Finanical analysis of soup restaurant

Soup Restaurant Group Limited has been chosen to be our case study. Soup Restaurant Group Limited was listed in 2007. This company was incorporated during the early 1990s, as a private limited company. The company’s business can be divided into 2 key brands and business units: “ Dian Xiao Er” and “ Soup Restaurant”. Overall, the objective of the group is to offer customers with home-cooked style food in a comfortable restaurant quality setting. Hence both the Group’s Dian Xiao Er outlets and the Soup Restaurant outlets have its own signature dishes and showcase.

However, the marketing perspective of the Group has always been the same – traditional, wholesome and distinctive family recipes like the Samsui Ginger Chicken and other “ forgotten” dishes like its double-boiled soup range to attract customers and giving them a taste that will remind them of good home-cooked meals from their grandparent days. This is further extended by the outlet’s traditional decoration, reminding customers of the hawker stalls of yester-years in old Chinatown.

All these combined to give the modern customer an interesting blend of old and new in a restaurant setting that is reminisce of the old with creature comforts of today. Their business targets the young urban working adults who relish the taste of yester-years; and in a market like Singapore whereby disposable income is comparable to many first-world economies, and food being rated as a “ national past-time”, the Group is able to take advantage of the market opportunities and capitalized and expand locally.

In line with their business strategies, the Group wishes to expand more outlets in Singapore, and to explore the possibility of regional business expansion. Currently the combined outlets of both the Soup Restaurants and Dian Xiao Er are about 17. Management's objective is to increase 1-2 more outlets at strategic locations within the next 1-2 years to meet expansion plans. The Group's management understands that in order to maximize returns, expansion must be planned and executed logically. At the same time, the Group is seeking to revamp their existing outlets and facilities in order to retain and sustain existing customer demands and to eep the outlets attractive to diners. For such an exercise and in view of an increasing cost environment, Management has allocated and approved a budget of $500, 000. 00 for such a purpose. This will also help streamline current bottlenecks in operations and increase efficiency. In addition, Management is also considering the route of M&A and/or Franchising and strategic partnership with a partner or partners. While organic growth is necessary, management is seeking a quantum leap in order to give shareholders a more attractive return.

Currently, they are looking into a franchise outlet starting in Jakarta; and from there to tab on the demand to build a local brand presence in the Indonesian market. Regardless of the decision, such expansion activities will generate growth and returns for shareholders; and depending on the risk appetite of management, ultimately management will weigh the pros and cons of such a venture and progress forward. Mr. Mok Yip Peng in his Chairman's message via the Group's annual report, attributed the increase of revenue to reasons like the opening of new outlets and an increased of return customer and higher consumer spending.

With stable and strong cash flow, the business will be in a position to seize any opportunities for growth that the Group might be chanced upon. He also declared in this message that the dividend shares will be increased, compared to the Yr2009 payout. A 0. 5 percent increase is proposed subject to the board's agreement. The independent auditors have audited the financial statement of Soup Restaurant Group and its subsidiaries. It is stated in the report that they have abided to the Singapore laws on auditing and discovered that the financial statement has no misstatement.

Not only that, the auditor has also included risk assessment, in which they have included internal control that might be relevant to enhance effectiveness during the auditing progress. The auditor has provided a comprehensible judgment towards the financial statement, with an indication that the reporting standards are of a fair and true view of the current company status. Corporate governance This section is to better understand whether Soup Restaurant Limited has act in accordance with the corporate governance guidelines.

In every financial report, there will be a part called Corporate Governance Report. In the code of corporate governance, there are several principles to adhere to. It includes the board conduct of affairs, board composition and guidance, chairman and chief executive officer, board membership, board performance, access to information, remuneration matters, level and mix of remuneration, disclosure on remuneration, accountability and audit, audit committee, internal control and lastly communication with shareholders.

Basically, the soup restaurant group limited had abided with all the corporate governance guidelines. One of the examples is about the remuneration and name of all independent directors, and the specific bands of SGD250, 000. 00. Not only that, there must also be a breakdown of the remuneration earned, in terms of percentage, fixed/based salary, performance-related or variable bonuses, stock option granted, benefits and long term incentives. Soup Restaurant Group limited had indicated as per suggested, and also indicate the relationship of a particular key executive to that of the director. One of the areas that the company needs to improve is for principle 3, the chairman and chief executive officer. In order to ensure that there a balance distribution of power and authority, it is essential that the chairman and chief executive officer is not the same person. But for the soup restaurant group limited, we understand that these 2 roles are played by the same person. In this way, there is a big chance that the particular individual might represent a large concentration of power.

In the report, it was mentioned that although they are aware of these specific principle, but the company still carry on with such combination of roles as the board feels that it is not necessary to break up the function, given that the nature and scope of their business and the independent of the board. This was reinforced in principle 9, Disclosure of Remuneration; there isn't any immediate family members' relation in the company whose salary is more than SGD150, 000. 00 during that particular year.

Even though, the combining the roles of chairman and chief executive officer may be of the same person as they have the appointment of the independent non-executive director. It is still advisable that they separate the roles. Financial statements Soup restaurant increased their net profit from $3, 574, 862 in 2009 to $4, 922, 999 in 2010 with an increase of about 38%. Based on the statement of financial position, soup restaurant group have their total assets increase from $25, 261, 298 in 2009 to $27, 564, 738 in 2010 which is a 9. % increase and total liabilities increase from $5, 978, 924 in 2009 to $7, 389, 115 in 2010 which is a 23. 5% increase. This means that although the company increases their asset, the company had incurred more liabilities. Current Ratio To evaluate the soup restaurant group’s ability to pay for its current liabilities, we can use the current ratio: Current ratio = Total current assets / Total current liabilities For year 2009, Current ratio = Total current assets / Total current liabilities = $19, 663, 851 / $5, 485, 759 = 3. 58 For year 2010,

Current ratio = Total current assets / Total current liabilities = $21, 158, 406 / $6, 764, 288 = 3. 13 This means that the soup restaurant group is able to pay the liabilities with little or no trouble for the year 2010 but comparing to the year 2009, it has dropped by a ratio of 0. 45. On the surface, this seems ok. However in order to have better peace of mind, investors or management might wish to look into the cash flow and the company’s ability to pay off its short-term obligations. Debt Ratio Debt ratio is use to evaluate the percentage of debt that the company have over its assets.

Using the debt ratio formula: Debt ratio = total liabilities/total assets For year 2009, Debt ratio = total liabilities/total assets $5, 978, 924 / $25, 261, 298 = 0. 2367 = 23. 67% For year 2010, Debt ratio = total liabilities/total assets $7, 389, 115 / $27, 564, 738 = 0. 2681 = 26. 81% Naturally, the lower the debt ratio, the better it is. But debt is not a bad thing if the company can cover its immediate variable costs like overheads. Looking at the above, the debt ratio increase means that in year 2010, soup restaurant group is geared with more debt compared to the year 2009.

And it is also important to understand and evaluate how is this debt occurred and the usage of this debt. For example: if the debt is used for business expansion like setting up a new outlet, then it is inevitable that debt liabilities and cost will go up. It is very important to have a balanced view of issues. Cash Flow From the statement of cash flow, the group earned a total of $7, 209, 576 in the year 2010 which is an increased of $2, 305, 269 from 2009. This indicates that the company made more money purely from the mode of operations.

The total cash flow at the end of the financial year of the soup restaurant group is $17, 104, 025 in 2010 which is an increase of $1, 140, 501 from 2009. But in the consideration for the dividends paid of $4, 029, 750, there could be more cash flow for the company. From the cash flow statement, we can say that the soup restaurant group has no cash flow problem as their cash flow is on the rise. With greater cash flow, the question is how to use this cash flow to generate more business instead of putting it in a bank based on prevailing interest rates.

Operation The soup restaurant group seems to be expanding themselves as more investments are being made towards plant and equipment. Their expenses as well as earnings this year are increasing as well. Their shares are increasing and it seems that they still have the ability to grow based on the current share prices as compared to December 2010. Comparing with

Thai Village The net profit for Thai village group seems to increase from $1, 915, 000 in year 2009 to $2, 732, 000 in year 2010.

Although there is a decrease of revenue from $31, 123, 000 to $30, 980, 000, it seems that there is a decrease of expenses and increase of other income which may be a result of new implementation of rules or management. The cash flow for Thai village group has increased from $14, 825, 000 to $17, 699, 000. This is mainly due to the decrease in the purchase of property, plant and equipment. Current Ratio: Current ratio = Total current assets / Total current liabilities = $19, 858, 000 / $5, 035, 000 = 3. 94 Debt Ratio: Debt ratio = total liabilities/total assets 5, 475, 000 / 24, 478, 000 = 0. 2237 = 22. 37% By comparing the Thai village group and soup restaurant group, Thai village group seems to have a better current and debt ratio. This means that Thai village group is able to pay off its liabilities better and have less debt than soup restaurant group. If we are to compare the net profit, soup restaurant group earned more. As it seems that soup restaurant group is expanding its business due to the high spending in plant, property and equipment, Thai village group seems to be less active on this area. In the end, it is all about business decision-making. Financial ratios are but tools. It serves to guide the manager (and investors) but it is never final. Business is dynamic and as time unfolds, financial indices will also alter accordingly to business activities. Taking the comparison above, despite the fact that Thai Village may possess stronger (healthier) financial ratios at this point in time, it does not mean that there future leadership position is protected.

The Soup Group may just be gearing up for expansion, spending more to generate more returns and if executed correctly, may eclipse Thai Village in the future. (2081 words) Reference List * Harrison W. T. Jr. , Horngren C. T. , Thomas C. W. , Suwardy T. , (2011), Financial Accounting International Financial Reporting Standards (Eighth Edition), Pearson Education South Asia. * Singapore Exchange Ltd, (2011), Soup Restaurant Group Limited, Retrieved from