Financial Ratios Analysis

Student's Name

Institutional Affiliation

Financial Ratios Analysis

Financial ratios are critical enabling rational investors to invest in listed companies to determine the optimal company that should be selected. The financial ratios are derived from the financial results of the compared companies in a given financial year. Thus, the financial ratios help an investor to select the optimal company in maximizing his/her wealth based on the financial performance and position of the given companies. Consequently, a comparative financial ratio analysis between Qatar National Cement Company and Industries Qatar Company has been undertaken using the 2013 annual financial results.

Financial Ratios Computations

Financial Ratios	Qatar National Cement Company	Qatar Industrial Manufacturing Company
Leverage ratios:		
Debt ratio = total debts/ total assets * 100	202,740,054/ 2,776,852,022 * 100 = 7.3%	3,000,556/36,777,803 * 100 = 8.16%
Debt-equity ratio = total debts/total equity finance	202,740,054/2,574,111,968 = 0.079	3,000,556/33,777,247 = 0.089
Liquidity Ratios:		
Current ratio = current assets/ current liabilities	965,099,887/ 190,028,996 = 5.1 times	12,269,369/1,136,136 = 10.8 times
Quick ratio = current assets – inventories/ current liabilities	965,099,887 – 267,195,867/ 190,028,996 =3.67 times	12,269,369-1,848,210/1,136,136 = 9.17 times
Profitability Ratios:		
Net income margin = net income/ net sales revenue * 100	436,058,965/ 1,004,083,092 * 100 = 43.43%	8,011,867/5,823,350 * 100 = 137.58%
Return on common equity = net income/ common equity capital	436,058,965/ 2,574,111,968 * 100 = 16.94%	8,011,867/33,777,247 * 100 = 23.72%
Efficiency Ratios:		
Inventory turnover = sales revenue/ average inventory	1,004,083,092/ (267,195,867+327,487,072) = 3.38 times	5,823,350/ (1,848,210 + 1,506,822)/2 = 3.47 times
Receivable turnover = Sales/ average net receivables	1,004,083,092/ (185,531,612+153,208,260)/2 = 5.93 times	5,823,350/ (1,454,640+ 1,150,412)/2 =4.47 times
Market Value Ratios:		

Earnings per share = net income attributed to common shareholders/ number of outstanding shares	436,058,965/ 49,105,740 = 8.88	8,011,867/ 605,125= 13.24
Price-earnings ratio = current price per share/ earnings per share	128.60/8.88 = 14.48	145.30/13.24 = 10.97

Discussion

The leverage ratios computed above measure the financing strategy that is employed by the two companies in acquiring the assets (Peterson & Fabozzi, 2012). Accordingly, the debt ratios computed indicate the assets of Qatar National Cement Company have been financed by 7.3% of debts while assets of Qatar Industrial Manufacturing Company are financed by 8.16% of debt finance. In addition, the debt-equity ratios indicate the debt finance of Qatar National Cement is 0.079 times compared to equity while that of Qatar Industrial Manufacturing Company is 0.089 times. Consequently, leverage position of Qatar National Cement Company is better compared to Qatar Industrial Manufacturing Company because lesser assets are attached to debt finance.

Liquidity ratios measure the financial ability of a company to service current financial obligations using the current financial assets (Peterson & Fabozzi, 2012). Accordingly, current financial ratios computed above indicate Qatar National Cement Company’s current assets are 5.1 times compared to current liabilities. In contrast, the Qatar Industrial Manufacturing Company’s current assets are 10.8 times compared to current liabilities. Similarly, the quick ratios indicate the Qatar National Cement Company’s immediate current assets are 3.67 times compared to current liabilities. In contrast, the quick ratio indicates the immediate current assets of Qatar Industrial Manufacturing Company are 9.17 times compared to the current liabilities.

Consequently, the liquidity position of the two companies in servicing current financial obligations is good because the current assets are higher compared to the current financial liabilities. However, the liquidity ratios of Qatar Industrial Manufacturing Company are better compared to the liquidity ratios of Qatar National Cement Company.

Another financial ratio that has been employed in the comparative analysis is the profitability ratio that measures the ability of an entity to generate income for the common shareholders. One of the profitability ratios that have been applied is the net income margin in measuring the level of sales revenue that is left after catering for the costs of goods sold and operational costs (Peterson & Fabozzi, 2012). Accordingly, the net income margin for Qatar National Cement Company indicates 43.43% of the sales revenue generated by the firm in 2013 was retained to be contributed to shareholders. In contrast, the amount of sales revenue left after catering for all costs in Qatar Industrial Manufacturing Company in 2013 was 137.58%. Thus, Qatar Industrial Manufacturing Company profitability was sourced beyond the revenue generated from the sale of goods. In addition, Qatar Industrial Manufacturing Company had a better net income margin ratio compared to Qatar National Cement in maximizing the wealth of shareholders.

Another vital profitability ratio that has been employed is the return on equity that measures the return shareholders should expect from their capital investment (Peterson & Fabozzi, 2012). Accordingly, the return on equity ratios indicates common shareholders of Qatar National Cement in 2013 expected a return of 16.94% of their capital investment. In contrast, the common shareholders of Qatar Industrial Manufacturing Company in 2013 expected a return of 23.72% of their capital investment. Thus, Qatar Industrial Manufacturing Company had a better financial performance compared to Qatar National Cement in maximizing the wealth of shareholders.

Efficiency ratios that measure the efficiency of a company to utilize the resources to enhance the wealth of shareholders have also been used in the comparative analysis. The inventory turnover ratio that measures the efficiency of management in turning inventory to sales has been applied (Peterson & Fabozzi, 2012). Accordingly, the inventory turnover ratios computed in the table above indicate Qatar National Cement turned inventories to sales by 3.38 times in 2013. In contrast, the Qatar Industrial Manufacturing ability to turn inventories to sales in 2013 was 3.47 times. Consequently, the management of Qatar Industrial Manufacturing is more efficient compared to management of Qatar National Cement in turning inventories to sales revenue. Similarly, the receivable turnover ratio of measuring the efficiency of a company’s management to turn credit sales into cash sales has been applied (Peterson & Fabozzi, 2012). Accordingly, the receivable turnover ratio indicates the management of Qatar National Cement in 2013 was able to turn credit sales into cash sales by 5.93 times. In contrast, the management of Qatar Industrial Manufacturing turned credit sales into cash sales by 4.47 times. In lieu of this, the management of Qatar National Cement is more efficient in turning the credit sales into cash sales compared to the management of Qatar Industrial Manufacturing.

Market value ratios that assess the economic value of a shareholder’s interest in a given company have been applied in the comparative analysis of the two companies. One of the market value ratios that have been applied is the earning per share in measuring the earnings common shareholders should expect per share from net income generated (Peterson & Fabozzi, 2012). The earnings per share ratios indicate each share of Qatar National Cement in 2013 attracted earnings of 8.8 while that of Qatar Industrial Manufacturing had earnings worth 13.24. As a result, investors possessing Qatar Industrial Manufacturing stocks had higher earnings compared to shareholders of Qatar National Cement Company. Similarly, the price-earnings ratio employed in assessing the undervaluation or overvaluation of a stock has been applied (Peterson & Fabozzi, 2012). Accordingly, the price-earnings ratio of Qatar National Cement Company is 14.48 while that of Qatar Industrial Manufacturing is 10.97. Therefore, the current market price of Qatar National Cement stock is overvalued higher compared to stock of Qatar Industrial Manufacturing.

The financial ratio analysis of the two companies undertaken above demonstrates the financial health of Qatar Industrial Manufacturing is better compared to Qatar National Cement Company. Even though Qatar National Cement Company has a positive financial position and performance, the financial ratios indicate Qatar Industrial Manufacturing has a better position in maximizing the wealth of shareholders. Consequently, a rational investor should consider investing through the Qatar Industrial Manufacturing securities.

References

Peterson, D. P., & Fabozzi, F. J. (2012). *Analysis of financial statements.* Hoboken, NJ: John Wiley & Sons.