Statement of Cash flow for MH Enterprises plc for year ending 31/12/2013

		£ millions
Cash flow from Operating activities		
Cash flow from trading activities		
Profit before tax		22
less depreciation charge	+20	
less interest expense	+18	+38
		60
Cash flow from trading activities		
Cash flow from changes in working capital		
- increase in inventories	-20	
- increase in trade receivables	-10	
- decrease in trade payables	-20	-50
		+10
Cash flow from other activities		
less interest paid 0 + 18 -10	-8	
less tax paid 10 + 7 - 5	-12	
less dividends paid 6 + 5 - 3	-8	-28
Net cash outflow from operating activities		-18
Cash flows relating to investment:		
~~+ issue of new shares~~ - Purchase of building	40	
- purchase of motor vehicles. - (20 + 5)	25	-65
Cash flow relating from investment activity		-83

22.

cash flow relating to financing

issue of new loan	+30 ✓	
issue of shares + share premium	+15 ✓	+45 ✓
Net cash outflow.		-38 ✓

Reconciliation.

Cash holdings 31/12/12 20-4	16 ✓
change (cash outflow)	-38 ✓
cash holdings 31/12/12 U-22	-22 ✓

50/50

vechicle

purchase of land +30

100 → 120

purchase of 20

Analysis in next booklet.

0.296 30.

Ratio Analysis for MH Enterprise plc.

Trading activities

Trading activities yielded ~~and~~ a net cash outflow of £18m. Profit before tax of 22 was relatively low, accounting for just over 4% of the company's revenue. This is quite a worry figure as it has halved from last year's figure of 8%. There was a cash outflow of £60m from trading activities which is not a good sign. Gross profit margin at 29.6% is roughly the same as last year's figure of 30%. This is despite a sales increase of 8%.

expenses ↑ 20m ✓ OPM 10 – 7.41%

ROCE / interest ↑

Working capital

From the cash flow statement, all three items resulted in an decrease in cash. Inventories and trade receivables both decreased significantly. Along with decreased payment of payables, the company had an outflow of £50million. This is something of major concerne as money is being paid out but is not being received as quickly. The current cash cycle is 60 days (60+67–67) compared to last year's figure of roughly 17 days. Perhaps the company should consider delaying payments to creditors and if possible collect the debt owed to them.

IGNORE.

Working Capital

The company will be disappointed to hear of the net outflows of £50m relating to changes in working capital. This accounts for 5% of cash inflow from trading activities. Increases in both inventories and trade receivables have resulted in an outflow of £50m. A decrease in trade payables contributed £20m to this. As it stands ~~trade payable days are 272 days.~~ it would be in the company's favour to increase trade payable days and reduce trade receivable days for the purpose of increasing cash. Currently 60.8 days used to be 58.4 days. A small increase but significant in company's current situation. Current cash cycle in (67+60−67) is 67 days compared to last year's figure of (52+58.4−93) 17 days which is a large increase

Inventory + payable days movements were more significant

The big "3" had a smaller impact on the company's cash. Interest was up 80% from last year which is a significant increase. As it stands £10m extra £18m remains unpaid. Tax was lower this year but remains partly unpaid. Dividends paid was £8m. Dividends dropped from last year. Dividend per share stands at 5.5 cent compared to 8 cent last year. Return on capital employed stands at 1.43 times down from last year's figure of 2.08 times. Return on shareholders' equity at 3.6 times is ~~significantly up~~ this up from 3.57 times last year. What is worrying is the decline in interest cover from 5 times to 2.2 times. The company must pay close attention to this situation

Investment

The company purchased buildings with £45 and motor vehicles worth £25m. This resulted in an outflow of £65m. This may not have been the correct time to purchase given declining profits and the revaluation reserve issue. This was funded mainly by retained earnings, a new loan and issue of shares + overdraft.

interest cover

Financing

Company issued a new loan of £30 and shares of £10 with a £5m premium. This new loan caused gearing to ~~[illegible]~~ increase from ~~0.41~~ 41% to 46%. This is an unsustainable figure and points toward a gloomy future. The shares offset this figure but the result is a negative one

acid. Current ratio?

The asset test ratio shows a small ~~[illegible]~~ increase from ~~[illegible]~~ 1.07 to ~~[illegible]~~ 1.03 Not that decrease 1.36 → 1.45

.92 → .82

big overall, but a negative result more the less. The acid test ratio figure of ~~0.58~~ 0.70 is .82 significantly lower than last year's figure of ~~0.93~~ 0.71 .90 The company has too much money tied up in inventories as it stands. The company could be in trouble if cash is needed in the near future

Overall these figures resulted in a net cash outflow of £38 m when explaining the change from a positive cash balance of £16m to a negative £22 m

The future

The above figures indicate an unsavoury trend. The company may be in trouble in future. Considering net profit was under 2% of revenue (down from 4%) the company needs to look at it's cost structures. The current situation is unsustainable

Other solutions:

- Increase payable days while decreasing debtor days.
- Reduce expenses
- Issue new shares to help gearing to come under 40%
- Do not purchase new current assets

Action is required immediately to keep the situation under control. It seems as though the money was merely 'resting' in the account as it seemed to disappear with such haste

$\frac{\text{trade} \quad \text{xx} \times 365}{\text{reven}}$ 60 day

$\frac{\text{payables}}{350}$ 141 days.

$\frac{\text{inventory} \times 365}{\text{revenue}}$

60 + 67. -141

receivable $\frac{90 \times 365}{540}$ 60 day

$\frac{80 \times 365}{500}$ 58.4

inventory $\frac{70 \times 365}{380}$ 67 days.

$\frac{50 \times 365}{350}$ 52.14

payable $\frac{70 \times 365}{380}$ 67 days

$\frac{90 \times 365}{350}$ 93.85

→ Investment in NCA may yield profits in the future.

~~this accounted for that year~~

33/50