Analysis and interpretation of the financial statement of vodafone group plc

INTRODUCTION AND BACKGROUND

Vodafone stands for VO (voice) DA (data) FONE(Phone). This is to reflect the kind of services they offer which is Voice and data service over mobile phones and the Phone stylised as Fone. [1]

Vodafone was a subsidiary of the now defunct Racal Electronics plc, which was a British electronics company founded in 1950 by Raymond Brown and George Calder Cunningham.

Vodafone was founded in Newbury, United Kingdom, over 30 years ago as a small mobile operator. They made the first ever mobile call in the U. K on 1 January 1985. Since then, Vodafone has risen to become one of the world’s leading telecommunications company, with operations in over 30 countries and in partnerships with other networks in over 50 more countries, and have more than 500 million subscribers worldwide. Vodafone currently has 104, 000 employees, from 136 different countries. [2]

S. M. A. R. T STRATEGIC OBJECTIVES OF THE ORGANISATION

Vodafone’s competition is steep, with rivals such as EE and O_2 in the U. K, AT & T, Verizon and T-Mobile in America, all racing to expand their 4G networks to 5G networks. Vodafone has said by 2020 it will have at least a 1, 000 5G sites in a race to beat its rivals. This is a very bold and strategic move by the company. Vodafone’s U. K chief executive, Nick Read said: “ Vodafone has a history of firsts in U. K telecoms — we made the nation’s first mobile phone call, sent the first text and now we have conducted the U. K’s first holographic call using 5G ” This shows Vodafone’s commitment to remain one of the world’s leading telecommunication brand. [6]

Vodafone is not just in a race to beat its competitors in the race for 5G, but they are still making efforts to consolidate on their 4G networks, increasing its network capacity, improving response (Latency) times and new service capabilities by rolling its massive MIMO (Multiple Input snd Multiple Outpu)

Vodafone’s Key performance indicators shows that apart from constantly meeting its target at being a leader in network coverage they have also for the past three years constantly met customer satisfaction with the Customer Experience Excellence initiative, which placed their Net Promoter Score at 17 out of 20 markets and maintained the average gap between Vodafone and the third placed operator, simply by covering a framework known as CARE

C- Connectivity that is secure and smart

A – Always excellent value

R – Real-time relevant rewards

E – Easy, personal instant access

Vodafone has another initiative known as Fit for Growth. This initiative is used to target programmes that determine cost saving opportunities both at local market level and at group level.

Vodafone developed, executed and has been maintaining these strategic objectives for the past 3 years and counting. A testament to their dedication to service.

SWOT ANALYSIS

A SWOT analysis is also in order to help investors make an informed decision in regards to investing.

- STRENGTHS

1. Good Returns on Expenditure – Vodafone has been successful at executing new projects and building new revenue streams which generates good returns on their expenditure.
2. Good brand name – Vodafone has heavily in building its brand name. This can prove useful in the event that Vodafone wants to expand into new product categories
3. International Affiliation – Vodafone has partners in more than 40 countries, and equity interest in over 30 countries as well. This is good for if and when Vodafone chooses to further expand.
4. Subscriber base – Vodafone has a huge subscriber base which they have maintained efficiently.
5. Consistent launching of new products – Over the years, Vodafone has been consistent with their product launch.

- WEAKNESSES

1. Legal Proceedings – Vodafone has spent a huge pile of money filing suits against groups alleging numerous health consequences due to mobile usage without enough substantiation.
2. Limited success in expansion outside of core business – Although Vodafone is one of the leading groups in its industry, it has constantly encountered difficulties when trying to shift attention to other product segments.
3. Declining profit margin – The declining profit margin of the company, has left it vulnerable.

- OPPORTUNITIES

1. Dependency on cellular network – As more people rely on their smartphones, their dependence on cellular networks rises as well. This good news because, since it is need based sector, customer retention becomes not much of a problem.
2. New environmental policies – These new policies will a level playing field for all players in the industry. Vodafone needs to take advantage of this using new technologies and its consistency in launching new products, to gain market shares.
3. Rural market – The untapped rural market poses as a huge potential for Vodafone.
4. New Technology – Working with newer technology such as 5G at a lower cost, can help the brand grow.
5. New Customers – The advent of Mobile Number Portability (MNP) can attract competitor customers to their network.

- THREATS

1. Mobile Number Portability – The Mobile Number Portability can also send customers to competitor network providers thereby reducing Vodafone’s subscriber base.
2. Competition – Vodafone faces competition anywhere it goes. It is a highly competitive sector.
3. Weak consumer spending control – A change in consumer behaviour can pose a huge threat to the existing structure
4. Harsh economic environment – The telecommunications sector is a highly competitive sector and is hinged to other sectors, therefore a change in any of the adjourning sectors can affect the telecommunications sector.

FINANCIAL STATEMENT ANALYSIS

Financial Statement Analysis or simply put Financial Analysis can be referred to as the process of selection, organisation and interpretation of the accounting and other financial data into a form which reveals a firm’s strength and weaknesses, thus assisting users to make informed decision about the organisation. [7]

The value of an enterprise estimated with the assistance of a balance sheet is considered as an adequate reflection of its assets .

Vodafone’s financial year starts on 1 st April and end on 31 st March.

Vodafone’s financial position is somewhat of a mystery, even though thetotal assetsandtotal equity and liabilityevens out, there was always a disparity between thetotal equity and net assets, from 2018 going back to 2016.

Interestingly also was the fact that the year with the smallest disparity betweentotal equityandnet assets, was not the year they made their biggest loss.

In 2016, Vodafone hadtotal equityof85, 136(£m) andnet assetsof 85, 574(£m) and made alossof 5, 122 (£m), in 2017, they hadtotal equityof 73, 719(£m) andnet assetsof 85, 513(£m) and made alossof 6, 079(£m) and in 2018, they hadtotal equityof 68, 607(£m) andnet assetsof 79, 606 (£m) and made aprofitof 2, 788(£m).

The fact that a profit was made in 2018 is evident that they learned from their past mistakes in their investment activities. Going by their financial statement, it seemed they invested almost an equivalent of theirinflowin 2016, which turned out to be a bad idea.

In 2016, Vodafone had an inflow of 14, 336(£m) and invested 13, 871(£m) and ended up with a loss of 5, 122(£m) but in 2018, they had aninflowof 13, 600(£m) and invested only 9, 841(£m). I think the decision to not invest all of theirinflowmade them more strategic in their investments for 2018 and mad them aprofitof 2, 788(£m).

PROFITABILITY RATIOS

The financial analysis below is based on some profitability ratios for 3 consecutive years. These ratios help in assessing the degree of efficiency of management’s utilisation of the company’s assets in generating profit and returns for shareholders as well as enable shareholders make smart decisions in further investments with the company.

	2016	2017	2018
Gross Profit Margin (Gross profit Revenue) *100	13 , 097 , 000 49 , 810 , 000 *100 = %26. 29	13 , 055 , 000 47 , 631 , 000 *100 = %27. 41	13 , 800 , 000 46 , 571 , 000 *100 = %29. 63
Net Profit Margin (Profit after taxation Revenue)*100	– 5 , 127 , 000 49 , 810 , 000 *100 =% - 10. 29	– 6 , 079 , 000 47 , 631 , 000 *100 = %- 12. 76	2 , 788 , 000 46 , 571 , 000 *100 =%5. 99
Return On Ordinary	– 5 , 127 ,	– 6 , 079 ,	2 , 788 ,

Shareholders' Funds (Profit after taxation Total Equity)*100	000 85 , 136 , 000 *100 =%-6. 02	000 73 , 719 , 000 *100 =%-8. 25	000 68 , 607 , 000 *100 =%4. 06

Looking at the figures you can see that 2018 was a good year for Vodafone as a company, but not still good enough for her shareholders. Getting a %4. 06 return On Ordinary Shareholders' Funds is not much of a big deal for shareholders.

But, the fact is, the Telecommunications sector has always been a volatile sector. It goes through cyclic peaks and troughs. This is because there is always too much expansion during its peak period, and there is always newer technology to keep up with. An example of the trough period due to new technology was in the early 2000's when the industry was briefly fragmented due to growth in cellular wireless. While as for today the sector is going through another trough period due to the advent of 5G networks and IOT (Internet Of Things). The expansion of the Telecoms sector into 5G and IOT is not necessarily a bad one. Usually, expansion can be seen as a hallmark of a healthy sector. [3][4]

REMARKS

With the advent of 5G and IOT smaller firms will be crippled more than Vodafone. Vodafone should cease the opportunity to consolidate smaller firms, thereby reducing competition and commodification that lowers profitability and future investments.

Shareholders are however advised to invest with care, but be aware that profits will soar once these new technologies become stable and fully active.

EFFECTIVENESS / EFFICIENCY RATIOS

The financial analysis below is based on some effectiveness / efficiency ratio for 3 consecutive years. These ratios help in measuring and analysing the ability of a business to use its assets, and manage its liabilities effectively. Usually, for this kind of ratios, the lower the outcome the better the business is doing, since it is measured in days. So if the business produces turnovers in shorter periods, then it is doing fine. One of the ways to measure effectiveness/ efficiency is the average inventories turnover period. This actually measures on average, the speed at which your inventory is changing. The lesser the number the better your business is doing. But because Vodafone is a service company, it would not be really ideal using the average inventories turnover period to measure efficiency / effectiveness

	2016	2017	2018
Sales Revenue Per Employee	49 , 810 , 000 , 000	47 , 631 , 000 , 000	46 , 571 , 000 , 000

Revenue Number of employees	104 , 000 = 478, 942. 31	104 , 000 = 457, 990. 38	104 , 000 = 447, 798. 08
Average settlement period for receivables (Trade Receivables Credit sales)*365	471 , 000 , 000 49 , 810 , 000 , 000 *365 = 3. 45 days	362 , 000 , 000 47 , 631 , 000 , 000 *365 = 2. 77 days	435 , 000 , 000 46 , 571 , 000 , 000 *365 = 3. 41 days
Sales Revenue to Noncurrent Assets	49 , 810 , 000 , 000 133 , 512 ,	47 , 631 , 000 , 000 111 , 947 ,	46 , 571 , 000 , 000 107 , 660 ,

Revenue	000 , 000	000 , 000	000 , 000
Noncurren t Assets	= 0. 37	= 0. 43	= 0. 43

REMARKS

The above table indicates that the employees are effective and that management utilises its assets and liabilities effectively and efficiently.

We have seen that although the company is struggling with profitability it is a highly effective company from top management down to its employees.

But another question lies, is the company capable of paying its debts?

LIQUIDITY AND SOLVENCY RATIOS

The financial analysis below is based on liquidity and solvency ratios. The analysis on liquidity ratios are carried out to see the extent of a company’s capabilities to honour their short term responsibilities. In this regard short term is defined as any period ranging between a month and a year, but nothing above a year. [5]

While solvency ratios are carried out to assess a company’s potential risk and dependence on non-equity capital, and also generates insights as to a company’s ability to meet long term debt payment. [5]

	2016	2017	2018

	31 , 938 , 000 , 000	25 , 542 , 000 , 000	24 , 131 , 000 , 000
Current Ratio			
Current assets current liabilities	41 , 797 , 000 , 000	30 , 595 , 000 , 000	28 , 025 , 000 , 000
	= 0. 76: 1	= 0. 83: 1	= 0. 86: 1
Acid Test Ratio Current assets (excluding total inventories) Current liabilities	31 , 222 , 000 , 000	24 , 966 , 000 , 000	23 , 550 , 000 , 000
	41 , 797 , 000 , 000	30 , 595 , 000 , 000	28 , 025 , 000 , 000
	= 0. 75: 1	= 0. 82: 1	= 0. 84: 1
Interest Cover Ratio	1 , 320 , 000 , 000	3 , 725 , 000 , 000	4 , 299 , 000 , 000

Profit before interest and taxation Finance Cost	127 , 000 , 000 = 10. 39	235 , 000 , 000 = 15. 85	139 , 000 , 000 = 30. 93

REMARKS

In terms of liquidity, going by these figures above, it is obvious that Vodafone faces a liquidity risk. A school of thought strongly believes that the perfect ratio for Current Ratios and Acid Test Ratios should be2: 1which is not very realistic firstly because all your financiers cannot come at you at the same time and secondly it is static report, that is, that is the situation of things as at the day the reports were made, it is likely to change with each passing day. But one cannot help but see the reason why it is logical having 2 times your liability gives you wiggle room if the worst comes to the worst. At the above ratios, Vodafone has a moderate liquidity risk but can easily become a high risk if not carefully monitored.

In terms of solvency, using the interest cover ratio. The interest cover ratio measures how many times the profit can cover the interest expenses. The further away from 1 the interest rate is, the better. Going by this, it is therefore safe to say that Vodafone has enough profit to cover the interest expenses. This signifies growth, and shows that Vodafone is in it for the long haul.

ISSUES WITH THE FINANCIAL STATEMENTS

Although it has been a turbulent period for Vodafone, it has been a turbulent period for the entire telecommunications sector as well, the fact that theprofit after taxationfor 2016 and 2017 is in the negative poses as a huge stumbling block for the accurate calculation of thenet profit marginas well asreturn on ordinary share holders' fund. This uncommon occurrence may limit the usefulness of the ratio analysis.

CONCLUSION

Going through the financial statements from 2016 to 2018 it is obvious something is not right with the company starting with the fact that the 2016 statements where readjusted and the margin between the original statement and the readjusted statement was quite much. Secondly the discrepancy between thetotal equityandnet assets needsto be thoroughly reviewed by the company. Although it does not affect much on the long run since thetotal assetsandtotal equity and liabilityevens out, but these little things should not be overlooked because at the end of the day, everything is supposed to even out, that is why it is aptly named a balance sheet.

Never the less, even though the times are perilous for Vodafone, but with adequate management of assets, and more strategic approaches towards the market, Vodafone will be able to survive and come out on top.

With a little patience and faith from shareholders, they too will be able to realise tangible profits once the laid out strategy by Vodafone is fully implemented.

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