Etcetera on Tuesday 16 February 2016

3pm: BALFOUR BEATTY

(BB = Balfour Beatty)

Working Capital: £-14,000,000. This indicates that the short-term debt-paying ability of the firm is currently non-existent. However, the debt ratio (assets/liabilities) is 0.99, which while indicates low liquidity (as the value should be close to 2) it shows that the working capital is quite close to breaking even, which could be worse.

The working assets of BB are all in the form of trade. The liabities are mostly in the form of tax liabilities, but (significantly) not in the form of loans as BB hasn't borrowed much.

The cash ratio of BB is 0.3, which means the firm is moving and utilising its cash but means it might be struggling to pay the bills - which means it might be moving forward too quickly.

The statement of BB self-admits that it is not having a good year due to the performance of the UK construction industry, so we know that our ratios are in the correct ballpark. However BB does have quite a large portfolio of both tangible and goodwill assets (those are assets BB has acquired when it acquires other companies).

(the following data is from page 107 of Balfour Beatty's 2014 interactive report.)

The impairment from inventory (which is a process that is used to adjust the worth of an inventory based on the current market value of the individual goods currently held in that inventory) was only £1m in 2014, which for such a large company is quite good, which might indicate that Balfour Beatty has wise inventory management and works hard to ensure that their inventory does not become obsolete within the time-frame that it is turned over.

The inventories of BB in 2014 is comprised of £82m from construction services, and £84m from support services (ie. supporting already completed construction projects), as well as £4m from corporate activities - totalling to £160m. However, the cost of its inventory (recognised as an expense) is £168m. This means (along with the impairment of inventory, which would be additional expenditure) that BB has lost £9m on its inventory, which perhaps suggests that BB is struggling to turn over its inventory at a profit (or even to break even).

Inventory Ratios

The inventory ratios for BB are difficult to calculate as BB does not provide a value for the cost of inventory sold (only the total cost of their inventory as a whole) meaning we cannot get a value for the average turnover of the inventory. However, we can calculate a quick acid test ratio, as:

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acid-test ratio = (current assets - current inventory)/(current liability)
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As `current assets = £2499m` and `current liabilities = £2513m` and we know `current` `inventories = £160m` the acid test ratio can be calculated as 1.058. This ratio is another strong indicator of the firm's ability to pay short-term debts by other means (eg. if the liquid assets aren't there to pay a debt, some inventory might be sold to cover the cost), and a value of very close to 1 indicates that the company's inventory levels are relatively well-matched with the scale of its operations. (For example, companies like Walmart who almost exclusively deal in shifting inventory, or R&D companies who shift very little inventory and mostly deal in intangible services, might have a much more skewed acid-test ratio).

Not ratios, just the number bits

The main contributor to the current assets of BB are trade receivables (£966m). Other main contributors are from construction contracts (£562m) and from other miscellaneous cash equivalents (£691m).

However, with regard to current liabilities, it owes £1959m as trade liabilities and other payables, which means that the contruction trade department is significantly indebted, and as BB is primarily a construction-based company, this indicates the business might not be making profit from the correct places.

With regard to liquid assets (cash, cash equivalents), the primary contributor is due to infrastructure concessions, and again from outstanding contracts.

Marketable securities held by BB are comprised of £20m in investments (at least for those available for sale) and £33m in bonds, which is mostly made up of fixed-rate bonds and treasury stock. The bonds are in fact held by a different company, called Delphian Insurance Company, Ltd., which acts as the Balfour Beatty group's captive insurance company (where a *captive insurance company* is an insurance company wholly owned by the people it insures - it serves only to insure its owners and acts to separate the insurance funds of the main business from its primary working capital).

The company holds quite a lot in just investments into subsidiaries - £1671m in 2014 (up £5m from the previous business year). It also holds £102m in provisions (where a provision is an amount from profits that has been put aside in a company's accounts to cover a future liability).

General Commentary

The cash and cash equivalents increased by 38% from 2013 to 2014, up to £727m. However, the cash actually used in operating activities (including construction and construction-related trade) dropped by 113% to £372m.