COVER PAGE AND DECLARATION

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MGT570: Financial Management

Module assignment: Financial Report

Introduction

PANDA is a large chain of supermarket based in Kingdom of Saudi Arabia (KSA), Established in 1979 by Savola Holding Corporate. Early beginnings, the company had its first store in Riyadh the, started growing and by 1991, it was converted into a limited liability sister company a member of the holding corporate. The long-term plan for the company is to expand across the entire KSA until enrollment in Saudi Stock Exchange in 2003 with an initial price of 25 SR. The company grew from strength to another till been able to become one of the top three market leaders in the retail industry in KSA.

The current share price of Panda is SR 12.430 compared to its competitors AlOthaim's having share price of SR 8.12 and Carrefour's having a share price of SR 7.69. The key of success was the ability to manage the resources evaluating the financial indices tools. The goal of this Assignment is to consider Analyzing PANDA's financial statement and area of strength for more expansion and injecting more investment.

Task 1:

The analysis will have a two-linked analysis on the strategy & management of the company. The first show financial analysis on current year-end statement in comparison to the last four years. The second will analyze how balanced scorecard looks like in order to expose the potential of PANDA and a better use of its resources more efficiently.

1-Financial Analysis

The financial analysis of PANDA focuses on the point of view of finance and investment managers who are considering adding the company to diversity of funds and portfolios. Both Relative and absolute analyses are adopted by PANDA CFO and the team to expose all financial metrics to have a clear vision and plan for short and long term objectives.

Ratio analysis is a technique of financial analysis in which meaningful relationship shown between the components of financial statements. (Needles et al.1996).it involves methods of calculating and interpreting financial ratios to analyze and monitor firm's performance. The basic inputs to ratio analysis are the firm's income statement and balance sheet. (Gitman 2009).

As finance team, we will overview PANDA'S performance the past five years and will analyze different ratios of profitability, liquidity, return and efficiency.

PANDA financial results
All Values quoted in the stock's local currency: Saudi Riyals.

Statement - Income	2020 SR (Millions)	2019 SR (Millions)	2018 SR (Millions)	2017 SR (Millions)	2016 SR (Millions)
Revenue	57,889.00	58,091.00	63,911.00	57,493.00	55,917.00
Net Interest	-936	-1,170.00	-1,064.00	-533	-765
Operating Profit	1,738.00	2,206.00	2,649.00	1,839.00	1,017.00
Profit Before Tax	824	1,028.00	1,617.00	1,300.00	145
Net Profit after tax	722	738	1,270.00	994	58
Discontinued Operations					
Profit after tax - discontinuing operations	5,426.00	235	n/a	216	-112
Profit for the period	6,146.00	973	1,270.00	1,210.00	-54
Earnings / Share					
Basic*	7.56H	7.60H	13.13H	12.15H	0.81H
Diluted:*	7.54H	7.54H	13.04H	12.11H	0.81H
Adjusted*	11.94H	18.60H	14.11H	12.15H	6.68H
Dividend per Share*	60.08H	9.15H	5.77H	3.00H	0.00H
*In Hallah					
Balance Sheet:	2020 SR (Millions)	2019 SR (Millions)	2018 SR (Millions)	2017 SR (Millions)	2016 SR (Millions)
Assets ***Non Current Assets:***					
Property & Equipment	23,162.00	26,108.00	26,899.00	18,521.00	18,108.00
Intangible Assets:	5,393.00	6,078.00	6,264.00	2,661.00	2,717.00

Investment Properties	19	26	36	100	64
Investments	930	307	602	689	1,562.00
Other Assets	1,425.00	1,083.00	2,157.00	1,977.00	1,303.00
Other Non Current Assets	4,042.00	5,652.00	8,362.00	7,187.00	6,682.00
Total	34,971.00	39,254.00	44,320.00	31,135.00	30,436.00
Current Assets					
Inventory	2,069.00	2,433.00	2,617.00	2,264.00	2,301.00
Other Receivables	1,263.00	1,396.00	1,550.00	1,504.00	1,475.00
Cash	2,510.00	4,137.00	2,916.00	4,059.00	3,821.00
Current Asset Investment	1,186.00	1,076.00	390	1,029.00	3,011.00
Other Current Assets	3,174.00	4,566.00	5,007.00	4,744.00	4,465.00
Total	10,202.00	13,608.00	12,480.00	13,600.00	15,073.00
Other Assets	605	285	98	149	344
Total Assets	45,778.00	53,147.00	56,898.00	44,884.00	45,853.00
Liabilities ***Current Liabilities***					
Borrowings/Lending	1,655.00	2,817.00	2,209.00	1,479.00	2,560.00
Other Current Liabilities:	14,066.00	15,839.00	18,764.00	17,754.00	16,674.00
Total	15,721.00	18,656.00	20,973.00	19,233.00	19,234.00
Non Current Liabilities					
Borrowings/Lending	14,015.00	14,973.00	15,439.00	7,142.00	9,433.00
Provisions	167	177	196	817	773
Other Non Current Liabilities	3,274.00	5,972.00	6,858.00	7,212.00	9,828.00
Total	17,456.00	21,122.00	22,493.00	15,171.00	20,034.00
Other Liabilities	276	n/a	n/a	n/a	171
Total Liabilities	33,453.00	39,778.00	43,466.00	34,404.00	39,439.00
Net Assets	12,325.00	13,369.00	13,432.00	10,480.00	6,414.00
Capital and reserves					
Share Capital	490	490	490	410	409
Share Premium Account	5,165.00	5,165.00	5,165.00	5,107.00	5,096.00

Other Reserves	3,183.00	3,658.00	3,770.00	735	601
Retained Earnings	3,505.00	4,078.00	4,031.00	4,250.00	332
Shareholders’ Funds	12,343.00	13,391.00	13,456.00	10,502.00	6,438.00
Minority Interests / Other Equity	-18	-22	-24	-22	-24
Total Equity	12,325.00	13,369.00	13,432.00	10,480.00	6,414.00

Profitability Ratios:

Dave (2012) defines profitability as an ability to make profit from all the business activities of an Organization, company, firm, or an enterprise. It shows how efficiently the management can make profit by using.

It’s a measure for earnings generated by the company during a period of time based on its level of sales, assets, capital employed, net worth and earnings per share. Profitability ratios measure earning capacity of the firm and it’s an indicator for growth, success and control.

The most used profitability ratios are the return on assets (ROA) and the return on owner equity (ROE);

- ROA ratio: net profit after taxes/total assets.
  It measures operating efficiency based on generated profit from total assets.
- ROE: net profit after taxes/total shareholders’ equity
  It measures the shareholders rate of return on their investment.

Activity ratios are another group to measure the ability to maximize the use of the resources i.e operational performance and efficiency. Return on investment (ROI) ratio is one of this group.

- ROI: net profit after taxes/total paid capital.
  It measures the efficiency in utilizing invested capital and ability to generate the expected return

Applying on PANDA, its statement showed gross margin change from -3.5% to 6.6% and Operating margin from -6.6% to 3.5% which confirms that PANDA shifted from loss to profit performance over the last 5 years. Earnings per share increased and dividends given out in 2020 as well however this was not possible before as PANDA was making loss.

Figure 4; Profitability ratios:

Profitability	2016	2017	2018	2019	2020
Gross Margin %	-3.6	5.00	5.2	5.6	6.7
Operating Margin %	-6.6	1.7	2.00	2.6	3.5
Earnings Per Share GBP	-2.72	0.04	-0.02	0.43	0.53
Dividends GBP	0.33			0.04	0.11

Return Ratios

Ratio analysis defined as systematic use of ratios to interpret the financial statements so that the strengths and weaknesses of a firm as well as its historical performance and current financial position can be determined Sahu & Charan (2013).

The return ratios shows that PANDA started earning profit as it went from -11.02% to 2.18% in 2020. The return on asset (ROA) went from -11.77% to 2.91% while the return on equity went from -51.2% to 11.03%. This ROA is satisfactory for more investment as every SR1 spent; the investor makes a profit value SR0.1 each year.

Return Ratios	2016	2017	2018	2019	2020
Tax Rate %			60	23.57	21.15
Net Margin %	-11.02	0.25	-0.07	2.1	2.18
Asset Turnover (Average)	1.32	1.24	1.24	1.27	1.36
Return on Assets %	-11.77	0.31	-0.09	2.66	2.91
Return on Equity %	-51.2	1.76	-0.53	14.26	11.03
Return on Invested Capital %	-22.84	3.64	0.73	7.88	7.43

Figure 5: Return ratios

Solvency:

Solvency indicates the ability to meet long-term financial obligation (Dahiyat, 2016).Debt ratio used as a measure of solvency through dividing total debt of a business by its total assets. If the percentage is too high, it might indicate that it difficult for the business to pay off its debts and continue operations (Walsh, 2008). In simple, Firm is solvent if able to pay back its long-term debts.

Looking into balance sheet, the assets and liabilities can denote how solvent the firm is. on the other hand, the cash flow statement can shed light on the ability to meet the short-term obligations.

Relation between Liquidity and Solvency:

Liquidity is the ability to cover short-term debts and measures how fast a company is able to covert its current assets into cash. In addition, the firm can be solvent but has low liquidity thus; Good liquidity management is an important objective for all companies since illiquidity may lead to insolvency (Goodhart, 2008)

Liquidity/Solvency Ratios:

PANDA statement showed 0.62 solvency ratio and 0.49 quick ratio.

The financial advantage of the company was 6.26 times in 2016 but felt down to 3.31 times in 2020. Respectively, debt to equity ratio decreased from 1.54 times to 0.44 times that is an indicator of equity improvement and decrease of debt.

Subsequently, the interest coverage improved from -11.68 to 6.71 and PANDA can cover its interest payments with its profit 6.71 times which means that the liquidity was improving profitability is on rising trend.

$$\text{Solvency Ratio} = \frac{\text{Net Income + Depreciation}}{\text{All Liabilities}}$$

Figure 6: Solvency and Liquidity & ratios

Liquidity Health	***2016***	***2017***	***2018***	***2019***	***2020***
Current Ratio	0.6	0.75	0.79	0.71	0.62
Quick Ratio	0.44	0.59	0.64	0.55	0.49
Financial Leverage	6.26	5.09	7.12	4.28	3.31
Debt/Equity	1.54	1.24	1.47	0.68	0.41
Interest Coverage	-11.68	1.33	1.28	4.01	6.71

Efficiency Ratios:

It is defined as the firm's ability to transform its resources into revenues, and it is calculated by dividing the firm's total expense excluding interest expenses over its total revenue; the lower the ratio, the greater the firm's efficiency and vice versa (Hays, Stephen, Arthur, 2009).

In a simple formula, Efficiency ratio = Expenses / Revenue.

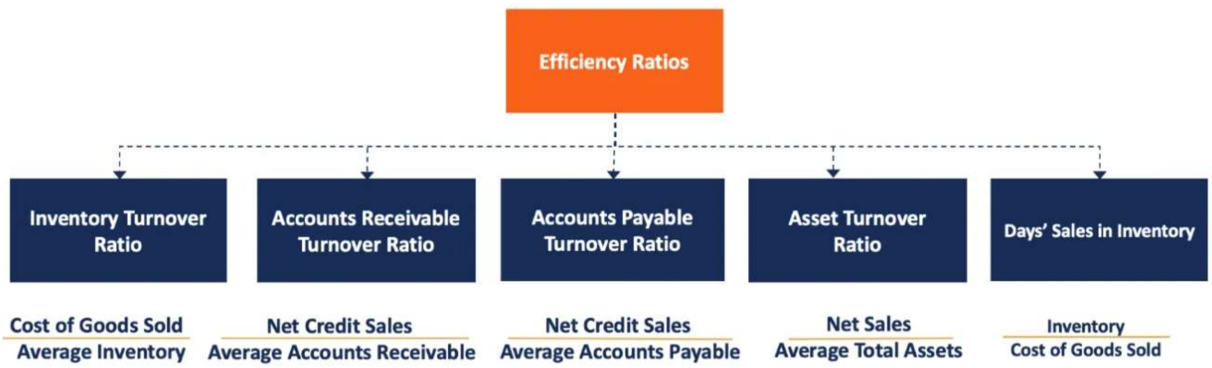

Figure 7: indices that considered in calculating the Efficiency Ratios.

Below table shows both PANDA and AlOthaim has a negative cash conversion cycle and debtors pay the company more quickly versus PANDA when pays its creditors back.

The index of fixed asset shows that PANDA is more efficient using its assets to generate revenue.

PANDA	
Days' outstanding sales	9 days
Days' inventory	15 days
Payable period	56 days
Fixed asset turnover	3.4 times
asset turnover	1,36
Fixed assets are yielding sales *	SR3.4
Total assets yielding sales*	SR1.36
AlOthaim	
Days' outstanding sales	1.64 days
Days' inventory	25.27 days
Payable period	39.85 days

* yeild amount for every invested 1 SR.

Task2: Recommendations to improve the company business

Balanced Scorecard (BSC)

BSC approach is an integrated set of financial and non-financial measures used in the implementation process of the strategy of a business that underlines the communication strategy with the stakeholders and provides input on the organization's objectives (Mendoza & Zrihen, 2001)

BSC is able to use financial indices of the historical performance of PANDA and provides clear understanding going forward. In addition, PANDA needs more measures to test the potential of more investment to inject in terms of its impact on the customers, innovation, the suppliers, technology and the staff.

Recommendations:

Depending on market research and insights, I recommend four business cores to focus on for improvement, to measure the company's performance, and to monitor the ability to covert the strategy into action (SIA).

Savola , PANDA Scorecard
Corporate Mission: Relentlessly provide our customer with extraordinary quality, packed in innovative satisfaction.

	Business Objectives	***Measures***	***Target***
Financial	Increase revenue by improving sales mix	Revenue generated from sales mix	increase revenue 18%
	Decrease Operations' cost	Operations' cost	Decrease operations cost by 6% by increasing production and supply chain efficiency
	Divisional profit increase	Divisional profit	Divisional profit increase by 13%
	Product improvement.	Volume of new products	20% increase in new products and 10% product improvement.

Learning and development	Employee engagement	Training basket	80% staff training yearly
	Talent retention	Internal satisfaction surveys for improvement.	5% attrition rate.
Customer	Satisfy customer needs	Net Promoter Score	95% satisfaction
	Brand awareness	Volume of repeat purchases	95% customer retention and 15% increase in sales
	Referred customers	Volume of referrals	20 increase in customer referrals
Internal	Reduce handling time "Production to Customer"	Handling time in the chain of supply.	15% decrease if handling time.
	Waste control	Decrease in volume of wasted units.	20% decrease of wasted units.
	Sustainability and Eco-protection	Paperless environment and system driven process.	100% paperless and 80% system driven processes.

The performance dashboard reported to the board every quarter and an executive summary given to all managers to cascade it down to all key stakeholders.

Based on the performances and KPIs set by the board, the salary of the Chief executive team "CET", senior management "SMT" is given, and bonus concluded based on the rating of achievement and success of the staff.

The balanced scorecard approach suggested to PANDA is the success key to position as the largest Saudi retailer expanding into MENA region.

1- <u>Customer aspect:</u>

Cronin & Taylor (2008) found that service quality is the arrangements of customer satisfaction and customer satisfaction will have a significant impact on purchasing decisions.

In order for PANDA to increase the average customer volume to 2.2M, it has to initiate:

- Up Your Service program to create loyalty by measuring the needs, expectations & satisfaction indices of the customers and define the milestones to achieve it.
- Diversity of engagement programs: The Company is able to understand its customers by the use of their value cards, Net Promoter Score, CSAT and offers vouchers and discount opportunities, which will retain old customers and attracts new ones.
- Leveraging technology: in the form of online shopping portal to facilitate old customers and to make new ones at their comfort. Planned online sales will help PANADA raise its market share by 14% and forecasted sales growth of 6.5%.

2- ***Financial aspect:***

Financial measures appear as a traditional method of analyzing success (Kaplan and Norton, 2000).

The financial aspect looks at the financial objectives and performance of PANDA by using the known financial indices and measures. This aspect is able to figure out how the company's strategy, opportunities and feasibility of amending the strategy and SIA to have an impact on both the bottom and top lines of the PANDA.

The goal is to maintain recent financial indices/performance of the company that has shown:

- An increase in the total sales by more than 11.2% for the year taking its revenues to over SR52 billion for 2020 up from SR 46.4 Billion in 2019.
- Growth in its EPS (Earning per Share) of around 29% to SR14.5 per share and an increase in dividend of 88% as it gave out SR5.77 in 2020 compared to SR2.9 in 2019.
- The increase in sales matched a decrease in expenses. Subsequently, PANDA increased operating profit by 19% compared to a sales increase of 11.2%, which is an indicator that the company maximized the revenue parallel to looking for minimizing expenses by using the proposed strategy and techniques.
- PANDA has to invest in one of leading projects, advance its IT infrastructure and boost using technology to keep growing and maintain the financial momentum achieved.

3- Learning and development aspect:

Training opportunities increase in high employee turnover whereas the other claimed that training is an instrument, which is beneficial for employee retention (Colarelli and Montei 1996; Becker 1993).

PANDA has to raise by 200% the fund allocated for employees' learning and growth, this consists of employee capability improvement and talent retention targeting to help assisting the customers in a proactive structured way. Business managers will be responsible to measure skill deficits and training outcome results in line with the company strategy.

- PANDA needs to employ people considering diversity of skills and ensure fair treatment policy. Moreover, it has to carry out bi-yearly performance review/appraisal and sees how the knowledge and their work efficiency have improved over time.
- PANDA needs to engage the staff more to involve them in decision-making and problem solving processes and gets their feedback in order to improve the program the way forward.

4- Business Process aspect (internal):

The internal business process perspective is one of the key dimensions of the Balanced Scorecard (BSC) approach measuring corporate performance, which examines the strength of organizations in operating their business activities (Parajuli, 2017)

The internal business process aspect allows a company to identify processes & techniques and ability to agile in order to meet the customer expectation and requirements.

Proposed internal processes divided into: operations, post sales and innovation based processes.

- For innovation, PANDA needs to develop customer centric environment offering for example new trends of healthy/organic eating recipes and goods, develops a new product lines collaboratively with its suppliers and get market insights and research to understand what the customers require, and to stay ahead of competition.
- For operations, PANDA has to manage its supply chain efficiently focusing on its transport to reduce the cost and keep its workforce happy.

- For post-sales processes, PANDA has to keep recording customers' voice and feedback to keep improving the service levels and develop new products. When the customers provide the feedback and see that their voice is valued and correction implemented, they will be more loyal to PANDA.

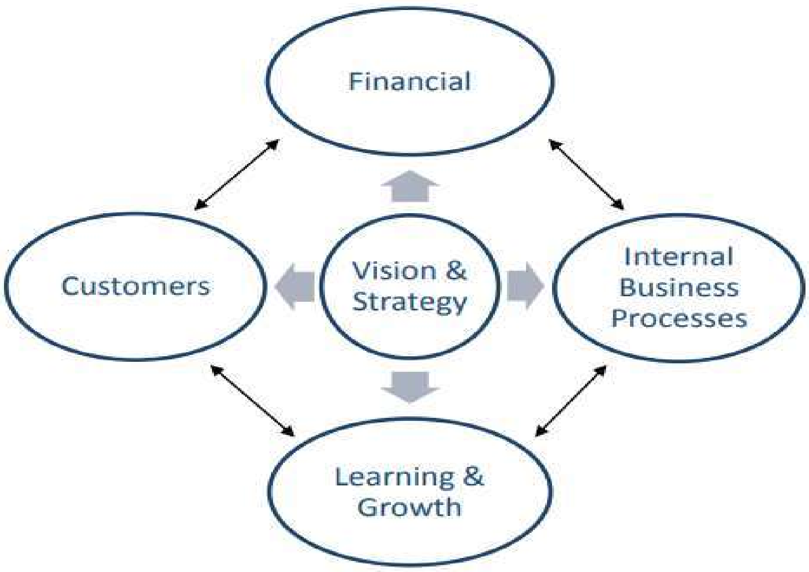

Figure 7

Recommended Balance score card for better financial performance

Task3: New Business project for PANDA to invest in for growth and expansion:

Modern corporate finance theory shows that investment decision is always one of the most fundamental problems in corporate finance (Ross et al., 2008).

Decision to invest:

The two main components of Capital fund are debt and equity. Shareholders and Creditors when raising fund expect to have a return on funded capital that is called "The cost of capital".

The usual indicator demarcating the cost of risk investors can accept is the weighted average cost of capital (WACC). For example; if a creditor asks for a 12% return on his fund in addition to 18% requested by the shareholders, then the WACC is 15%. For PANDA, Every 1 dollar invested into capital, the return is 19% and the matched WACC 11% "Based on latest financial statement" PANDA is generating 0.09 dollar. Therefore, it is favorable to decide getting into new investment opportunity.

As a financial consultant, I'd recommend the below 2 projects with their forecasted financial indices and returns

- Project A (healthy food line using PANDA chain of suppliers)

Year	CF*	DF*	PV*	DF*	PV*
	SR000	10%	SR000	20%	SR000
0	-200	1	200	1	200
1	35	0.909	31.815	0.833	29.155
2	80	0.826	66.08	0.694	55.52
3	90	0.751	67.59	0.579	52.11
4	75	0.683	51.225	0.482	36.15
5	20	0.621	12.42	0.402	8.04
	NPV (10%)= 29.130		NPV (20%)= 19.025		

CF : cash flows

DF: Discount factors, a decimal number to discount cash flow to its present value. It increases over time.

PV : Present value of future cash flows

- Project B (Open a fresh bakery product line)

Year	CF	DF	PV	DF	PV
	SR000	10%	SR000	20%	SR000
0	-200	1	200	1	200
1	218	0.909	198.162	0.833	181.594
2	10	0.826	8.26	0.694	6.94
3	10	0.751	7.51	0.579	5.79
4	4	0.683	2.732	0.482	1.928
5	3	0.621	1.863	0.402	1.206
	NPV (10%)= 18.527		NPV (20%)= 2.542		

Net present value "NPV" = Present value of cash inflow - Present value of cash outflow

NPV for Project A discounted at 10% = 29.130 USD

NPV for Project B discounted at 10% = 18.527 USD

- Healthy food project with cost of capital at 10% has higher NPV while Bakery project has a higher Internal return rate “IRR”.

For PANDA, I will recommend project A. having the higher NPV indicating the cash surplus and evaluating the capital expenditure and return amount.

- Bakery project, year 1 has the main cash flow compared to healthy food project with main flow coming in year 2-4. This explains why Project B has higher IRR indicating breakeven cash flow level.

A.***Funding the new project:***

Modigliani and Miller (1958) have assumed that, in perfect capital markets and without costs, a firm’s investment decision is not dependent on its financial condition by external funding. However, in practice, businesses often encounter many limitations when contacting external funding sources, so investment activities will depend heavily on the internal cash flow of businesses.

In general, business leaders must choose how to access financial capital:

- Bank loans or issuing bonds:
  The main disadvantage of borrowing money is the interest payments & income sufficiency. However, the great advantage is that the firm controls its operations.
- Stock issuance:
  Involves partially selling ownership of the company to the public market and becoming accountable in front of a board of directors and the shareholders.
  On the other hand, it requires the expertise of investment bankers and attorneys, entails compliance with reporting requirements to shareholders and government

  PANDA as a successful and profitable firm, the board of directors need to decide upon a dividend payout or reinvesting the profits going forward for more growth.

Definition of Retained Profit:

Retained earnings are after-tax profits kept within the company rather than paid as dividends. It reflects the level of financial stability of the firm and forms a good source of capital to re-invest in expansion & business growth, finance business operations, or can be used to pay costly operating debts.

Making investment using retained earnings has both advantages and disadvantages:

Pros:

- No interest fees added to debt profile or decrease in profits with interest payments.
- Keeps all power within the company: a conservative option that allows maintaining full control of business rather than complicating the business with creditors and additional debt.
- Flexible: business leaders can decide how much to invest in growth.

Cons:

- It is slow which can miss business opportunities during building up the necessary funds.
- Decrease the operating cash to fund ongoing operations.

Recommendation:

Retained earnings is a conservative option for PANDA to fuel its new investment project, is however, PANDA can capitalize 40% of its own money, so it need to issue stock to cover the required fund considering the market value and proposition which has trust to invest image in the market.

Task 4: Retained earnings

Revenue retentions also called retained earnings or retained surplus refer to the portion of a company's profits that is kept for reinvestment into the business or for debt payments, instead of being paid out rather as dividends to shareholders (Chasan, 2012)

Calculation of Retained Earnings:

Retained Earnings (RE) = Beginning RE + Profits – Dividend

Recommendations to PANDA:

Tariq, Kharal, Abrar, Ahkam, and Khan, (2014) showed that dividends are more important as compared to retained earnings for the illustrative influence of financial performance.

As PANDA strategy is to foster goodwill among shareholders, drive demand for the stock to secure capital for new project, and emphasize its business viability, we recommend paying dividends.

PANDA as a public company face different types of pressures as it has many shareholders that actively traded its stock. While retained earnings help improve the financial health of the company, dividends help attract more investors who always look for organizations that has high return on retained earnings reinvested regularly moreover, Dividends is in the best interests for PANDA to maintain stock prices at higher level.

Therefore, the company has to balance between issuing dividends and retained earnings for investment at 60/40 respectively to maintain appetite for investors and to keep reserve for business growth and expansion.

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