

Australian Shareholders' Association

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An investor's guide to understanding financial statements

Session three

Statement of cash flows and further popular
financial statement driven ratios.



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Learning outcomes for this session

- ▶ How to interpret a statement of cash flows when determining whether a company's cash management policies are likely to lead to responsible capital expenditure and dividend strategies.
- ▶ How to assess the contents of a statement of cash flows in more depth than merely using normal data based ratio analysis.
- ▶ How to determine whether a company is paying sustainable dividends.
- ▶ How to determine a company's debt management strategies.
- ▶ To refresh our previous discussions around the comparison between operating cash flows and profit.
- ▶ To examine a few popular ratios which are derived from the financial statements.

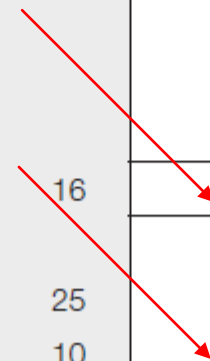
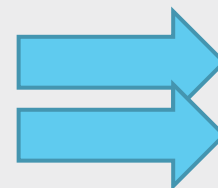


Statement of Cash Flows

- ▶ Important document for investors
- ▶ Records cash transactions only
 - ▶ No accruals
 - ▶ No provisions, depreciation or impairments
- ▶ Divided into:
 - ▶ Operating cash flows
 - ▶ Investing cash flows
 - ▶ Financing cash flows



	Notes	Consolidated	
		2017 \$m	2016 \$m
Cash flows from operating activities			
Receipts from customers		6,205.5	4,355.7
Payments to suppliers and employees		(5,908.8)	(4,101.2)
Interest and bill discounts received		1.7	0.5
Interest and other finance costs paid		(9.3)	(3.7)
Income taxes paid		(98.5)	(66.2)
Net cash inflow from operating activities	16	190.6	185.1
Cash flows from investing activities			
Payment for business combination, net of cash acquired	25	(836.6)	–
Payments for plant and equipment	10	(49.1)	(52.3)
Proceeds from sale of plant and equipment		0.2	0.3
Net cash (outflow) from investing activities		(885.5)	(52.0)
Cash flows from financing activities			
Proceeds from issues of shares	18	395.9	6.0
Proceeds/(repayment) of borrowings		450.0	(30.0)
Payments for debt issue costs		(1.7)	(0.1)
Payment for shares bought back	18	–	(13.2)
Share issue costs		(9.2)	–
Dividends paid to owners of the Company	4	(119.1)	(93.2)
Net cash inflow (outflow) from financing activities		715.9	(130.5)
Net increase in cash and cash equivalents		21.0	2.6
Cash and cash equivalents at the beginning of the financial year		51.9	49.1
Effects of exchange rate changes on cash and cash equivalents		(0.1)	0.2



Cash flow statement

For the year ended 30 June 2017

Wesfarmers 2017 Annual Report

	Note	CONSOLIDATED	
		2017 \$m	2016 \$m
Cash flows from operating activities			
Receipts from customers		74,042	71,157
Payments to suppliers and employees		(68,713)	(66,671)
Net movement in finance advances and loans		(47)	(29)
Dividends and distributions received from associates		46	74
Interest received		83	131
Borrowing costs		(234)	(288)
Income tax paid		(951)	(1,009)
Net cash flows from operating activities	4	4,226	3,365
Cash flows from investing activities			
Payments for property, plant and equipment and intangibles	4	(1,681)	(1,899)
Proceeds from sale of property, plant and equipment and intangibles	4	653	563
Net proceeds from sale of businesses and associates		947	1
Net investments in associates and joint arrangements		(2)	(2)
Acquisition of subsidiaries, net of cash acquired		(24)	(748)
Net redemption of/(investment in) loan notes		54	(47)
Net cash flows used in investing activities		(53)	(2,132)
Cash flows from financing activities			
Proceeds from borrowings		220	2,360
Repayment of borrowings		(1,994)	(1,424)
Proceeds from exercise of in-substance options under the employee share plan	12	1	1
Equity dividends paid		(1,998)	(2,270)
Net cash flows used in financing activities		(3,771)	(1,333)
Net increase/(decrease) in cash and cash equivalents		402	(100)
Cash and cash equivalents at beginning of year		611	711
Cash and cash equivalents at end of year	4	1,013	611



			2013	2014	2015	2016	2017	5YR TOTAL	10YR TOTAL
WES									
OPERATING CASH FLOW	cps		343.5	281.0	335.1	299.6	373.9		
CAPEX	cps		-203.7	-194.5	-197.9	-169.1	-148.7		
FREE CASH FLOW	cps		139.8	86.5	137.2	130.5	225.2	719.2	1196.7
DIVIDENDS	cps		-181.8	-200.0	-225.0	-186.0	-223.0	-1015.8	-1763.0
WOW									
OPERATING CASH FLOW	cps		218.8	277.1	265.5	186.6	242.5		
CAPEX	cps		-158.5	-150.2	-172.4	-156.9	-148.3		
FREE CASH FLOW	cps		60.3	126.9	93.1	29.7	94.2	404.2	761.2
DIVIDENDS	cps		-133.0	-133.0	-133.0	-133.0	-84.0	-616.0	-1175.0

Data per Morningstar

			2013	2014	2015	2016	2017	5YR TOTAL	10YR TOTAL
CSL									
OPERATING CASH FLOW	cps		282.7	297.4	376.3	342.7	355.2		
CAPEX	cps		-97.0	-87.8	-114.2	-164.5	-245.2		
FREE CASH FLOW	cps		185.7	209.6	262.1	178.2	110.0	945.6	1614.3
DIVIDENDS	cps		-110.0	-120.0	-161.5	-169.7	-202.5	-763.7	-1122.7
COH									
OPERATING CASH FLOW	cps		122.2	195.2	329.7	323.3	452.0		
CAPEX	cps		-88.4	-56.0	-49.7	-65.6	-107.6		
FREE CASH FLOW	cps		33.8	139.2	280.0	257.7	344.4	1055.1	1923.3
DIVIDENDS	cps		-252.0	-254.0	-190.0	-230.0	-270.0	-1196.0	-2191.0

Data per Morningstar



			2013	2014	2015	2016	2017	5YR TOTAL	10YR TOTAL
TLS									
OPERATING CASH FLOW	cps		67.1	69.1	67.8	66.6	65.0		
CAPEX	cps		-36.2	-30.2	-41.6	-34.3	-44.5		
FREE CASH FLOW	cps		30.9	38.9	26.2	32.3	20.5	148.8	341.6
DIVIDENDS	cps		-28.0	-29.5	-30.5	-31.0	-31.0	-150.0	-290.0



JBH									
OPERATING CASH FLOW	cps		155.4	40.4	177.6	182.8	169.1		
CAPEX	cps			-35.1	-41.9	-51.7	-43.8		
FREE CASH FLOW	cps		120.3	5.3	135.7	131.1	125.3	517.7	915.9
DIVIDENDS	cps		-71.1	-83.0	-88.9	-98.8	-118.0	-459.8	-734.5



Data per Morningstar

Financial Ratios

- ▶ Essential to choose relevant ratios when analysing a company
- ▶ Understand the purpose of chosen ratios
- ▶ Use as a “rule of thumb” only
- ▶ Understand impact of changes in components of calculation
- ▶ Trends are all important as distinct to one-off numbers



Popular Ratios – Financial Statements

- ▶ Earnings per share ($\text{NPAT} / \text{Issued Shares}$)
- ▶ Return on capital ($\text{NPAT} + \text{Interest} / \text{Debt} + \text{EQ}$)
- ▶ Return on assets ($\text{NPAT} / \text{Total assets per B/S}$)
- ▶ Return on equity ($\text{NPAT} / \text{equity}$)
- ▶ Debt/Equity ($\text{Int. bearing debt} / \text{equity}$)
- ▶ Interest cover ($\text{NPAT} + \text{Int(AT)} / \text{Int}$)
- ▶ Current ratio ($\text{Current assets} / \text{Curr. liabs}$)
- ▶ Operating margin ($\text{EBITDA} / \text{Revenue}$)



						EPS GROWTH		
	2013	2014	2015	2016	2017	1YR	5YRS	10YRS
RHC								
NPAT pr abn	275.0	332.0	372.0	447.0	484.3			
EPS	136.0	164.0	183.0	221.0	235.7	6.7%	15.2%	16.3%
SHARES	199.8	200.7	202.1	202.1	202.1			
WES								
NPAT pr abn	2261.0	2253.0	2494.0	2646.0	2955.0			
EPS	198.0	196.0	220.0	236.0	261.5	11.0%	7.1%	4.8%
SHARES	996.7	1143.3	1123.8	1123.8	1131.8			
TLS								
NPAT pr abn	3813.0	4739.0	4229.0	4245.0	4049.0			
EPS	30.6	38.0	34.0	35.0	33.8	0.8%	5.9%	3.2%
SHARES	12443.1	12443.1	12225.7	12225.7	11893.3			

Data per Morningstar

						5YR	
	2013	2014	2015	2016	2017	AVGE%	
WOW							
ROA	12.0	11.1	10.5	12.5	6.9	10.6	
ROC	20.0	18.0	19.0	23.0	13.0	18.6	
ROE	26.0	23.9	22.7	32.1	14.9	23.9	
WES							
ROA	5.9	6.3	6.7	7.0	7.8	6.7	
ROC	8.0	8.0	9.0	10.0	12.3	9.5	
ROE	8.7	8.7	10.1	11.5	11.0	10.0	

Popular Ratios – Market Driven

- ▶ Price/earnings ratio (P/E) MP/EPS
- ▶ Total shareholder return (TSR) $DIVS+MP$
Inc/Dec.
- ▶ Price to book (PB) $MP/Book$ value (Net assets)
- ▶ Dividend yield (DPS/MP)
- ▶ Earnings yield (EPS/MP) – Reverse of P/E
- ▶ Payout ratio ($Dividend/NPAT$)
- ▶ Price to earnings growth PEG (PE/EPS growth)

