COVER PAGE AND DECLARATION

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Introduction:

Our research will include Dubai Refreshments Company (DRC), which is one of the companies listed on the Dubai Financial Market, where we will conduct a comprehensive analysis of the company's operations and performance. Dubai Refreshments Company.

DRC is a leading F&B manufacturing and distribution company in the lower gulf, it is strategically located at the heart of the new industrial hub midway between Dubai and Abu Dhabi, at Dubai Investment Park. The new site is state of art that meets the current requirements of the industry.

More significant is the fact that the company introduced the Pepsi range of products to the UAE and has been doing the same successfully for almost 60 years.

The business began as a limited liability company by Decree of His Highness, The Ruler of Dubai and in July 1994, it amended its status as a Public Shareholding company. In 1962 DRC was appointed as the sole franchisee and distributor for Pepsi Co. The company’s vision has always been to be the lower Gulf’s leading F&B company, driven by top caliber people, equipped with the right tools and solid systems. A wide distribution network ensures PepsiCo products are readily available to customers all over the UAE and many parts of the world.

In the beginning, we will present the main lists of the financial statements of the company, the subject of the research, for the years 2018, 2019, 2020, 2021 as follows:

Home - Dubai Refreshment Company (pepsidrc.com)

A) Balance sheet:

ASSETS	2018 AED 000	2019 AED 000	2020 AED 000	2021 AED 000
Non -current assets				
Property, Plant and equipment	668,958	648,033	618,910	586,580

Right of use assets	-	120,107	107,511	97,589
intangible assets	19,899	15,732	11,779	8,214
investment securities	115,001	81,391	71,897	118,696
Total non - current assets	**803,858**	**865,263**	**810,097**	**811,079**
Current assets				
Inventories	52,866	50,663	50,859	76,960
Trade and other receivables	188,071	182,773	175,496	200,502
Contract assets	5,612	6,532	132,646	155,816
Cash and cash equivalents	94,810	120,299		
Total current assets	**341,359**	**360,267**	**359,001**	**433,278**
Total Assets	**1,145,217**	**1,225,530**	**1,169,098**	**1,244,357**
EQUITY AND LIABILITIES				
Equity				
Share capital	90,000	90,000	90,000	90,000
Statutory reserve	45,000	45,000	45,000	45,000
General reserve	618,401	618,401	618,401	618,401
Fair value reserve	83,918	50,308	40,814	87,613
Cash flow hedge reserve	- 1,281	- 414	1,377	- 179
Retained earnings	61,590	82,808	72,477	102,073
Total equity	**897,628**	**886,103**	**868,069**	**942,908**
Non - Current liabilities				
Provision for employees end of service indemnity	23,252	24,344	26,141	28,077
Lease liabilities - non - current portion	-	110,417	100391	91,897
Term loans - non - current portion	20,064	10,032	0	-
Total non - current liabilities	**43,316**	**144,793**	**126,532**	**119,974**
Current liabilities				
Trade and other payables	138,866	148,405	150,938	167,854
Lease liabilities - current portion	-	13,571	13,443	13,621
contract liabilities	20,837	22,291	-	-

Term loans - current portion	44,570	10,367	10,116	-
Total current liabilities	**204,273**	**194,634**	**174,497**	**181,475**
Total Liabilities	**247,589**	**339,427**	**301,029**	**301,449**
Total Equity and Liabilities	**1,145,217**	**1,225,530**	**1,169,098**	**1,244,357**

B) Income Statement

	2018 AED 000	**2019 AED 000**	**2020 AED 000**	**2021 AED 000**
Revenue	596,009	635,878	564,449	669,707
Cost of sales	(404,127)	(411,979)	(366,687)	(422,155)
Gross Profit	**191,882**	**223,899**	**197,762**	**247,552**
Other operating income	8,576	8,730	7,723	7,548
Selling and distribution expenses	(100,071)	(105,318)	(93,516)	(98,311)
General and administrative expenses	(55,111)	(54,230)	(51,255)	(55,840)
Amortization of intangible assets	(7,005)	(4,230)	(3,988)	(3,684)
Operating income	**38,271**	**68,851**	**56,726**	**97,265**
Finance income	632	507	555	708
Finance costs	(3,357)	(1,547)	(408)	(123)
Lease interest income	-	(4,542)	(4,211)	(3,974)
Dividend income	5,085	5,059	3,389	3,372
other (expense)/ income	1,660	(970)	818	(452)
Profit for the year	**42,291**	**67,358**	**56,869**	**96,796**
Earnings per share in AED	0.43	0.70	0.59	1.03

Other comprehensive income / (loss)				
Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods:				
Change in fair value of investment securities measured at FVOCI, equity instruments	(23,837)	(33,610)	(9,494)	46,799
Change in fair value of cash flow hedges	(2,511)	867	1,791	(1,556)
Total other comprehensive (loss)/ profit	**(26,348)**	**(32,743)**	**(7,703)**	**45,243**
Total comprehensive income for the year	**15,943**	**34,615**	**49,166**	**142,039**

C) Cash flow Statement:

	2018 AED 000	**2019 AED 000**	**2020 AED 000**	**2021 AED 000**
Cash flows from operating activities				
Profit for the year Adjustments for:	42,291	67,358	56,869	96,796
Depreciation on property , pant and equipment	47,608	45,895	44,704	43,261
Amortization of intangible asset	7,005	4,230	3,988	3,684
Depreciation on right - of use assets	-	11,441	12,596	13,461
Finance income	(632)	(507)	(555)	(708)
Finance expense	3,357	1,547	408	123
Interest and other expense on lease	-	6,286	4,211	3,974
(Gain)/ loss on sale of assets	53	(445)	(23)	1,901
Dividend income	(5,085)	(5,059)	(3,389)	(3,372)

Provision of loss allowance for doubtful debt	-	1,600	993	1,453
Provision for employees end of service benefits	2,991	3,012	3,038	2,955
Operating cash flows before changes in operating assets and liabilities	**97,588**	**135,358**	**122,840**	**163,528**
Decrease in inventories	17,764	2,203	(196)	(26,101)
Decrease/(increase) in trade and other receivables	(53,080)	3,698	14,295	(26,459)
Increase in contract assets	(1,109)	(921)	(1,479)	
Increase / (decrease) in trade and other payables	(23,695)	9,986	(19,811)	15,360
Increase in contract liabilities	18,396	1,454	1,844	
Cash Generates from operation	**55,864**	**151,778**	**117,493**	**126,328**
Employees end of service indemnity paid	(1,991)	(1,920)	(1,241)	(1,020)
Net cash generated from operating activities	**53,873**	**149,858**	**116,252**	**125,308**
Cash flows from investing activities				
Purchase of property, plant, and equipment	(20,943)	(24,990)	(15,786)	(12,953)
Purchase of intangible assets	(1,197)	(63)	(35)	(42)

Proceeds from disposal of property plant and equipment	416	465	228	44
Dividend income, net	5,085	5,059	3,389	3,372
Finance income, net	632	507	555	708
Net cash used in investing activities	**(16,007)**	**(19,022)**	**(11,649)**	**(8,871)**
Cash flows from financing activities				
Proceeds from term loans	5,944	-	-	-
Repayment of term loans	(44,388)	(44,235)	(10,283)	(10,116)
Director fees paid	(3,780)	(3,780)	(4,200)	(4,200)
Dividends paid	(63,000)	(41,940)	(63,000)	(63,000)
Finance expense, paid	(3,357)	(1,547)	(408)	(123)
Lease payment	-	(13,845)	(14,365)	(15,828)
Net cash used in financing activities	**(108,581)**	**(105,347)**	**(92,256)**	**(93,267)**
Net increase/ (decrease) in cash and cash equivalents	**(70,715)**	**25,489**	**12,347**	**23,170**
Cash and cash equivalent at the beginning of the year	165,525	94,810	120,299	132,646
Cash and cash equivalents at the end of the year	**94,810**	**120,299**	**132,646**	**155,816**

Reference:

Dubai Financial Market - Region's leading financial exchange (dfm.ae)

DRC_Integrated report_A_28_02_2022.pdf

DRC_FS_ANN_E_10_03_2019.pdf

DRC_FS_ANN_E_25_02_2020.pdf

DRC_FS_ANN_E_23_02_2022.pdf

1) Financial Analysing

The importance of financial analysis Determine the company's financial efficiency by determining its liquidity ratios. Determining financing plans and the amount based on the company's financial efficiency indicators. Providing accurate information about investment success through indicators of profitability ratios. Supporting the future planning process to enhance the strengths and confront the weaknesses.

Below we will show some financial analysis ratios of the company being researched, and then indicate recommendations and proposals to improve the company's performance.

1) <u>Profitability Ratio</u>

here are many measures of profitability, each of which is related to the relationship of the return achieved by the enterprise and its sales, assets, or property rights in it by dealing with these ratios as a group, we can determine the position of the profitability of the enterprise by evaluating its returns considering a certain level of sales, a certain level of assets, or a certain level of investments. the angel.

Great attention is given to profitability as long as the establishment's survival in its activity is linked to its ability to make profits, since without interest the establishment cannot attract external capital, as well as the current owners and creditors are interested in the future of the company and also re-covering their money, so we find that this group of ratios is of interest to the owners Creditors and management due to the importance of making profits, as these ratios measure the company's ability to make profits from sales, assets and equity.

- Gross Profit Margin = Gross Profit / Net sales
- Net Profit Margin = Net Profit / Net Sales
- Return on Assets (ROA) = net income / total assets
- Return on equity (ROE) = Net income / total equity
- Earnings Per Share = (Net profit – Dividends in Preferred Stock) / Average Common Share Outstanding

Profitability Ratio	**2018**	**2019**	**2020**	**2021**
Gross Profit Margin	0.32	0.35	0.35	0.37
Net Profit Margin	0.07	0.11	0.10	0.14
Return On Assets	0.04	0.05	0.05	0.08
Return On Equity	0.05	0.08	0.07	0.10
Earnings per share	0.43	0.70	0.59	1.03

Comments:

- Gross Profit Margin: This ratio indicates management efficiency in pricing, generating sales, and controlling costs, and as it is known, the higher this percentage, the better the company's position, and it is clear from the above analysis that the percentage is increasing, but the percentage of increase is rather small.

- Net Profit Margin: This percentage measures the total profitability of the company, considering all direct and indirect costs, as it is known, increasing these percentages is considered better for the company, But we note from the above analysis that the percentage increased over the four years, but it reflects a slight increase.

- Return on Assets (ROA): This ratio measures the company's efficiency in using its assets, and although the change in this ratio is small, compared to the value of the change in assets, it is considered good.

- Return On Equity (ROE): This ratio reflects the number of profits generated by the company from the money invested by the shareholders, as we all increase the ratio is considered better and through the analysis shown above, we find that the ratio has always been increasing, which is considered a good indicator for shareholders.

- Earnings per share :Earnings per share shows the share of the ordinary share of profits during a period. Earnings per share is considered one of the most important indicators used to measure the return that the shareholder obtains. Therefore, this indicator receives the attention of current and prospective investors.

  As we note, the percentage was increasing, which indicates the shareholders' confidence in the company's performance and reputation, which is considered a good indicator. However, for the sake of more impartiality, it should be accused of comparing these percentages with the percentages of other companies in the same field to verify the extent of the company's success in attracting investors.

1. **Activity Ratio Analysis (Efficiency)**

   Activity ratios or operating ratios measure the extent of the facility's ability to convert non-cash current assets such as inventory, customer balances, and securities into liquid cash, or in other words, it analyzes the facility's ability to use its available resources to generate sales. It also measures the quality and efficiency of managing the working capital of the facility and related departments such as sales, customer management, inventory management and production management.

- Inventory Turnover = Cost of goods sold / inventory
- Days sales in inventory = 356 day / inventory turnover
- Receivables turnover = sales / account receivables
- Days sales in receivables = 365 day / receivables turnover
- Fixed assets turnover = sales / net fixed assets
- Total assets turnover = sales / total assets

(Efficiency) Ratio		**2018**	**2019**	**2020**	**2021**
Inventory Turnover		7.64	8.13	7.21	5.49
Days sales in inventory	days	48	45	51	67
Receivables turnover		3.17	3.48	3.22	3.34
Days sales in receivables	days	115	105	113	109
Fixed assets turnover		0.89	0.98	0.91	1.14
Total assets turnover		0.52	0.52	0.48	0.54

Comments:

- Inventory Turnover and Days sales in inventory: This rate reflects the efficiency and effectiveness of the facility in managing inventory, as it measures the number of inventory sales turnover during the fiscal period. However, an exaggerated increase in this rate means that the inventory does not respond to the increase in sales, and thus lost opportunities to achieve additional sales for the business. And vice versa, the lower the inventory turnover rate, this means the existence of idle capital represented in the stagnation of inventory, and then the enterprise bears the risks resulting from increasing the costs of maintaining inventory more than its needs and it is not necessary to meet the demands of customers. We also note that the company's turnover rate is good and at close rates annually, which indicates the company's efficiency in managing inventory.

Despite the increase in the average period of selling inventory from 48 days in 2018 to 67 days in 2021, it is considered good and did not affect the company's sales, which were increasing. However, when compared with the rate and period of receivables turnover, it is considered not good, as will be shown below.

- Receivables turnover and Days sales in receivables: It measures the flow of funds invested in receivables in deferred sale and then collection. This measure reflects the number of times each amount invested in receivables is used in deferred sale and collection operations during the period. The increase in the number of times of use during the period reflects efficiency in receivables management and thus an improvement in profitability. We note that the receivables turnover rate is constant during the four years under study.

  We can also note that the receivables turnover rate decreased from 115 days in the year 2018 to 109 in the year 2021, noting that by comparing these ratios with the inventory turnover rate, we see that it is high, as the percentage of collection of amounts the sold inventory is almost double the collection period, which may lead to a decrease in the company's cash and its resorting to borrowing

- Fixed assets turnover: This rate measures the efficiency of the establishment in using fixed assets to increase sales and then achieve profits, where if the turnover rate of fixed assets is high, this indicates the efficiency of the company in managing fixed assets, or the reason may be due to the small volume of investment in these assets, and vice versa if the turnover rate decreases Fixed assets It may be due to the company's inability to make optimal use of fixed assets or due to the presence of idle energy within these assets As we note that the fixed assets turnover rate ranged between 0.89 to 1.14, despite the convergence of the value of fixed assets during the same period and its decrease in the year 2021, which indicates the optimal use of those assets by the company.

- Total assets turnover: This rate measures the efficiency of the facility in using assets (fixed and current) to increase sales and then achieve profits, or in other words, this ratio measures the ability of the facility's assets to generate sales, and then judges the efficiency of the facility's management in investing its financial resources in assets, where This ratio measures the extent to which each amount invested in the assets of the establishment contributes to achieving sales. The higher this ratio, the more this indicates the efficiency of the firm’s management in investing its money in the assets, and vice versa, as the decrease in this ratio is an indication that the company’s investments in assets are greater than they should be, which means Low feasibility of investing in the assets of the establishment. We note that the turnover rate of total fixed assets was at an almost constant rate that ranged between 0.48 to 0.54, and when compared to the company's sales for the same period, we note that sales were proportionate and increasing with the turnover rate of total assets, which indicates optimal use by the company

2. **<u>Short – term solvency</u>**

It is considered one of the most common financial analysis tools. It helps the company’s management to evaluate its performance at the end of the accounting period. It also helps lenders know if borrowers can commit to repaying their loans in the long and short term. It also helps investors estimate expected returns and the degree of risk associated with their investments.

- Working capital = current assets – current liabilities
- Current ratio = current assets / current liabilities
- Quick ratio = current assets - inventory / current liabilities
- Quick assets = current assets – inventory – prepaid expenses
- Cash ratio = cash / current liabilities

Short term solvency or liquidity ratio	**2018**	**2019**	**2020**	**2021**
Working capital	137,086	165,633	184,504	251,803
Current ratio	1.67	1.85	2.06	2.39
Quick ratio	1.41	1.59	1.77	1.96
Quick assets	279,078	298,042	297,365	347,586
Cash ratio	2.19	0.83	1.05	1.30

Comments:

- Working capital and Quick assets: It is the difference between current assets and current liabilities, as a ratio less than (1) indicates that the company is having difficulty in paying creditors, but we notice through our analysis that the ratio is high, which indicates the possibility of converting assets into cash very quickly, which is considered a good indicator of The liquidity availability of the company, as for the quick assets ratio, which is current assets minus inventory and prepaid expenses, it is considered excellent and confirms the company's ability to provide liquidity very quickly.
- Current ratio: The current ratio, which can be calculated by dividing the total current assets by the total current liabilities, as the higher the value of the ratio, this indicates the financial health of the company. The current ratio is between 1.5 to 2 acceptable to most companies. Through our study of the company, it was found that the turnover ranged between 1.67 to 2.39 which indicates the financial suitability of the company.
- Quick ratio: The quick ratio measures the company's ability to fulfill its obligations by converting its assets into liquidity easily and quickly, without resorting to stock liquidation, which is considered the least transferable asset into liquidity. In general, the quick ratios should not be less than (1). It ranged between 1.41 to 1.96, which indicates that the

company has enough cash and cash equivalents to cover its short-term financial obligations and maintain the continuity of its operations.

- Cash ratio: The cash liquidity ratio refers to the company's ability to pay its short-term debt obligations with its cash and cash equivalents. It can be calculated by dividing the value of cash and cash equivalents by current liabilities. It is considered a percentage (1) of the accepted values. Through our study, it was found that the company's liquidity ratio was more than (1) With the exception of the year 2019, however, in general, the company has a good cash liquidity ratio.

3. Long – term solvency

These ratios measure the extent to which the company relies on borrowing to finance its operations. The solvency ratios also measure the long-term financial viability of the company, as these ratios compare the company's debt levels with its assets, property rights, or annual profits.

- Debt to assets ratio = total liabilities / total Assets
- Debit to equity ratio = total liabilities (debit) / total equity
- Interest coverage ratio = EBIT / Interest Expenses
- Debt service coverage = net operating income / debt service

Long term solvency or Debt ratio	**2018**	**2019**	**2020**	**2021**
Debt to assets ratio	0.18	0.16	0.15	0.15
Debit to equity ratio	0.23	0.22	0.20	0.19
Interest coverage ratio	11.40	44.51	139.03	790.77
Debt service coverage	9.59	33.52	58.91	117.05

Comments:

- Debt to assets ratio: This ratio indicates the extent to which short-term and long-term debts contribute to financing the company's assets Where we found that the percentage is small and almost constant in the period of

4 years and ranged between (0.15 to 0.18) Which indicates the company's financial efficiency

- Debit to equity ratio: This ratio indicates the extent of the company's reliance on the debts of others compared to the rights of shareholders, as it was found that the ratio of debt to shareholders' equity ranged between 0.19 to 0.23, which is considered a small percentage and confirms the financial suitability of the company and its reliance on its capital and the contributions of the owners.
- Interest coverage ratio: This percentage indicates the company's ability to pay the interest accrued from it. As we note, the percentages were constantly increasing, which indicates its high ability to pay interest.
- Debt service coverage: This ratio indicates how easy it is for the company to pay the interests and installments of long-term loans that are due during the financial period.

4. **Market – based rations**

These ratios are used by investors who want to buy shares and make profits, these ratios are used to see if the share price is exaggerated or less than its real value.

- Price earnings ratio = price per share / earnings per share
- Market to book ratio = market value per share / book value per share

Market value ratio	**2018**	**2019**	**2020**	**2021**
Price earnings ratio	2.33	1.43	1.69	0.97
Market to book ratio	3.51	2.59	2.48	2.28

Comments:

- Price earnings ratio: It measures the period needed to recover the amount that was paid to purchase the share on the assumption that the same profit will be achieved in the coming years, and we notice that the percentage has decreased, which indicates that the recovery period (share value) has become less, and this motivates investors to buy the company’s shares.

- Market to book ratio: A ratio of less than one indicates that the stock is undervalued, while a ratio greater than one indicates that the stock is overvalued. Here, investors' attitudes differ, as if the investor wants to invest long-term in the company, these ratios are considered good for him. As for speculative investors, it is considered a good percentage, as despite the decline in the value of the share in recent years, it is still valued at an amount greater than one.

2) Recommendation for improving the company

Through our study of the company's financial statements and financial analysis, we offer some recommendations that will raise the company's efficiency and achieve profits, as follows:

1- It was noted that the period of collection of the sales value is longer than the period of payment to suppliers, so we recommend building alliances with a group of suppliers for a group of basic materials used in production by negotiating better deals with trusted suppliers.

2- It was noticed that the costs of selling and distribution are large, so the costs of selling and distribution must be reduced by entering into partnerships or acquiring companies specialized in transportation and selling, or relying on the company's assets in the transportation process.

3- Re-examining the credit plan for customers, as it was noted that the ratio of receivables compared to payables is very large, so it is necessary to re-study the reconstruction of receivables and increase collection to avoid problems in the availability of liquidity in the future.

4- Conserving resources, as there are multiple ways to reduce waste in the workplace, focus on processes that lead to defects and repair them, reduce unnecessary production, reduce downtime, improve transportation efficiency, reduce unnecessary inventory and unnecessary processing.

3) New Investment

We recommend a new investment of 10,000,000 AED, which is a production line for a new type of juice for children, where the company will pump 40% of the investment cost and will finance the rest of the investment value of 6,000,000 AED from a bank.

The new investment requires the purchase of equipment worth AED 8,000,000 in addition to operating costs of AED 2,000,000.
The equipment will be fully depreciated over a period of five years.

The table below represents the expected sales value, sales costs, and administrative expenses over a period of five years:

	First Yare	Second Year	Third Year	Fourth year	Fifth year
Sales	5,000,000	6,000,000	6,500,000	6,000,000	4,500,000
Cost of sales	2,250,000	2,700,000	2,925,000	2,700,000	2,025,000
Administrative EXP.	2,600,000	2,600,000	2,600,000	2,600,000	2,600,000

A) To verify the feasibility of the proposed investment for the company, we provide the following:

- **Recover Ratio of Return** (RRR) = Risk Free Rates (RF) + Markit Risk primum

  RRR = 10% + 0.85% = **10.85%** (This ratio represents the company's return on investment for the amounts paid by it).

  Reference:

  (Risk Free Rates) National Bonds in UAE- Is it worth an investment? - MyMoneySouq Financial Blog

(Markit Risk primum)

https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html

- **Weighted average cost of capital (WACC)** = wd rd (1-t) + Wce (rs or re)

  The interest rate on deposits is approximately 5%. Fixed Deposit Accounts in the UAE | ADCB

  WACC= (5%*60%) + (40% * 10.85%) = 7.34%

  The next step is to calculate Net president value (NPV):

- Cash flow value for the five years (projected):

	First Yare	Second Year	Third Year	Fourth year	Fifth year
Sales	5,000,000	6,000,000	6,500,000	6,000,000	4,500,000
(Cost of sales)	2,250,000	2,700,000	2,925,000	2,700,000	2,025,000
gross profit	2,750,000	3,300,000	3,575,000	3,300,000	2,475,000
(Administrative EXP.)	2,600,000	2,600,000	2,600,000	2,600,000	2,600,000
(Taxes)	0	0	0	0	0
depreciation	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
Working capital	-	-	-	-	2,000,000
Scrap, Salvage	-	-	-	-	500,000.00
Net cash flow	1,750,000	2,300,000	2,575,000	2,300,000	3,975,000

- President Value (PV)= CF/(1+WACC) ^y:

Cash flow	
First Yare	1,748,716
Second Year	2,296,627
Third Year	2,569,338
Fourth year	2,293,260
Fifth year	3,960,444
PCV	12,868,385

NPV= PCV -Initial value = 12,868,385 – 10,000,000 **= 2,868,385**

Therefore, we recommend investing according to the present value of the cash returned from the investment.

B) Indicate whether the company must use its own cash or use retained earnings, Considering the great value of the accumulated profits and the availability of cash, we recommend investing through the accumulated profits and using these amounts to achieve profits and returns for the company.

4) Company Return earnings

By looking at the company's financial statements, it’s clear that the value of the accumulated profits is large, especially in the year 2021. Also, considering the availability of cash liquidity for the company, we recommend distributing 10% of the value of the accumulated profits, which motivates new investors to enter and invest in the company and expresses the company's financial ability Note that the distribution of this small percentage will not affect the company's cash flow as shown in its financial statements.

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