# Financial statement analysis of agl energy limited

Company selected:

The selected company is AGL Energy Limited for research purpose.

Brief Introduction about the company:

AGL Energy Limited operates the country's largest electricity generation portfolio and is the active participant in the gas and electricity wholesale markets. The company is in the power sector and it believes in sustainable, secure and affordable energy. The Company is having diverse power generation portfolio which includes generation plant across thermal generation, natural gas and storage, and also from renewable energy such as from hydro, wind, solar, landfill gas and biomass. The principal activity of the company is electricity generation, gas storage and retail sale of electricity, solar and energy efficient products and services. The company operates in the four key operating segments which includes wholesale markets, customer markets, group operations and investments and according to the AASB 8 related to the operating segments, wholesale markets and customer markets operating segments reports the majority of the revenue and margin from the activities whereas group operations operating segments reports the majority of the expenses. Wholesale market comprises of wholesale electricity, wholesale gas and eco markets It also controls the dispatch of generation asset and associated portfolio of energy hedging products. Customer market includes consumer, business and new energy services customer portfolios and also responsible for retail sale of electricity, gas, solar and energy efficient products and services to residential and business customers.

Industry: brief analysis:

The company is in power generation industry and it is the most booming industry. The company has completed 180 years in the power generation and the track record of the company reflects the commitment of the company to the long term. The company is the largest electricity generation portfolio and largest ASX listed investor in the renewable energy sector. The company has various competitors such as Delta electricity, Origin Energy Limited and Integral Energy and all such industry are in the power sector and the main competitor of the company. The competitor company serves the residential customers looking for energy needs and industries and diversified into renewable sources of fuel like biomass and serves in various countries. The factors have various implications on the company such as it leads to the various anti competitive strategies and due to the financial stability of the company leads to the confidence and trust in the minds of the investors and due to which investment in the company increases and the reliability of the company increases. The company was engaged in producing the innovative products in the interest of the company to cope up with the competition.

Financial structure of the company:

The financial structure of the company comprises of the debt and the equity which includes borrowings and other financial liabilities and equity comprises of issued capital, reserves and the retained earnings. The company is financed by various internal and external funds such as retained profit is the internal source of finance and other sources are external source of finance which includes ordinary share capital, debt from bank and other debt either secured or unsecured. It also includes the current and non current financial instruments at fair value. The financial structure of the company is represented below:

| Particulars | 2018 ($m) | 2017($ m) |
|---|---|---|
| Trade and other payable | 1, 579 | 1, 507 |
| Borrowings | 19 | 173 |
| Provisions | 233 | 201 |
| Current tax liabilities | 81 | 13 |
| Other financial liabilities | 394 | 827 |
| Other liabilities | 2 | 10 |
| Non-current liabilities | | |
| Borrowings | 2, 822 | 3, 173 |
| Provisions | 509 | 520 |
| Other financial liabilities | 432 | 293 |
| Other liabilities | 178 | 167 |

| | | |
|---|---|---|
| Total non-current liabilities | 3, 941 | 4, 153 |
| Equity | | |
| Issued capital | 6, 223 | 6, 223 |
| Reserves | -102 | 16 |
| Retained earnings | 2, 269 | 1, 335 |

Thus the company is financed by both internal and external sources of the finance. Internal source of the finance grows as the company grows thus the retained profit is the part of the internal finance and other sources such as ordinary shares, borrowings and other financial liabilities are the external sources of the finance which is generated from outside of the business.

## Key Elements of Financial Performance

Financial health is one of the best indicators of the company long term growth. There are various key elements of the financial performance of the company such as revenue, gross profit margin, net profit margin, operational efficiency such as inventory turnover ratio, capital efficiency and solvency and liquidity and the performance is analyzed in respect to the industry performance keeping it as a base and origin energy limited the competitor of the company is considered as the base for measuring the financial performance of the company. The revenue of the company has increased from the past year by 2% i. e. the current year revenue is $12816 million whereas the competitor revenue is $14604 million. The various key elements of the performance of the company are described below:

| | AGL Energy Limited | Origin Energy Limited |
|---|---|---|
| a) Gross Profit margin | | |
| Gross profit margin ratio= Gross profit/ Sales*100 | 24% | 20. 06% |
| b)Profit margin | | |
| Profit margin= Net profit/Sales*100 | 12% | 1. 49% |
| c)Current ratio and quick ratio | | |
| Current ratio = current assets/current liabilities | 1. 65 | 0. 85 |
| Quick ratio = Quick asset/ current liability | 1. 49 | 0. 65 |
| d) Inventory turnover ratio | | |
| Sales/ Average inventory | 35. 55 | 69. 9 |

| | | |
|---|---|---|
| e) Return on owner equity | | |
| Net income/ shareholder equity | 19% | 1. 88% |
| f) Debt to equity ratios | | |
| Debt equity ratio= Debt/ equity | 0. 47 | 0. 54 |

The financial performance of the company is very good as compared to the competitor industry as the company is having stable financial condition and good liquidity condition. The company is having same accounting principle as that of previous year. There is no change in the accounting policy adopted. There has not been any matter arising after the reporting date that has significant affect on the operation of the company and the dividend was decided to be paid by the director on August 2018 and they are appropriately recorded.

Property Plant and equipment and Intangible Assets-

The carrying amount of the each class of property, plant and equipment at reporting date i. e. June 30, 2018 of the company is described below-

| Year ended 30 June 2018 | Plant & Equipment | Others | Total |
|---|---|---|---|
| | $m | $m | $m |

| | | | |
|---|---|---|---|
| Cost (Gross carrying amount) | 9, 052 | 109 | 9, 161 |
| Accumulated depreciation and impairment | (2461) | (15) | (2476) |
| Net carrying amount | 6, 591 | 94 | 6, 685 |

The property plant and equipment is calculated at cost less accumulated depreciation and accumulated impairment losses. Finance cost related to the acquisition or constructions of the qualifying assets are capitalized. Subsequent costs are also capitalized when it is probable that future economic benefit associated with the item will flow to the company and the cost of the item can be measured reliably. Other costs are recognized in the profit and loss account as incurred as expenses. The gain or loss arising on the disposal or retirement is recognized in the profit and loss account. Depreciation is calculated on straight line basis to write off the cost of each asset over the expected useful life of the estimated residual value. Leasehold improvements are amortized over the life of the relevant lease or estimated useful life whichever is less. According to AASB 116 land is not depreciated at all and estimated life, residual value and depreciation method are reviewed at the end of the each annual reporting period.

The company also constitute intangible asset which are as follows-

| Year ended 30 June 2018 | Goodwill $m | Licenses $m | Others $m | Total $m |
|---|---|---|---|---|
| Cost (Gross carrying amount) | 2, 882 | 311 | 258 | 3, 451 |

| | | | | |
|---|---|---|---|---|
| Accumulated amortization and impairment | (1) | | (179) | (180) |
| Net carrying amount | 2, 881 | 311 | 79 | 3, 271 |

Intangible assets acquired separately are initially recorded at cost. The cost of an intangible assets acquired in a business combination is its fair value at the date of acquisition and after initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset are recognized in profit or loss when the asset is derecognized.

During the year, AGL impaired the carrying value of its investment interest in Sun verge Energy Inc and related assets, following rapid technological changes in the energy storage market. A total post-tax impairment loss of $27 million was recognized in the year.

Sustainability Report

The company has been committed to sustainability for the long time and it is considered as the long term responsibility that the company have to all the stakeholders which includes employees, customers, investors and the community and the environment in which the company lives and works and this is the key to success and growth in the future. The company has undertaken the following key initiative regarding the social responsibility and sustainability such as initiating urgent action to combat climate changes and its impacts i. e. company has given serious consideration to the transitional risks and opportunities associated with the transition towards the low carbon economy and as per the greenhouse gas policy of the company enables the company to make strong commitment to a range of measure that will drive the de-carbonization of the energy sector. The company also ensures access to affordable, reliable, sustainable and modern energy for all in which it recognizes the importance of the providing cost effective energy for the customers and empowering them with appropriate information and tools to enable them to make informed decisions about their energy usage. The company is also aims at developing de-carbonized electricity generation sector. The company aims at achieving gender equality and empowerment of all women and their rights as the company realizes the importance of the gender equality as a basic human right and as a value capable of improving business performance and economic growth. Thus gender equality is important as it diversifies the backgrounds and perspectives of our people enables the company to have a better understanding of our customers and a greater ability to engage genuinely in the communities in which operation of the company has been performed. Another key initiative undertaken by the company is to build resilient infrastructure, promote sustainable industrialization and foster innovation.

In recent few years many power system have introduced electricity generator competition and with increasing deployment of the cost competitive renewable energy and due to the introduction of the policies to reduce the greenhouse gas emission, concerns has been increased for the same. It is proposed that the energy only market can indeed work within a de-carbonized energy system (Nelson, Tim and Orton, Fiona and Chappel, Tony). The company has made compliance with the company greenhouse gas policy and customers signed up with the company future forest carbon offset products and gold standard abatement was purchased by the company to offset the hundred percentage of the greenhouse gas emissions associated with electricity consumed at the company corporate workplaces.

Importance of Corporate Social Responsibility

The importance of the corporate social responsibility can be judged by the fact that the days of operating the business solely for profits has gone and the company should be accountable to all the stakeholders which includes employees, customers, investors and the community and the environment in which the company lives and works and this is the key to success and growth in the future. The importance of the corporate social responsibility has increasing rapidly as it is a good practice for the company to take into account social and environmental issues and it is also important as it consists of various benefits such as it improves the public image of the company when the company works in the interest of the consumers and the society. It will increase the brand awareness and recognition and it will also reduce the costs as making simple changes in the context of sustainability will decrease the production costs. It will also ensure the advantage over competitors, increased customer engagement and more benefits for the employees as workplace will be more positive and productive place to work and it will encourage personal and professional growth.

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