

Liquidity Ratios

Current Ratio Current Assets:Current Liabilities Company's ability to meet its short term obligations

Quick Ratio Liquid Assets:Current Liabilities Liquid assets not only excludes inventory

Is the level of operating capital management to aggressive? Could lead to a loss in business. Also take into account level of operating risk and costs associated with short-term finance.

Debt Management Ratios

Debt ratio Total Debt / Total Assets Indicates extent to which company uses external financing to finance assets

Interest Cover or Times interest earned EBIT / Interest Ability to meet interest obligation. EBITDA also used.

Debt/Equity ratio Total Debt/Total Equity Gearing ratio of the company

May need to restate balance sheet **interest earning debt** - Preference shares (redeemable=debt), deferred tax (do you have obligation to pay?), minority interest (equity), non-interest bearing debt (treat as debt or deduct)

Measures of Profitability

Profit Margin Profit / Turnover Calculated at different levels. Non-trade income should not be included

Organisational profitability / Return on total assets EBIAT / Total Assets Return on enterprise as a whole

Measures of Profitability (cont)

Return on Equity Equity Earnings / Total Equity Difference between ROA and ROE is financial leverage

Financial leverage ROA vs ROE

Asset Management / effectiveness

Inventory turnover Cost of sales / Average inventory (times) Effectively manage and control inventory. Poor turnover may indicate obsolete stock. (if you don't have COS use SALES)

Inventory turnover rate Average inventory / COS x 365 (days) Length of time that inventory is on average held before it is sold.

Days' sales in closing inventory Closing Inventory / COS x 365 (days) Days sales left from current closing inventory

Debtors' turnover Credit Sales / Average Debtor (times) Evaluate application of Co's credit policy. Too short (sales will be lost) & too long (bad debts) & opp cost

Debtors Collection period Average debtors / Credit sales x 365 (days) Reciprocal relationship with debtors turnover

Days Sales in closing debtors Closing debtors / Credit sales x 365 (days) Sales represented by closing debtors

Asset Management / effectiveness (cont)

Creditors payment period Average creditors / Credit purchases x 365 (days) Use COS if credit purchases not available. Too short (not utilising free credit) & too long (Bad reputation)

Asset Turnover Net Sales / Assets Management ability to utilise assets effectively to generate sales. Can use different categories of assets

Investor's ratios / Market value ratios

Earnings per share Earnings / WANOS

Dividend per share Dividend / No of shares in issue

Earnings Yield EPS / Share price

Dividend Yield DPS / Share Price

Dividend cover EPS / DPS

Price - Earnings Ratio Share Price / EPS High PE ratio can indicate investor's confidence and growth prospects. Repayment period in years of share investment. How much investors will pay per R1 of co's earnings.

Investor's ratios / Market value ratios (cont)

PEG	PE / Expected sustainable growth	2 companies taht are in different growth stages (eliminating growth impact)
Nest Asset Value per Share	NAV / WANOS	Compare share price to NAV ps = trading at a discount?
Shareholder return	(Share price(end) - Share price(beg) + Dividend) / Share price(beg)	Compare to ALSI return
Dividend Payout ratio	DPS / EPS	Use to calculate sustainable growth
Sustainable growth	1 - Dividend Payout Ratio	

Cash Flow Statement

Cash flow to total debt	CF from Operations / Total Debt	Indicator of financial distress
Cash ability to cover finance charges	CF from Operations / Interest Paid	Ability to pay interest from cash available
Cash generating ability of co	CF from Operations / Turnover	

Remember CASH IS KING! so any Cash Flow Ratio will be more reliable as to the true performance and going concern ability of the company

