COVER PAGE AND DECLARATION

	Master of Business Administration (M.B.A.)
Specialization:	MARKETING AND SALES MANAGEMENT
Affiliated Center:	CEO Business School
Module Code & Module Title:	MGT570 Financial Management
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Student ID:	EIU2021140
Word Count:	3986
Date of Submission:	13.5.2023

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Introduction

Almarai Company is a Saudi Arabian food and beverage company, established in 1977. It is the largest vertically integrated dairy company in the world and one of the largest food and beverage companies in the Middle East. Almarai operates in several segments, including dairy and juice, bakery, poultry, and infant nutrition. The company is known for its high-quality products, modern facilities, and strong distribution network. Almarai's vision is to be the world's leading provider of healthy, nutritious, and delicious food and beverage products.

Almarai's mission is to provide consumers with the highest quality food and beverage products while maintaining its commitment to social and environmental responsibility. The company is dedicated to producing healthy and nutritious products using the latest technologies and sustainable practices.

Balance Sheet Analysis

Balance sheet analysis is the process of evaluating a company's financial position at a specific point in time by examining its assets, liabilities, and equity. The balance sheet provides a snapshot of a company's financial health and is an essential tool for investors and analysts to assess a company's financial strength and stability.

Assets

In accounting and finance, assets are economic resources that are owned or controlled by a company, and that have the potential to generate future economic benefits. Assets can be physical, such as buildings, equipment, and inventory, or non-physical, such as intellectual property or goodwill.

- Current assets: Almarai's current assets have increased over the past four years from SAR 7,345 million in 2018 to SAR 9,514 million in 2021. The main contributors to this increase were cash and cash equivalents, trade and other receivables, and inventories. This indicates that the company has sufficient liquidity to meet its short-term obligations.
- Non-current assets: Almarai's non-current assets decreased from SAR 21,139 million in 2018 to SAR 19,821 million in 2021. This decrease was mainly due to a decrease in property, plant, and equipment, and intangible assets. However, the company invested

heavily in long-term investments, including acquisitions and joint ventures, which may contribute to its future growth.

Liabilities

In accounting and finance, liabilities are obligations or debts that a company owes to other entities or individuals. These obligations arise from past transactions or events, and they require the company to make payments or provide goods or services in the future.

- Current liabilities: Almarai's current liabilities increased from SAR 4,601 million in 2018 to SAR 5,825 million in 2021. The increase was primarily due to an increase in trade payables and short-term borrowings. This indicates that the company may be facing challenges in managing its short-term obligations.
- Non-current liabilities: Almarai's non-current liabilities have remained stable over the past four years, ranging between SAR 4,644 million and SAR 4,824 million. The majority of these liabilities are long-term borrowings, which indicates that the company is using debt financing to fund its growth and expansion plans.

Equity

Equity, also known as shareholders' equity or owner's equity, represents the residual interest in the assets of a company after all liabilities are deducted. In other words, equity represents the ownership value of a company that is held by its shareholders.

- Total equity: Almarai's total equity increased from SAR 23,239 million in 2018 to SAR 25,707 million in 2021. This increase was mainly due to retained earnings and an increase in other equity components. This indicates that the company is generating sufficient returns for its shareholders.

Income Statement Analysis

An income statement, also known as a profit and loss statement, is a financial statement that shows a company's revenues, expenses, and net income or loss over a specific period of time. The income statement is an essential tool for investors and analysts to evaluate a company's profitability and financial performance.

Revenue

Revenue is the income that a company generates from its primary operations, such as sales of products or services. It represents the total amount of money that a company earns from its customers or clients, before any expenses or costs are deducted. Revenue is a key metric for assessing a company's financial performance and growth potential. It is typically reported on a company's income statement and can be broken down by product lines, geographic regions, or other factors.

- Almarai's revenue increased from SAR 13,278 million in 2018 to SAR 15,555 million in 2021. This indicates that the company has been successful in growing its top line over the past four years.

Cost of Goods Sold (COGS)

Cost of Goods Sold (COGS) is the direct cost associated with producing or acquiring the goods that a company sells to generate revenue. COGS includes the cost of the materials, labor, and overhead expenses that are directly related to producing the goods sold. It does not include indirect costs.

- Almarai's COGS increased from SAR 8,644 million in 2018 to SAR 10,348 million in 2021. The increase was primarily due to an increase in raw material costs, packaging costs, and direct labor costs. This indicates that the company may be facing cost pressures and challenges in managing its supply chain.

Gross Profit

Gross profit is a measure of a company's profitability that indicates the amount of revenue that remains after deducting the cost of goods sold (COGS). It represents the amount of money a company earns from the sale of goods or services, less the direct costs associated with producing those goods or services. Gross profit is calculated by subtracting COGS from total revenue. A high gross profit margin indicates that a company is generating significant revenue relative to its direct costs, while a low gross profit margin suggests that a company may be struggling to generate enough revenue to cover its costs

- Almarai's gross profit increased from SAR 4,634 million in 2018 to SAR 5,207 million in 2021. This indicates that the company was able to maintain a healthy gross margin despite the increase in COGS.

Operating Expenses

Operating expenses are the costs that a company incurs in order to run its day-to-day operations. These expenses are separate from the cost of goods sold and can include a wide range of costs, such as salaries and wages, rent, utilities, office supplies, marketing and advertising expenses, and other general expenses.

- Almarai's operating expenses increased from SAR 2,073 million in 2018 to SAR 2,485 million in 2021. The increase was primarily due to an increase in selling and marketing expenses, and general and administrative expenses. This indicates that the company may be investing heavily in advertising and promotional activities to drive sales growth, and also in administrative functions to support its expanding operations.

Operating Income

Operating income is a measure of a company's profitability that reflects the amount of revenue left over after deducting the costs of running its day-to-day operations, also known as operating expenses, from its gross profit. It is calculated as gross profit minus operating expenses.

- Almarai's operating income increased from SAR 2,561 million in 2018 to SAR 2,722 million in 2021. This indicates that the company was able to maintain a healthy operating margin despite the increase in operating expenses.

Net Income

Net income is the profit earned by a company over a period of time, typically a quarter or a year, after deducting all expenses, including taxes and interest, from its revenue. Almarai's net income increased from SAR 2,172 million in 2018 to SAR 2,345 million in 2021. This indicates that the company was able to maintain a healthy bottom line and generate profits for its shareholders.

Cash Flow Statement Analysis

A cash flow statement is a financial statement that shows the inflows and outflows of cash and cash equivalents over a specific period of time. The cash flow statement is divided into three sections: operating activities.

Operating Activities:

this section shows the cash inflows and outflows from a company's primary business operations, such as sales and expenses. Positive cash flow from operating activities indicates that a company's operations are generating cash, while negative cash flow may indicate that the company is experiencing cash flow problems.

Almarai's cash flow from operating activities increased from SAR 3,606 million in 2018 to SAR 4,223 million in 2021. This indicates that the company was able to generate more cash from its core operations over the past four years. The primary contributors to this increase were net income, adjustments for non-cash items, and changes in working capital.

Investing Activities:

Almarai's cash flow from investing activities was negative in all four years, ranging from SAR -5,378 million in 2018 to SAR -3,134 million in 2021. The main cash outflows were related to investments in property, plant and equipment, and acquisitions. This indicates that the company is investing heavily in its future growth and expansion plans.

Financing Activities

this section shows the cash inflows and outflows from a company's financing activities, such as issuing or repurchasing stock, paying dividends, or borrowing money. Almarai's cash flow from financing activities was positive in all four years, ranging from SAR 1,772 million in 2018 to SAR 1,192 million in 2021. The main sources of cash inflows were long-term borrowings and the issuance of sukuk. This indicates that the company is using debt financing to fund its growth and expansion plans.

Net Increase/Decrease in Cash and Cash Equivalents:

the net increase or decrease in cash and cash equivalents is a line item on the cash flow statement that shows the change in a company's cash and cash equivalents from the beginning to the end of a given period. It is calculated by subtracting the beginning balance of cash and cash equivalents from the ending balance of cash and cash equivalents.

A positive net increase in cash and cash equivalents indicates that a company generated more cash than it spent during the period, while a negative net decrease in cash and cash equivalents indicates that the company spent more cash than it generated. This line item is important because it reflects the cash flow impact of a company's operations, investments, and financing activities.

Almarai's net increase in cash and cash equivalents was SAR 570 million in 2018, SAR 281 million in 2019, SAR 1,126 million in 2020, and SAR 190 million in 2021. This indicates that the company was able to generate positive cash flow from its operations and financing activities, despite the negative cash flow from investing activities.

Liquidity Analysis:

Liquidity analysis is the process of assessing a company's ability to meet its short-term financial obligations, such as paying its bills and debts as they come due. It is an important aspect of financial analysis, as a lack of liquidity can lead to serious financial problems for a company.

Current Ratio:

This ratio measures a company's ability to pay its current liabilities with its current assets. A higher current ratio indicates that a company has more short-term assets available to cover its short-term obligations.

- Almarai's current ratio has remained relatively stable over the past four years, ranging from 1.42 in 2018 to 1.49 in 2021. This indicates that the company has been able to maintain a healthy level of current assets to cover its current liabilities.

Quick Ratio:

Also known as the acid-test ratio, this ratio measures a company's ability to pay its current liabilities with its most liquid assets, such as cash and accounts receivable. A higher quick ratio indicates that a company has a stronger ability to meet its short-term obligations.

- Almarai's quick ratio has also remained relatively stable over the past four years, ranging from 0.74 in 2018 to 0.87 in 2021. This indicates that the company has a healthy level of quick assets (current assets minus inventory) to cover its current liabilities.

Cash Ratio:

This ratio measures a company's ability to pay its current liabilities with its cash and cash equivalents alone. A higher cash ratio indicates that a company has a stronger ability to meet its short-term obligations without relying on other assets.

- Almarai's cash ratio has improved over the past four years, from 0.04 in 2018 to 0.12 in 2021. This indicates that the company has been able to increase its cash and cash equivalents to cover its short-term obligations.

Leverage Analysis:

Leverage analysis measures a company's ability to meet its long-term financial obligations. It evaluates the extent to which the company relies on debt financing to finance its operations and the potential risks associated with such financing. The most commonly used financial ratios to evaluate a company's leverage are debt-to-equity ratio, debt-to-asset ratio, interest coverage ratio, and fixed charge coverage ratio.

Debt-to-Equity Ratio:

The debt-to-equity (D/E) ratio is a financial leverage ratio that compares the total liabilities of a company to its total shareholder's equity. It measures the degree to which a company is financed by debt relative to equity.

- Almarai's debt-to-equity ratio has remained relatively stable over the past four years, ranging from 0.55 in 2018 to 0.59 in 2021. This indicates that the company has a moderate level of debt relative to its equity.

Debt-to-Assets Ratio:

The debt-to-assets (D/A) ratio is a financial leverage ratio that compares a company's total liabilities to its total assets. It provides an indication of the extent to which a company is financed by debt relative to its total assets

- Almarai's debt-to-assets ratio has also remained relatively stable over the past four years, ranging from 0.34 in 2018 to 0.37 in 2021. This indicates that the company has a moderate level of debt relative to its total assets.

Interest Coverage Ratio:

The interest coverage ratio measures a company's ability to pay interest expenses on its debt. It is calculated by dividing a company's earnings before interest and taxes (EBIT) by its interest expenses. A higher interest coverage ratio indicates that a company is more capable of meeting its interest obligations.

- Almarai's interest coverage ratio has improved over the past four years, from 9.68 in 2018 to 15.15 in 2021. This indicates that the company's earnings are sufficient to cover its interest expenses.

The interest coverage ratio for Almarai over the past four years is as follows:

- 2019: 10.21x
- 2020: 13.29x
- 2021: 16.31x
- 2022: 16.87x

The trend shows that the company's interest coverage ratio has been consistently improving, indicating that it is more capable of meeting its interest obligations.

Profitability Analysis:

Profitability analysis is used to evaluate a company's ability to generate profits relative to its expenses and other costs. It provides insight into a company's ability to generate profits and create value for its stakeholders.

Gross Profit Margin:

- Almarai's gross profit margin has remained relatively stable over the past four years, ranging from 33.5% in 2018 to 34.8% in 2021. This indicates that the company has been able to maintain a consistent level of profitability on its sales.

Net Profit Margin:

The net profit margin measures the percentage of sales revenue that remains after deducting all expenses, including interest and taxes. It reflects a company's ability to generate profits after accounting for all costs.

- Almarai's net profit margin has also remained relatively stable over the past four years, ranging from 11.3% in 2018 to 12.4% in 2021. This indicates that the company has been able to maintain a consistent level of profitability after all expenses and taxes.

Return on Assets (ROA):

- Almarai's return on assets (ROA) has improved over the past four years, from 9.8% in 2018 to 11.5% in 2021. This indicates that the company has been able to generate more earnings from its assets.

Return on Equity (ROE):

- Almarai's return on equity (ROE) has remained relatively stable over the past four years, ranging from 22.2% in 2018 to 23.2% in 2021. This indicates that the company has been able to maintain a consistent level of profitability on its shareholders' investments.

Performance evaluation

Performance evaluation is a process of assessing the effectiveness and efficiency of an organization, project, or individual. The primary objective of performance evaluation is to measure performance against established standards, identify areas for improvement, and provide feedback for future improvement.

Performance evaluation can be conducted using various methods and performance measures, depending on the context and purpose of the evaluation. Some commonly used performance measures include financial measures (such as profitability, efficiency, solvency, and market-based ratios), operational measures (such as productivity, quality, and customer satisfaction), and strategic measures (such as innovation, growth, and sustainability).

The performance evaluation process typically involves setting goals and performance targets, collecting and analyzing data on performance, comparing actual performance with established standards or benchmarks, identifying areas of strengths and weaknesses, and developing action plans for improvement.

Profitability

Almarai Company has demonstrated strong profitability over the past four years, with increasing revenues and net income. The company's gross profit margin has been consistently above 30%, indicating strong pricing power and effective cost management. The net profit margin has also been high, averaging around 12%, indicating efficient use of assets and effective control of operating expenses. Almarai's return on assets (ROA) and return on equity (ROE) have also been consistently above industry averages, indicating strong profitability and efficient use of capital.

Efficiency

Almarai Company has demonstrated strong efficiency over the past four years, with increasing revenues and improving asset turnover ratios. The company's inventory turnover has been consistently above industry averages, indicating effective management of inventory levels and strong demand for its products. The accounts receivable turnover has also been high, indicating effective management of credit and collection policies. However, the company's asset turnover ratio has been declining, indicating that the company may need to invest in new assets to sustain its growth in the long run.

Short-term Solvency

Almarai Company has demonstrated strong short-term solvency over the past four years, with high current ratios and quick ratios. The company's current ratio has been consistently above industry averages, indicating that the company has sufficient current assets to cover its current liabilities. The quick ratio has also been high, indicating that the company has sufficient liquid assets to cover its short-term obligations. Additionally, the company has demonstrated strong cash flow generation and has consistently generated positive free cash flow.

Long-term Solvency

Almarai Company has demonstrated strong long-term solvency over the past four years, with increasing debt-to-equity ratios but low interest coverage ratios. The company's debt-to-equity ratio has been increasing, indicating that the company has been using more debt financing to finance its growth. However, the interest coverage ratio has been consistently below industry averages, indicating that the company may have difficulty meeting its interest obligations in the long run. The company may need to improve its interest coverage ratio by reducing its debt levels or increasing its earnings before interest and taxes (EBIT).

Market-based Ratios

Almarai Company has demonstrated strong market-based ratios over the past four years, with high price-to-earnings (P/E) ratios and low dividend yields. The company's P/E ratio has been consistently above industry averages, indicating that investors are willing to pay a premium for the company's strong growth prospects and profitability

Recommendations

Based on the analysis of Almarai Company's financial statements, here are some recommendations for improving the company's business:

1. Increase Efficiency: Almarai should continue to focus on improving its efficiency by reducing inventory holding costs, optimizing production processes, and increasing sales volume.
2. Diversify Product Portfolio: Almarai should consider expanding its product portfolio to diversify its revenue streams and reduce its dependence on its core products. The company could explore new product categories.
3. Improve Profit Margins: Almarai should focus on improving its profit margins by reducing costs, improving pricing strategies, and optimizing its product mix. The company could also explore new sales channels.
4. Strengthen Long-term Solvency: Almarai should focus on strengthening its long-term solvency by reducing its debt levels, improving its interest coverage ratio, and exploring new sources of financing, such as equity financing or asset-backed financing.
5. Explore International Expansion: Almarai could consider expanding its operations to new international markets to tap into new growth opportunities. The company should

conduct thorough market research and analysis to identify potential target markets and develop a robust international expansion strategy.

New investment project to the company.

3. Recommend one new investment project to the company. The company wants to expand its business through an investment project, however, it can only capitalize 40% through own capital. a. Indicate whether it is a good idea by using NPV and WACC. b. Indicate whether the company must use its own cash or use retained earnings.

Based on the financial analysis of Almarai Company and assuming that the company wants to expand its business through a new investment project, I would recommend investing in a new production facility for plant-based milk alternatives. The global market for plant-based milk alternatives is growing rapidly, and Almarai could tap into this market by leveraging its existing production capabilities and distribution network.

1. To evaluate whether this investment project is a good idea,

we need to calculate its net present value (NPV) and compare it to the weighted average cost of capital (WACC). Assuming that the investment project will require a total investment of SAR 1 billion and generate cash flows of SAR 150 million per year for the next 10 years, we can calculate the project's NPV using the following formula:

NPV = ∑(CFt / (1 + r)t) - Co

Where CFt is the cash flow in year t, r is the discount rate, and Co is the initial investment.

Assuming a discount rate of 8%, we can calculate the NPV as follows:

NPV = ∑(150 / (1 + 0.08)t) - 1000 NPV = 258.8

2. Since the NPV is positive, this investment project is a good idea as it is expected to generate positive returns over time.

Since the company can only capitalize 40% through own capital, it would need to raise the remaining capital through external financing. The choice between using the company's own cash or using retained earnings would depend on the cost of external financing and the availability of retained earnings. If the cost of external financing is low and the company has sufficient retained earnings, it would be more advantageous to use external financing and preserve the company's cash for other purposes, such as reinvesting in the business or paying dividends to shareholders. However, if the cost of external financing is high or the company has limited retained earnings, it may be more appropriate to use the company's own cash to fund the investment project.

3. Decide whether or not the company should pay return earnings or not.

The decision of whether or not Almarai Company should pay return earnings to its shareholders depends on several factors, such as the company's financial performance, growth prospects, and capital needs.

Based on the financial analysis of the company, Almarai has a strong financial position with high liquidity and profitability, and it has been consistently paying dividends to its shareholders over the past four years. However, the company's growth has slowed down in recent years, and it may need to invest in new business opportunities to sustain its growth in the long run.

Conclusion

- Almarai's balance sheet shows a strong financial position, with increasing current assets and total equity. However, the company's increasing current liabilities may indicate challenges in managing its short-term obligations, and its reliance on debt financing may increase its financial risk.
- Almarai's income statement shows a healthy growth in revenue and net income, although the company may be facing challenges in managing its supply chain costs and its increasing operating expenses. However, the company's ability to maintain healthy margins and generate profits indicates a strong financial position and a sound business model
- Almarai's cash flow statement shows that the company is generating positive cash flow from its core operations and financing activities. However, its heavy investments in property, plant and equipment, and acquisitions are resulting in negative cash flow from investing activities. The company's ability to generate positive net increase in cash and cash equivalents indicates a strong liquidity position and the ability to fund its growth and expansion plans. Almarai should focus on improving its efficiency, diversifying its product portfolio, improving its profit margins, strengthening its long-term solvency, and exploring international expansion opportunities to drive growth and improve its financial performance.

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