introduction of their chip they are estimated to hit upwards towards \$400 billion, according to research done by Gartner. Samsung has become committed to doing its best and beating out Apple Inc. In this situation, while both are good tech buys; Samsung is the better buy when looking into value entry points. Samsung's price-to-earnings ratio is favorable and committed to doubling its dividend for 2018. Even if an investor owns an iPhone or uses a MacBook, there is no shame when investing in a rival company if the company is looking as good as Samsung.

The two companies are the world's most famous smartphone makers. However, competition like Oppo is rising. Additionally, factors like changes in the customer's income, taste, and preferences of the consumers can alter the market. Moreover, changes in prices of the related goods, and advertisement expenditure can be the responsible for a change in the market (www.economicdiscussion.net/essays/economics/6-important-factors-that-influence-the-demand-of-goods/926).

Samsung had previously dominated the markets, but with the rise of the competition like the Chinese smartphone that is preferred due to their affordability and great features, the company is experiencing a slow decline.

Some of the non-financial bases that customers are putting into consideration are the lifetime of the smartphones, the new sizes that are bigger than the traditional cellphone, and the incredible features that they offer. For example, with the iPhone-X, Apple provides a face-identification feature to login without any password. The “ best-in-breed” factor would be a high non-financial criterion to help invest in one of the two companies or, the balanced scorecard of the company, which is a non-financial performance measure. According to Kaplan and Norton (1996), in a rapidly changing environment, innovative companies are using the balanced scorecard to measure the financial performance and the efficiency of existing business processes. Moreover, the balanced scorecard enables the evaluation of the employees’ training effectiveness along with the level to which the company meets the customer’s expectations (Kaplan & Norton, 1996).

VI Conclusion

In summary, both companies appear to be doing well financially. The smartphone war does not end with just technology. Not only have Apple and Samsung been in court for having similar technology/product, but the financials look very similar as well. However, when a closer look is taken into the income statements; Apple’s net income for 9/30/17 was \$48, 351, 000, and at the same time 9/17 Samsung came in at \$31, 757, 000. Additionally, considering the long-term liabilities “ may provide a more accurate picture of the companies’ debt burden” (www. investopedia. com). Apple has \$97, 207, 000 in long-term debt. Samsung has \$2, 842, 000 in long-term debt.

Therefore, based on the long-term debt, Samsung is doing better financially.

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