**Business Analysis for Investment (FNCE2003)**

* You can use Excel for calculations. However, you are not allowed to submit Excel worksheets. Screenshot is allowed (as appendix).

# Part A: General Questions

## Question 1

Assume that you are analysing the financial statements of BHP for the year 2022. Where can you find the information to examine its performance? How would you comment on the performance of BHP for the year 2022? What more information do you need to draw a reasonable conclusion about the performance of the firm?

[Check Blackboard assessment folder for a copy of the annual report].

## Question 2

Assume that you are analysing the financial statements of ZIP for the year 2022. What information can you obtain from MD&A? How can it help you to evaluate the performance of ZIP?

[Check Blackboard assessment folder for a copy of the annual report].

## Question 3

What are ‘Big Bath Accounting’ and ‘Earning smoothing’? What are the motivations for such accounting choices? Explain with examples.

## Question 4

What are the motivations associated with low financial reporting quality? Explain with examples.

## Question 5

Calculate the company’s basic and diluted EPS for the year ended 30 June 2022 using the information below.

Table

Description automatically generated with medium confidence

* No. of shares outstanding on 01 July 2021 1,518 million
* No. of shares issued on 01 December 2021 458 million
* No. of shares repurchased on 01 April 2022 (93) million
* No. of shares outstanding on 30 June 2022 1,883 million
* The company does not pay any dividends to the common shareholders in the year ended 30 June 2022;
* The company has 1.2 million shares of preferred stock outstanding for the entire year which are each convertible into 40 shares of common stock. There is no preferred dividend paid during the year. The company does not have other potentially dilutive security.

# Part B: Company-specific Questions

This part requires you to conduct financial statement analysis of a publicly listed company for the year 2022. By now, one of the following companies should be allocated by your local lecturer (if not, please contact your local lecturer ASAP).

* Wesfarmers Limited (Stock Code: WES)
* Woolworths (Stock Code: WOW)

An important element of this project is the requirement of identifying and obtaining relevant, publicly available information. Therefore, you should ensure that you are able to access sufficient information for your selected company. I have uploaded the relevant annual reports on Blackboard for your convenience.

1. What is the name of the company that you/your group members were assigned to complete this project? What is the industry in which your company belongs to? What is the view of the management of the company about the future outlook and performance of the company?

1. Identify two (2) pieces of information not included in the major financial statements (but still in the annual report) that you think would be important to someone considering whether to invest the company. Discuss your reasons for believing that this information would be important in making an investment decision.
2. Analyse your allocated company’s investing and financing activities for the year 2022 as identified in the statement of cash flows, specifically identifying the two largest investing activities and the two largest financing activities. Evaluate the cash flow from operating activities of the firm (specifically analyse whether the company is performing better over the years, discuss whether cash flow from operating activities appears to be satisfactory given the current business environment and firms’ stage in life cycle).
3. Assume that you are evaluating your allocated company. **Only** use the **MOST appropriate ratios** for the year 2022 from the annual report and evaluate whether one should provide long-term **loan** to this company [Use at least 4 ratios].
4. Assume that you want to buy stock of this company. Use the **most appropriate efficiency and profitability ratios** from the annual report and use these data to evaluate whether this company is a suitable candidate for investment purpose [Use at least 4 ratios for efficiency and 4 ratios for profitability].
5. Assume that you are also considering to invest in the stock of CSL. You have limited fund to invest and therefore, you can invest in either of the company (CSL or your allocated company). Compare your company’s financial statements, and performance, with those of the CSL. If you were making a decision to invest in one of the two companies, which company would you choose? Discuss. [In evaluating and comparing the companies, use appropriate ratios and other analysis. Provide clear justification as to why you believe your approach to evaluation is appropriate for investment decision purpose].
6. Perform a valuation of your allocated company using an appropriate discounted cash flow model [You should follow the template used in lecture 7 to complete the calculation; Free cash flows for the forecasted period are given below; Assume the cost of debt is 6% for Woolworths and Wesfarmers]. Carefully explain other assumptions used to select inputs for your model. On the basis of your work **make an investment recommendation**.

For Woolworths

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2023 | 2024 | 2025 |
| Free Cash Flow (in millions) | 2,017 | 1,939 | 2,172 |
| For Wesfarmers |  |  |  |
|  | 2023 | 2024 | 2025 |
| Free Cash Flow (in millions) | 3,167 | 2,523 | 2,960 |

## Marking Rubrics for Part B

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Below expectations (0 – 49%) |  | Meets expectations (50 – 69%) |  | Exceeds expectations (70 – 100%) |
| Overview (Q1) | •  •  • | Identified the incorrect industry information;  Did not specify where to find the view of the management of the  company;  Failed to summarise the main argument of management. | •  •  • | Identified the correct industry information;  Specified where to find the view of the management of the company; Summarised the main argument of management. | •  •  •  • | Identified the correct industry information;  Specified where to find the view of the management of the company;  Summarised the main argument of management;  Provided own understanding of the firm’s future outlook and performance. |
| Additional  Information (Q2) | •  • | Haven’t identified the correct information;  Provided no explanation. | •  • | Identified the correct information; Briefly mentioned the reasons. | •  • | Identified the correct information;  Discussed the importance of the information for evaluation purpose in detail. |
| Cash Flow Analysis (Q3) | •  • | Haven’t identified the correct activities;  Did not provide analysis of operating cash flow. | •  • | Correctly identified the 2 largest investing and financing activities; Briefly analysed operating cash flow. | •  • | Correctly identified the 2 largest investing and financing activities;  Analysed operating cash flow in detail, eg. trend, whether it is satisfactory given the current environment and business cycle. |
| Credit Analysis (Q4) | •  • | Calculated incorrect ratios;  Provided incomplete analysis. | •  • | Included more ratios other than the most appropriate ones;  Made correct decisions based on analysis. | •  • | Only the most appropriate ratios have been included;  Made correct decisions based on solid analysis. |
| Efficiency and  Profitability (Q5) | •  • | Calculated incorrect ratios;  Provided incomplete analysis. | •  • | Included more ratios other than the most appropriate ones;  Made correct decisions based on analysis. | •  • | Only the most appropriate ratios have been included;  Made correct decisions based on solid analysis. |
| Alternative  Investment (Q6) | •  • | Calculated incorrect ratios;  Provided incomplete analysis. | •  •  • | Included more ratios other than the most appropriate ones;  Made correct decision based on analysis;  Did not provide justification for the chosen approach. | •  •  • | Only the most appropriate ratios have been included;  Made correct decisions based on solid analysis. Justified why the chosen approach is appropriate for investment decision purpose. |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Evaluation and  Recommendation  (Q7) | •  •  • | Provided no or a few assumptions; Incorrect calculation;  No decision/recommendation. | •  •  • | Made reasonable assumptions;  Correct Calculation;  Made decisions/recommendations based on the analysis. | •  •  • | Made Reasonable assumptions with justification;  Correct and clear format; Correct Calculation; |
|  |  |  |  |  | • | Made decision/recommendation based on the analysis. |