

# [Emirates’ figures tell us that for every](https://assignbuster.com/emirates-figures-tell-us-that-for-every-2/)

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Emirates’ profitabilitydeclined sharply when compared to previous years. The net profit margin (NPM)and return on assets (ROA) were used to analyse the firm’s performance. NPMconcerns a company’s ability to generate earnings after taxes relative to itsrevenue. This fell from 8.

76% in 2016 to 1. 73% in 2017. The reason for thelarge decline in NPM is due to the significant increase in operating costs. Oneof the main contributors were Emirates’ funding 23 new aircrafts on operating lease, increasing operating costs by just under 6 billion AED (The Emirates Group , 2017).  Revenue increased marginally and as such did notmatch the substantial rise in costs. The airlines ROA has fallen over the last4 years.

When comparing 2016 and 2017 figures, we see a 4. 95 percentage point decreasein ROA. The decline in ROA symbolises that Emirates are not using their assetsto generate their profit as effectively as before. Furthermore, Emirates’ ROE decreased significantly this financial year. The ROE portrays howmuch profit the airline generated with shareholders’ investments. This isimportant to investors as net profit adds value to shareholders. The ROE fellfrom 22.

72% in 2016 to 4. 26% in 2017 (Appendix A). These figures tell us thatfor every 1 AED the owner invested, the business made a profit of 0. 23 AED in2016 however in 2017 this was only 0. 04 AED.

A lower ROE could make Emirates’look less attractive from a shareholder’s point of view. The firm’sliquidity position weakened as shown by the decrease in the current ratio andquick ratio. A company’s liquidity is central as it gives them the ability tomeet unexpected changes in financial requirements. The current ratio decreasedfrom 0. 82 in 2016 to 0.

73 in 2017 (Appendix C). This occurred because of thesignificant decline in assets, with the decline in cash being the biggest contributorto this. Cash held decreased by 3. 2 billion AED (The Emirates Group , 2017). This reduction could be a problem forEmirates if faced with a tough financial period, as they may not have enoughcash to cover their operations and be more at risk paying back their short-termliabilities. Efficiency isanother area in which the firm struggled this year. The asset turnover decreasedby 0. 2 (Appendix B).

The main contributor to the decline is the increase in equity, this decline is a problem as it suggests that the company’s assets aren’tgenerating as much revenue as they should, especially with the increase inassets from the previous year. Despite allthis, Emirates’ long term financial structure is improving. The gearing ratio, which compares the company’s borrowings to their equity, has been decreasingover the past couple years, as seen in Appendix D where the gearing value decreasedfrom 155% in 2016 to 145% in 2017.

Even though the airline increased theirborrowing in the past year, the gearing ratio reduced because of the growth inequity. This shows that although Emirates struggled with profitability, theyhave reduced their leverage which will make long term growth more sustainable.    Part BEmirates areone of the world leaders in the aviation industry. They have had constantgrowth over the years which has lead them to be one of the dominant figures intheir sector. The wide range of destinations which they fly to (141 destinations)has increased their customer basis and strengthened revenue. (The Emirates Group , 2017). Another strength of Emirates istheir strong advertising and sponsorship list, especially in sport (Emirates 2017). whichgives them a platform to increase brand awareness and build a connection withtheir consumers.

Other strengths include, excellent customer service and astrong workforce of 64, 768 employees (The Emirates Group , 2017). A weakness of Emiratesis their loss in profits in the 2016/2017 financial year. Their profitssignificantly dropped by just under 6 billion AED (The Emirates Group , 2017). Thisemphasises the poor management in finances as they should have been prepared forchange. Another weakness is the exclusion of customers which cannot afford theticket price of an international airline which stops the airline fromincreasing revenue.

Emirates havemany opportunities to raise their status and boost their brand identity in theindustry. The Dubai world expo which takes place in 2020 is great opportunity, withmillions of tourists visiting Dubai. With Emirates being one of the mainsponsors of this event, the expo last 6 months bringing people from around theworld to showcase their new discoveries (Expo2020Dubai , 2017). Furthermore, improvements in technology and the use of big data in the future will improvecustomer experience during air travel, this analysis of customer behaviour and willallow Emirates to make improvements in these areas.   An increase infuel prices is a threat for Emirates, as the rise in fuel costs reduces theamount of profit attainable.

In addition to this, the government are putting inplace projects, such as tree planting, in order to reduce CO2 emissions (Harrabin , 2016). Thisthreatens the airline industry as these projects will increase their costs. Therehas also been an increase in strong competition due to the relatively lowbarriers to entry the industry (Cederholm, 2014).

This is visible throughtheir decline in the world best airline rankings, they have fallen from firstplace in the year before to fourth place in 2017. (Top 100 Airlines, 2017).            Part CFinancialreporting and analysis has limitations to its use.

One issue is the lack ofqualitative information which financial analysis provides. The ratios calculatedignore how the non-financial factors could affect the way the businessfunctions. For example the reason for the decline in the Emirates’ net profitmargin from 8. 82% to 1. 78% could have been affected by non-financial factorswhich we are unaware of. Factors such as , poor management skills and declinein customer satisfaction are some possible contributors to the outcome of theseratios, as they effect the amount of revenue the airline receives andultimately the amount of profit they make.

This is an issue as it doesn’t provideus with the full scope of information, so we ae not able to make effectivedecisions to improve as we are not taking into account all the causes. The differentaccounting practices businesses use causes limitations to arise when analysingtheir performance. For example, there are several different techniques whencalculating deprecation in financial reporting such as, straight linedepreciation and reducing balance deprecation (Lodhia K, 2017). The different methods providedifferent values when calculated. For example Emirates and their competitorsmay use opposing methods which causes the deprecation value in their financialstatements to differ.

This affects stakeholders when analysing their statementsas the comparisons would not be accurate. Finally, financialreporting allows firms to manipulate their statements to make their performancelook better than it is. When a firm manipulates it affects the economy as therelative stakeholders which have invested in the firm which they believe are performinglose out on a lot money if the company becomes bankrupt.

For example, if theEmirates lied about their revenue in order to window dress their finicalfailure this tear this could have detrimental effects in the future on thestaff within the firm as they could suddenly lose their jobs if they became bankrupt.                 AppendixAProfitabilityRatios  Ratio 2014 2015 2016 2017   Return on Equity (profit after tax)   3, 417×100= 13. 42%    25, 471   4, 728×100= 16. 71%   28, 286   7, 318×100= 22.

58%   32, 405   1, 450×100= 4. 13%    35, 094   Net profit margin   3, 417×100= 4. 23%   80, 717   4, 728×100= 5.

45%    86, 278   7, 318×100 = 8. 76%  83, 500   1, 450×100= 1. 73%   83, 739   Return on assets   3, 417×100= 3. 36%  101, 604   4, 728×100= 4. 25%  111, 362   7, 318×100= 6. 14%  119, 179   1, 450×100= 1.

19%  121, 558       Ratio Formula Return on Equity (profit after tax)    ROE = Net Profit After Tax  x100                          Total Equity   Net profit margin    NPV = Net Profit After Tax  x100                       Revenue   Return on assets   ROA = Net Profit After Tax  x100                     Total Assets                     Appendix BEfficiencyratios   Ratio 2014 2015 2016 2017   Asset turnover   80, 717   = 3. 2 25, 471   86, 728   = 3. 1 28, 286   83, 500   = 2. 6 32, 405   83, 739   = 2. 4 35, 094   Average debtors’ collection period   9086 x365 = 41days 80, 717 8589 x365 = 36 days 86, 728 9321 x365 = 41 days 83, 500 9922 x365 = 43 days 83, 739    Ratio Formula Asset turnover    Asset Turnover = Revenue                                      Equity   Average debtors’ collection period    Average debtor’s collection period = Trade Receivables  x365                Revenue                     Appendix CLiquidityRatios  Ratio 2014 2015 2016 2017   Current Ratio   27, 354 = 0. 84 32, 428   27, 735 = 0. 80 34, 481   31, 427 = 0.

82 38, 524   27, 836 = 0. 73 38, 382   Quick Ratio   27, 354 – 1706 = 0. 79      32, 428   27, 735 – 1919 = 0. 75       34, 481   31, 427 -2106 = 0. 77       38, 324   27, 836 -2238 = 0. 67      38, 382      Ratio Formula Current Ratio    Current Ratio = Current Assets                                Current Liabilities   Quick Ratio    Quick Ratio = Current Assets – Inventory                                     Current Liabilities                     AppendixDLongterm financial structure Ratios Ratio 2014 2015 2016 2017   Gearing Ratio   42, 431 x100 = 167%       25, 471   47, 808 x100= 169%      28, 286   50, 105 x100= 155%      32, 405   51, 002 x100= 145%      35, 094   Total Borrowings (short + long)   38, 500+3931= 42431 42, 426+5382= 47808   40845+9260= 50105 40171+10831= 51002    Ratio Formula Gearing Ratio    Gearing Ratio = Total Borrowings                                       Total Equity                     References 1)    TheEmirates Group (2017), 2016-17 annualreport, Available at: https://cdn.

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