

YEP TALK

The Young Entrepreneurs & Professionals page

From The YEP Desk

TODAY'S page is the continuation of the last week. Previously we had discussed about the financial Market Analysis and today it would be the follow of the previous including Industry and Economic Analysis. With the end of the millennium we would like to select the people from every walks of life to guide us in the next millennium. We would like to tell the YEP readers that they can send their suggestions about the live celebrities who has the leadership quality to guide us in the next millennium. We have respect for those who are longer with us. But we want from our readers a live personalities name from every field of life like Engineers, Doctors, Scientists, NGO workers, Politicians, Economists, Journalists, Entrepreneurs, Artists, Social Activists, Lawyers, Film Makers, Writers and many others.

With the end of year I would like to know the feed back of the YEP page.

Rafi Hossain

Industry and Economic Analysis

by Yawer Sayeed

Investment Philosophy: Top-Down vs. Bottom-Up

INVESTMENT analysis procedure is guided by two broad investment philosophies, i.e., top-down approach and bottom-up approach.

In top-down approach, an analyst starts with economic fundamentals, then go for different industry/sector analysis. Based on the industry outlook, then he/she decides on the asset allocation.

Contrary to that, bottom-up approach begins with analysis of companies. Here the performance of companies is the sole determinant factor in deciding asset allocation.

Both the approaches have got merits and demerits. Top-down approach may end-up with certain stock picks where most profitable companies may not have given the best weightage. But it ensures the very essence of investment, i.e., risk diversification.

On the other hand, bottom-up approach ensures that the investment profitability is really taken care of. But it risks industry shake-ups that arise out of government monetary and fiscal policy changes.

Economic Analysis

Macroeconomic variables shape the growth and development of any industry. Economic decisions factor in government monetary and fiscal policies. There are several economic indicators/index that affect industry profitability. Some of the basic economic factors discussed below:

Fiscal Policy

a) Budgetary

Provisions: Influences an economy through multiplier effect. For example, increases in road building increases the demand for concrete materials. The employees in those industries that supply construction materials will have more to spend on consumer goods, which raises the demand for consumer goods, that affects another set of suppliers.

b) Tax Cred-its/Additional Tax:

Tax credits and tax cuts encourage spending, whereas additional taxes on income, gasoline, cigarettes discourage spending.

Monetary Policy: Expan-sionary or Restrictive

a) Interest Rate: An increase in interest rate as sought by restrictive monetary policy would raise firm's costs, discourage business growth, and make it more expensive for

b) Dividend Yield: Dividend Pay-out Ratio

b) P/BV Ratio: Words of Caution

1. Future industry performance may not be same as past performance.

2. Rates of return of firms within industries vary, so company analysis is a necessary follow-up to industry analysis.

3. Return of an industry may be high, but it comes with inherent risk.

The following table shows a cross-sectional study of some leading industries in Bangladesh.

Industry	Gross Margin (%)	Sales Growth (%)	Dividend Yield (%)	Sector PEX
Cement	20	5.7	6.94	9.33
Ceramic Tableware	21	11.0	8.41	14.60
Commercial Bank	15.01	2.56	4.60	
Drycell Batteries	21	18.0	15.16	10.41
General Insurance	12	9.39	9.36	6.79
Household Durables	32	11.4	9.30	11.69
Ind. & Medical Gas	38	13.0	4.02	13.97
Leasing	4	22.6	6.43	7.52
Leather	15	6.4	9.13	10.05
Life Insurance	-	41.7	7.47	-
Pharmaceuticals	30	10.7	7.00	7.28
Real Estate	35	7.5	15.27	5.71
Retail Electric Appliances	13	Declining	3.77	18.42
Tea	34	3.0	4.61	9.38
Textiles	17	4.54	7.77	8.96

PEX, Dividend Yield are calculated based on Closing Rate of August 31, 1999

Annual Growth rates are calculated for the period 1993-98

Financial Analysis of Company A

Tahsina Rahman

FINANCIAL analysis is important to understand why a company is performing the way it is and where it is heading. There are different parties who are concerned about the financial analysis and the valuation of a company: a) Shareholders, b) Potential buyers, c) Management, d) Creditors, e) Vendors, f) Customers and g) Employees. Shareholders' intentions are to maximize the value of their investments. Potential buyers may be interested to continue the operations of the acquired company or to break the company into pieces and sell to make profit. Management's objective is to maximize a company's value, it must take advantage of the strengths and simultaneously correct its weaknesses. Creditors need to ensure the company has a capacity to repay debt with interest as per schedule. Vendors need customers with strong cash flow, who can pay on time and will continue operations so that are able to buy products from them in future. Customers also need products to be supplied on time and if possible then on suppliers' credit. Financial analysis is important for employees to understand their job security and career path in the company. In this article we are focussing on shareholders' point of view.

Financial analysts need to visit companies, factories and meet decision-makers of the companies and politics as well. Let us analyze Company A:

Assumption of Company A:

- Company A is an export oriented company.
- The company raised money by 1:1 rights issue @ Tk100/- in January 1997 to double its production capacity.
- Expected date of commencing commercial production in the new unit was March 1997, however delayed and started in September 1997.
- Capacity utilization rate is 70%.
- Corporate tax rate is 35%, but the company enjoys 50% tax exemption for being an export oriented company.
- Current share price is Tk130/- For simplicity we are assuming that 1998 year end price was also Tk130/-.
- Industry P/E is 6x.

Income Statement

	Actual (Taka in million)			% of Sales		
	1996	1997	1998	1996	1997	1998
Sales	1,115	1,219	1,650	100.0	100.0	100.0
Cost of Goods Sold	(973)	(1,057)	(1,412)	(87.3)	(86.7)	(85.6)
Depreciation	(9)	(11)	(29)	(0.8)	(0.9)	(1.8)
Gross Profit	133	151	209	11.9	12.4	12.7
Selling Expenses	(8)	(14)	(16)	(0.7)	(1.1)	(1.0)
General & Administrative Expenses	(16)	(23)	(29)	(1.4)	(1.9)	(1.7)
Depreciation	(6)	(6)	(20)	(0.5)	(0.5)	(1.2)
Earnings Before Interest and Tax (EBIT)	103	108	145	9.2	8.9	8.8
Interest Expenses	(49)	(78)	(86)	(4.4)	(6.4)	(5.2)
Other expenses	(1)	(2)	(2)	(0.1)	(0.2)	(0.1)
Other Income	-	6	1	-	0.5	0.1
Earnings Before Tax (EBT)	53	34	58	4.8	2.8	3.5
Provision for Taxation	(10)	(6)	(6)	(0.9)	(0.5)	(0.4)
Net Profit After Tax	43	28	52	3.9	2.3	3.2

Balance Sheet

	Actual (Taka in million)			% of Total Assets		
	1996	1997	1998	1996	1997	1998
Current Assets						
Cash & Bank Balances	5	15	3	0.4	1.1	0.2
Accounts Receivable for Goods	214	248	413	19.1	18.8	25.5
Inventories	763	834	957.16	68.1	63.2	59.3
Total	982	1,098	1,373	87.6	83.2	85.0
Fixed Assets	105	188	208	9.4	14.2	12.9
Investments	34	34	34	3.0	2.6	2.1
Total Assets	1,121	1,319	1,615	100.0	100.0	100.0
Current Liabilities						
Overdraft & Bank Loans	657	773	970	61.3	58.6	60.1
Accounts Payable for Goods	152	167	249	13.6	12.7	15.4
Dividend Payable	12	32	32	1.1	2.4	2.0
Provision for Taxation	13	14	11	1.2	1.1	0.7
Total	864	986	1,262	77.1	74.8	78.1
Total Liabilities	864	986	1,262	77.1	74.8	78.1
Shareholders' Fund	257	303	353	22.9	25.2	21.9
Total Liabilities and Shareholders' Fund	1,121	1,319	1,615	100.0	100.0	100.0

Cash Flow Taka in million

	1997	1998
Net Profit After Tax	23	52
Depreciation	17	49
Change in Accounts Receivable	(34)	(165)
Change in Inventory	(71)	(123)
Change in Accounts Payable	15	82
Change in Accrued Liabilities	1	(3)
Net Cash Provided by Operating Activities	(44)	(108)
Change in Fixed Assets	(100)	(69)
Net Cash Used in Investing Activities	(100)	(69)
Change in Short Term Financing	96	197
Dividends Paid	80	0
Net Cash from Financing Activities	154	165
Net Increase in Cash	10	(12)
Actual Change in Cash	10	(12)

Ratios

	1996	1997	
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