

# Lesson 4 : Financial Ratio Analysis

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# What is Financial Statement Analysis

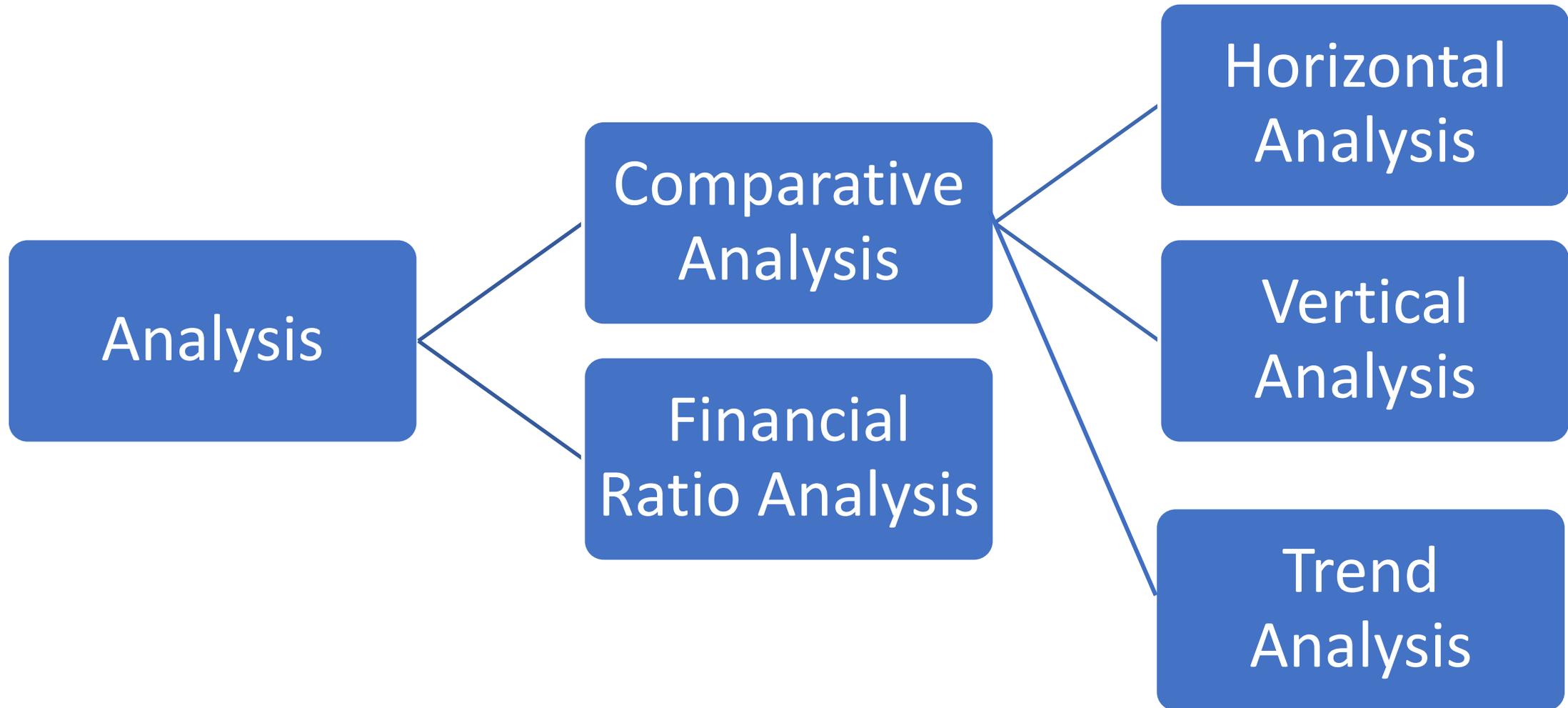
Financial statement analysis is the process of analyzing a company's financial statements for decision-making purposes.

External user of Financial Statements use it to understand the overall health of an organization as well as to evaluate financial performance and business value.

Internal user of Financial Statements use it as a monitoring tool for managing the finances.

Financial record important on every aspect of a business's activities because it use to evaluate company past, current, and projected performance.

# Type of Analysis



# Horizontal Analysis (Trend Analysis)

1

- It is used for evaluating trends year over year (YoY) or quarter over quarter (QoQ).

2

- It is usually depicted as a percentage growth over the same line item in the base year

3

- Horizontal Analysis formula =  $[(\text{this year} - \text{Last Year}) / \text{Last Year}] \times 100$

# Horizontal Analysis

## YTD Financial Results

	Note	Year-To-Date					Month-To Date				
		May '19 RM'000	May'18 RM'000	Variance RM'000	%		May '19 RM'000	Apr'19 RM'000	Variance RM'000	%	
Revenue	1	33,207.98	25,415.39	7,792.59	31%	↑	2,488.23	2,711.32	(223.08)	-8%	↓
Cost of sales	2	(25,973.45)	(20,056.23)	5,917.22	30%	↑	(1,906.75)	(2,079.52)	(172.77)	-8%	↓
<b>Gross Profit</b>	3	<b>7,234.53</b>	<b>5,359.17</b>	1,875.37	35%	↑	<b>581.48</b>	<b>631.79</b>	(50.31)	-8%	↓
<i>GP %</i>		<i>21.79%</i>	<i>21.09%</i>				<i>23.37%</i>	<i>23.30%</i>			
Non Operating Income	4	921.40	518.08	403.32	78%	↑	200.84	215.87	(15.03)	-7%	↓
Non Operating Expenses	5	(3,268.00)	(2,068.52)	1,199.48	58%	↑	(389.48)	(389.29)	0.19	0%	↑
<b>EBITA</b>		<b>4,887.94</b>	<b>3,808.73</b>	1,079.21	28%	↑	<b>392.85</b>	<b>458.38</b>	(65.53)	-14%	↓
<i>EBITA %</i>		<i>14.72%</i>	<i>14.99%</i>				<i>15.79%</i>	<i>16.91%</i>			
Amortisation and Depreciation		(1,998.92)	(1,695.17)	303.74	18%	↑	(181.06)	(185.35)	(4.29)	-2%	↓
Interest		(5.30)	(4.09)	1.21	30%	↑	(0.43)	(0.89)	(0.46)	52%	↓
<b>Profit Before Tax</b>		<b>2,883.72</b>	<b>2,109.46</b>	774.26	37%	↑	<b>211.35</b>	<b>272.14</b>	(60.78)	-22%	↓
Tax Expense	6	(786.75)	(25.95)	760.80	2932%	↑	(55.56)	(41.67)	13,888.92	33%	↑
<b>Net Profit/(Loss)</b>		<b>2,096.98</b>	<b>2,083.51</b>	13.46	1%	↑	<b>155.80</b>	<b>230.47</b>	(74.67)	-32%	↓

# Vertical Analysis

1

- Each item in the financial statement is shown in percentage of the base figure

2

- All items in the income statement are stated as a percentage of gross sales. All the items in the balance sheet are stated as a percentage of the total assets.

3

- Vertical Analysis formula = Individual Item / Base Amount \*100

# Vertical Analysis

		7 Mths		7 Mths		7 Mths		4 Mths	
Level	Proposed GL Description	YTD 31 Jan 19	%	YTD 31 Jan 18	%	YTD 31 Jan 17	%	YTD 31 Jan 16	%
1	Sales	22,386,034.20	100%	15,702,275.94	100%	14,949,886.74	100%	1,083,109.07	100%
2	Outlet Sales	17,880,872.49	80%	12,627,878.09	80%	9,494,646.72	64%	1,083,109.07	100%
2	Raw Material Sales	2,729,593.56	12%	2,346,854.01	15%	5,041,796.88	34%	0.00	0%
2	License Commission Income	280,372.17	1%	251,434.84	2%	199,826.36	1%	0.00	0%
2	Voucher Sales	847,263.50	4%	289,588.43	2%	61,145.19	0%	0.00	0%
2	Disbursement Income	182,495.45	1%	60,689.81	0%	0.00	0%	0.00	0%
2	Reimbursement Income	465,437.03	2%	125,830.76	1%	152,471.59	1%	0.00	0%
1	Total Cost	(17,717,636.93)	-79%	(12,411,461.00)	-79%	(6,181,105.62)	-41%	(775,903.79)	-72%
2	Outlet Material Cost	(7,735,657.25)	-43%	(5,157,133.95)	-41%	(714,257.23)	-8%	(335,765.17)	-31%
2	JV Material Cost	(2,287,726.42)	-84%	(1,976,546.75)	-84%	(2,193,108.34)	-43%	0.00	
2	Labour Cost	(2,501,828.28)	-14%	(1,798,013.01)	-14%	(1,182,674.87)	-12%	(129,723.43)	-12%
2	Outlet Rental	(2,753,499.77)	-15%	(1,940,302.11)	-15%	(1,250,760.94)	-13%	(154,016.98)	-14%
2	Outlet Utilities	(305,122.53)	-2%	(155,954.93)	-1%	(102,757.53)	-1%	(7,454.06)	-1%
2	Royalty and Marketing Fee	(1,145,904.59)	-6%	(965,131.26)	-8%	(555,323.03)	-6%	(85,014.82)	-8%

# Financial Ratio Analysis

- Ratio analysis compares line-item data from a company's financial statements to evaluate the company's performance
- Analysts rely on current and past financial statements to obtain data to evaluate the financial performance of a company.
- The followings are 3 main types of ratio that commonly used
  1. Profitability Ratio
  2. Liquidity Ratio
  3. Efficiency Ratio

# Ratio Analysis Types

## Profitability Ratio

how well a company can generate profits from its operations.

Commonly measure by:

- Gross Profit Margin
- Net Profit Margin

## Liquidity Ratio

measure a company's ability to pay off its short-term debts as they become due

Commonly measure by:

- Current Ratio
- Quick Ratio

## Efficiency Ratio

measure how fast the company turn its assets & liabilities into cash and improve liquidity ratio

Commonly measure by:

- Creditors Turnover
- Debtors Turnover
- Inventory Turnover