

Prospectus

[Finance](#)



Financial Prospectus of Samsung of Introduction The theory of investment covers the decision making process when considering investing in various investment opportunities. It comprises of capital asset pricing model, portfolio theory, efficient market hypothesis and arbitrage pricing theory. Common stockholders expect to be rewarded through the receipt of periodic cash dividends and/or an increasing or at least non-declining share value (Madura, 2006). The primary objective of financial management is to maximize the wealth of the company's shareholders through achieving possible value of the company. Fess and Warren (2004) observed that maximizing shareholders' wealth is a complex task. This is because the financial manager cannot control the company's stock price directly, but can only act in a way which is consistent with the shareholders' desires.

Economically, rational buyers and sellers of shares use the assessment of an asset risk and return to determine its value. In a competitive market with many active participants, the interaction of demanders and suppliers of shares results in equilibrium price or market value for its security. As new information becomes available, buyers and sellers are assumed to utilize such information, and through purchase and sales activities they create new market equilibrium price. Company profile This paper has used Samsung and its financial statements retrieved from http://www.samsung.com/us/aboutsamsung/ir/financialinformation/financialhighlights/IR_Financial

2006.html. Samsung is an international company that deals in electronics and is one of the largest makers of semi conductors in the world. Some of the consumer devices that the company makes include digital still cameras, digital TVs and DVD players. It also manufactures computers, printers, LCD panels and colour monitors. Most of its sales come from the pacific region.

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Samsung is also in the personal computer industry, which is very dynamic mainly because of changes in technology. Financial management of the company In a for-profit business, the goal of financial management is to make decisions that increase the stock value, or generally, increase the equity value. For the purpose of financial statement analysis of Samsung, concern will mainly be on the company's balance sheet. This financial statement states the company's assets, liabilities and stockholders' equity at a particular date. This review is based on the company's financial position as at 2011, 2010 and 2009. The table below shows financial data extracted from some of the annual reports of the company: Year 2011 KRW ' 000, 000, 000' Year 2010 KRW ' 000, 000, 000'

	Year 2011	Year 2010
Total Assets	155, 631	134, 289
Current Assets	71, 502	61, 403
Total Liabilities	53, 786	44, 940
Current Liabilities	44, 319	39, 944
Debt	14, 647	10, 775
Shareholders' equity	101, 846	89, 349

A summary of key financial ratios for the company Ratio Calculation Year 2011 Year 2010 Current ratio Current assets/current liabilities 1. 61 1. 54 Debt to equity ratio Debt/stockholders' equity 0. 14 0. 12 A current ratio of 1. 61 indicates that the company is capable of meeting its short-term obligations out of its current assets. This ratio, as noted by Fess and Warren (2004), implies that the company has a superior financial health. Samsung's Current Ratio has increased from 1. 54 in 2010 to 1. 61 in 2011. This indicates that there has been an improvement in the company's ability to meet short-term liabilities. A debt-equity ratio of 0. 14 shows the degree to which the company has borrowed fixed charge sources of capital in an attempt to finance its assets. The ratio shows an upward trend, which means the financial leverage of the company is improving. The company should use an appropriate mix of debt and equity when making its financing decisions. Use <https://assignbuster.com/prospectus-essay-samples-2/>

of debt financing helps the company take advantage of tax deductibility since the interest expense paid on debt capital is an allowable expense for tax purposes. The table below shows financial performance of Samsung when compared with Dell (another company in the industry).

	Samsung	Dell	Industry average
Net profit margin	0.08%	5.92%	20.96%
Return on equity	14%	47.23%	44.35%
Debt/equity ratio	0.14	0.95	0.57

As shown in the table, the net profit margin for Samsung is less than that for Dell. Its return on equity and debt-equity ratio is also less than that of Dell and it is below the industry average. Conclusion Horngren & Harrison (2009) state that investors require a specified return given the level of risk inherent in investment. At each point in time, investors estimate the expected return on a given asset over a specified time period. Whenever investors find that the expected return is not equal to the required return, a market price adjustment will occur. If the expected return is lower than the expected or required return, investors will have to sell the asset since with its risk, it is not projected to earn a return commensurate (Jensen and Meckling, 1976). Such an action would drive the price down, which assuming no change in the expected benefit, will cause expected return to rise to the level of required return. If the expected returns are above the required return, investors will buy the asset driving the price up and its expected return down to the point that is equal to the required return. References Fess, E. and Warren, C., (2004). Accounting principles. Canada: Southwestern Company. Horngren, C. T., & Harrison, W. T. (2009). Accounting, 7th ed. New Jersey: Upper Saddle River. Jensen, M. C. and Meckling, W. H. (1976). Theory of the Firm: Managerial behavior, Agency costs and ownership structure. Journal of

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