

BUSMGT 713

FINANCIAL REPORTING AND CONTROL

Hallenstein Glasson Holdings Ltd Investment Report

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1. Introduction

Hallestein Glasson Holdings Limited is a cloth and jewellery retailer which its stores located in New Zealand and Australia and its shares (code: HLG) listed on New Zealand Stock Exchange. Over the past six years (2014 to 2019), Hallenstein Ltd. has been maintaining a considerable growth which its revenue accounted at \$287,550,000 as per 2019 Financial Year. In terms of HLG's business feasibility, the company is expected to be a good source for investment considering its performance within several factors in which will be discussed in body. To understand Hallenstein Ltd. further, the report includes New Zealand industry benchmark and in some relevant parts with Premier Investment Limited (an Australian retail company) as a comparison in relation to Hallenstein Ltd.'s profitability, effectivity, liquidity, gearing, and investment.

2. Body

a. Profitability

Profitability delivers returns summary of a company for investors (Sim and Kim, 2008). Despite Hallenstein Ltd.'s return on assets (ROA) fluctuated within the first three-year (2014 to 2019) between 23% to 29.39%, the company's ROA continued to grow in the next other three-year as it peaked to 42.67% (in 2018) before declining to 39.88% in 2019. The most highly likely variable which led to this fluctuation was the changes of earning before tax (EBIT) subject to the company's gross profit erratic trendline. Nonetheless, the increase of total expenses was apparently had caused Hallenstein Ltd. saw a decrease in gross profit margin, in particularly as expenses incurred gradually for cost of goods sold (COGS) along with the distributing activities, and renovation in stores, whereas net profit was at the highest sum in the time span. In addition, Hallenstein Ltd's benchmark surpassed the ROA and GPM of other clothing retailing industries in New Zealand at 5% and 44% respectively (Statistics New Zealand, 2020). Hence, it is evident that Hallenstein Ltd.'s profitability is much better than NZ clothing industries, as it resulted from the better used of assets. However, maximising profitability was still unattainable as Hallenstein Ltd. seemed experiencing constraints to control its costs. As for Premier Investment, which also operates in New Zealand, its gross profit margin recorded more stable at around 60% over the period of the years.

b. Efficiency

Generally, Hallenstein Ltd. had maintained a relatively better asset turnover throughout the year, which the ratio continuously increased from 2.48 to 2.92 (from 2014 to 2019), though a fall (from 3.13 to 2.92) in 2019. This ratio indicated the company efficiency in converting assets into cash, as similarly could be reflected from the less available of cash and cash equivalents (\$16,506,000) in 2019 compared to the year of 2014 (\$18,268,000) to 2015 (\$23,721,000), which was followed by a growth of revenue.

In terms of inventory turnover, the increase of COGS was an indication that Hallestein Ltd. experienced a lack management in inventory. Since 2019, inventory took 71 days to be converted into cash. Within this length, at least the company aimed to supply 5 times per annum or faster than industry benchmark (Statistics New Zealand, n.d).

Besides, Hallestein Ltd.'s trade receivable turnover also took extra one day in 2019 which means that to convert the account trade receivable into cash would take two days. On the other hand, Hallestein Ltd. in 2018 to 2019 managed to meet the efficiency to pay suppliers for not exceeding one-month period as was the last four years would take above 30 days. Obviously, this will increase the trustworthiness of the company towards both suppliers and investors.

c. Liquidity

Liquidity is essential for shareholders as to investigate certain company's capability to pay back its obligation (Marshall. et al., 2017). Hallestein Ltd.'s current ratio and quick ratio experienced a sharp decline from 2.22 to 1.64 and 1.02 to 0.68 respectively (during the period of 2014 to 2019). Apparently, the utilisation of cash and cash equivalents to pay suppliers and to meet other company's obligations such as salaries and utilities had impacted this financial position. As per 2017, the ratio started to slowly regressive and started to reverse in 2018 to 2019 since the company increased the cash sales and market expansion to Australia. It is also important to note that, although the figure for Hallestein Ltd. is slightly higher, the industry's current ratio is 1.22 and quick ratio is 0.34 (Statistic New Zealand, n.d) which this position very close to the company, hence, investment evaluation may be vital.

d. Gearing

Gearing plays essential roles to evaluate a company's performance during a competitive period (Siyanbola et al., 2015). In the case of Hallesntein Ltd., although there was no long-term debt since the company does not issued public shares, the company did have developed higher debt ratio with an upward trend (28.00% in 2019). This ratio incurred from trade payables, taxation payable, and other payables. As the company chooses to back up its finance from retaining earnings, this has led the company free from interest expenses and long-term debt. However, this strategy also leads to further potential growth.

e. Investment

The return equity (ROE) for Hallestein Ltd, seemed erratic in several years, particularly in the early time span, which was only accounted around 0.22 to 0.27 from 2014 to 2016. The figure then climbed up from 0.30 to 0.40 during 2017 to 2019 because of increase in dividend per common share as well as the market per share. Comparing to industry benchmark (0.05), it is true that HLG's ROE in recent years was healthier than those ratios at the beginning. Moreover,

since 2017, the net profit after tax (NPAT) also shown a more stable increase from 13,679 million to 29,020 million, which it means profit for shareholders doubled within six years period. It is also noticeable that earnings per share saw a fluctuated growth in which the time of 2016 was as reverse period for better leverage (the sum doubled from 23.94 in 2014 to 48.65 in 2019). In contrast, price earnings ratio had a steady growth at 11.00 in 2019 whereas in 2014 the figure was 13.24. This gave a tendency that share market might less appealed to Hallenstein Holding Limited.

After all, the company appeared to be inclined to strive in the market though it only acquired 8% of the dividend yield ratio which lesser than the previous consecutive years, with an exception in 2018 (where the percentage dip to 7%). This might provide an indication that HLG is seen as not that valuable in the market.

On the one hand, Premier Investment employed a good value which leads to “strong by strong like in many markets (Premier Investment Limited, 2017). This causes the company to attract more investors.

3. Conclusion

Considering the five measurements, Hallenstein Glasson Holdings Limited appears to be not a promising investment providing that some financial restructures taken place. The first reason is because Hallenstein Ltd. has a lack of cost control which caused a predictable sum of profit. For investors, it might be necessary to examine how the company should allocate the COGS as this leads to better efficient performance. Secondly, there might be some possibilities of danger to invest to the company as it does not possess a strong financial backup. This is worsened by the fact that the company does not open a wide chance for investment. Lastly, Hallenstein Ltd. suppose to create more values in the market, thus to ensure the potential investors attracted.

References

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HALLENSTEIN GLASSON HOLDINGS LTD SUMMARY REPORT (2016-2019)								PREMIER INVESTMENT LTD SUMMARY REPORT (2016-2019)									
\$,000	2019	2018	2017	2016	2015	2014		\$,000	2019	2018	2017	2016	2015	2014	2013		
Sales Revenue	287,550	278,197	239,004	223,510	221,520	207,984		Sales Revenue	1,270,958	1,182,221	1,092,760	1,049,226	947,662	892,570			
Cost of Sales	114,999	107,567	98,350	96,920	90,176	85,825		COGS	484,380	443,907	403,336	378,946	350,894	341,078			
Gross Profit	172,551	170,630	140,654	126,590	131,344	122,159		Gross Profit	786,578	738,314	689,424	670,280	596,768	551,492			
Total expenses	135,527	133,631	117,777	108,631	108,391	103,424		Total expenses	1,142,717	1,081,162	976,786	929,670	858,068	820,512			
Operating Profit (EBIT)	39,221	37,819	23,831	18,743	23,736	19,886		Earnings Before Interest and Tax (EBIT)	151,742	123,965	139,145	929,670	858,068	98,365			
Income tax expense	10,442	10,709	6,801	5,382	6,982	5,608		Income tax expense	44,935	40,327	34,009	39,209	28,843	25,365			
Net profit after tax	29,020	27,361	17,269	13,679	17,386	14,278		Net profit after tax	106,807	83,638	105,136	103,874	88,102	73,000			
Earnings per share								Earnings per share									
Basic and dilluted earnings per share	48.65	45.87	28.95	22.93	29.15	23.94		Basic, profit for the year (cents per share)	158,209	157,890	157,436	156,733	155,967	155,384			
								Dilluted, profit for the year (cents per share)	158,969	158,897	158,693	157,918	157,564	157,455			
Total equity	75,000	68,340	58,823	55,877	63,415	63,137		Total equity	1,349,286	1,344,934	1,335,673	1,338,555	1,338,307	1,298,529			
Current assets								Current assets									
Cash and cash equivalents	16,506	17,453	12,552	14,191	23,721	18,268		Cash and cash equivalents	190,255	178,618	170,631	283,233	281,572	313,308			
Trade and other receivables	1,652	182	779	1,660	718	783		Trade and other receivables	23,011	21,563	23,682	16,461	14,341	12,155			
Prepayments	4,535	3,871	3,873	3,419	599	3,347		Prepayments	-	-	-						
Inventories	24,011	20,959	20,605	20,001	19,827	19,945		Inventories	171,165	159,313	140,755	123,556	111,814	98,496			
Total current assets	48,610	45,346	38,047	39,617	46,716	43,142		Total current assets	405,238	386,790	346,821	436,580	445,831	430,691			
Total assets	104,580	92,121	85,494	78,628	86,296	82,539		Total assets	1,768,723	1,751,414	1,736,691	1,662,883	1,648,803	1,595,939			
Trade payables	6,798	5,506	9,169	7,921	10,338	7,798		Trade and other payables	81,938	84,558	71,528	72,965	73,723	62,520			
Taxation payable	3,897	2,712	2,517	999	2,936	1,935		Income tax payable	12,571	9,947	17,936	31,953	31,781	24,642			
Total current liabilities	29,580	23,781	26,671	22,751	22,881	19,402		Total current liabilities	274,518	271,112	143,390	140,053	127,367	16,558			
Total liabilities	29,580	23,781	26,671	22,751	22,881	19,402		Total liabilities	419,437	406,480	401,018	324,328	310,496	297,410			
Net assets	75,000	68,340	58,473	55,877	63,415	63,137		Net assets	1,349,286	1,344,934	1,335,673	1,338,555	1,338,307	1,298,529			
Market Price per Share	5.35	5.12	3.15	2.65	2.65	3.17	Market Price per Share	16.28	17.35	13.35	16.22	13.43	9.34				
Share Capital (Opening Ordinary Share Issued)	59,649	59,649	59,649	59,649	59,649	59,649	Share Capital	608,615	608,615	608,615	608,615	608,615	608,615				
DIVIDEND (CENTS PER SHARE)	0.44	0.37	0.31	0.30	0.31	0.30	DIVIDEND (CENTS PER SHARE)										
Dividend paid							Dividend per Common Share	0.66	0.56	0.51	44.00	50.00	39.00				
No	Ratio Formula	2019	2018	2017	2016	2015	2014	No	Ratio Formula	2019	2018	2017	2016	2015	2014		
1	Return on Assets	39.88%	42.59%	29.04%	22.73%	28.12%	23.70%	1	Return on Assets	8.62%	7.11%	8.19%	56.14%	52.89%	6.16%		
2	Gross P	60.01%	61.33%	58.85%	56.64%	59.29%	58.73%	2	Gross P	61.89%	62.45%	63.09%	63.88%	62.97%	61.79%		
	Asset Turnover	2.92	3.13	2.91	2.71	2.62	2.48		Asset Turnover	0.72	0.68	0.64	0.63	0.58	0.56		
3	I x 365	71.37	70.52	75.35	75.00	80.49	85.42	3	I x 365	124.51	123.36	119.59	113.35	109.38	52.70		
4	T x 365	1.16	0.63	1.86	1.94	1.24	1.69	4	T x 365	6.40	6.98	6.70	5.36	5.10	2.49		
5	T x 365	19.02	24.82	31.52	34.32	36.75	31.22	5	T x 365	-	-	-	-	-	-		
6	C	1.64	1.91	1.43	1.74	2.04	2.22	6	C	96.61%	95.16%	86.49%	134.61%	143.59%	144.81%		
7	A	0.68	0.86	0.51	0.71	1.15	1.02	7	A	85.27%	83.91%	143.71%	223.50%	262.25%	2006.25%		
8	G	-	-	-	-	-	-	8	G	-	-	-	-	-	-		
9	D	0.28	0.26	0.31	0.29	0.27	0.24		D	23.71%	23.21%	23.09%	19.50%	18.83%	18.64%		
10	I	-	-	-	-	-	-	9	I	-	-	-	-	-	-		
11	R	0.40	0.43	0.30	0.23	0.27	0.22	10	R	7.93%	6.24%	7.86%	7.76%	6.68%	5.62%		
12	E	0.49	0.46	0.29	0.23	0.29	0.24	11	E (Dilluted)	0.67	0.53	0.66	0.66	0.56	0.46		
13	P	11.00	11.16	10.88	11.56	9.09	13.24	12	E (Basic)	0.68	0.53	0.67	0.66	0.57	0.47		
14	D	0.08	0.07	0.10	0.11	0.12	0.09	13	P (Dilluted)	0.01	0.01	0.01	0.01	0.01	0.01		
	Calculation in days is multiplied by 365							14	P (Basic)	0.01	0.01	0.01	0.01	0.01	0.01		
								15	D	0.04	0.03	0.04	2.71	3.72	4.18		
									365	Number of days in a year							

Sources:
[NZX Company Research \(2020\). Hallenstein Glasson Holdings Limited - HLG](#)
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Ratio	min_micro	max_micro	Median_micro	min_small	max_small	Median_small	min_medium	max_medium	Median_medium	min_large	max_large	Median_large
Turnover bands	\$60,000 - \$149,000	\$60,000 - \$149,000	\$60,000 - \$149,000	\$149,001 - \$324,000	\$149,001 - \$324,000	\$149,001 - \$324,000	\$324,001 - \$686,000	\$324,001 - \$686,000	\$324,001 - \$686,000	\$686,001 - \$10,000,000	\$686,001 - \$10,000,000	\$686,001 - \$10,000,000
Gross profit ratio	0.39	0.74	0.54	0.36	0.65	0.48	0.37	0.52	0.44	0.38	0.51	0.44
Stock turnover per annum	1	4	2	1	4	2	2	4	3	2	4	3
Salaries and wages / turnover ratio	0	0.1	0	0	0.18	0.07	0.05	0.17	0.11	0.09	0.19	0.14
Return on total assets	-0.16	0.12	0	-0.05	0.13	0	-0.01	0.12	0	0	0.21	0.05
Return on equity	0	0.67	0.07	0	0.73	0.13	0	0.55	0.05	0	0.64	0.22
Current ratio	0.34	4.8	0.97	0.55	2.77	1.09	0.73	2.31	1.22	0.9	2.67	1.39
Quick ratio	0.06	1.52	0.32	0.06	1.16	0.3	0.1	0.99	0.34	0.22	1.12	0.46
Liability structure	-0.5	0.72	0.02	-0.24	0.61	0.01	-0.05	0.43	0.04	0	0.53	0.2