

Financial Statement Analysis

Session 1

The Income Statement

Introduction to your speaker

- Benjamin Koh
 - Founder & Investment Manager of Lighthouse Advisors Private Limited
 - Exempt Fund Manager under the MAS regime
 - 10 years of investment experience
 - Singapore and Hong Kong

The Income Statement

- Sales
- Cost of Goods Sold
- Gross Profit
- Sales, General & Admin
- Finance
- Tax
- Share of Associates
- Minority Interest
- Extraordinary Items
- Net Profit to Shareholders

Sales

- Direct sales versus sales commissions
 - Amazon versus Amazon Merchants
- Department store versus concessionaires
 - Underlying sales versus concession rate
 - Example: Parkson Retail Asia
- Discounts
 - May be booked directly against sales or in COGS
- Net or Gross of Taxes?
 - VAT, GST etc.

Cost of Goods Sold (COGS)

- Raw Materials
- Direct Costs
 - Labour
 - Utilities
 - Shop/Factory Lease
 - Depreciation & Amortization
 - Logistics
- Discounts & Sales Commissions (may be booked in SG&A)
- Estimating COGS if not provided directly
 - Changes in Inventories
 - Staff Cost
 - Depreciation & Amortization
 - Example: Viz Branz (COGS) vs. Challenger Technologies (Est.)

Gross Profit

- Gross Profit = Sales less COGS
- Basic measure of profitability
- Useful for comparability
 - Provided companies are booking the same items in COGS
 - Example: Thai Village vs. Sakae
 - Vastly different gross margins, need to adjust

Sales, General & Admin (SG&A)

- Head Office Costs
 - Sales
 - Human Resources
 - Finance
 - Marketing
 - Rent

Finance

- Interest
 - Interest income on deposits
 - Interest charges on loans
 - Cash payment
 - Amortized discounts
- Cost of issuing debt/shares

Tax

- Tax Concessions
 - Change in taxes when they start / expire
- Group Tax
 - Losses in one entity cannot offset gains in others, raises effective tax rate
- One-time Charge / Write-back
 - Disputes with government

Share of Associates & Joint Ventures

- Associates: influence but not control
 - Typically 20-49% ownership
- Joint Ventures: joint control
 - Ownership may not be 50%
 - Joint Control via voting provisions etc.
- Earnings/Losses are equity accounted
 - No actual cash flow unless dividends are paid

Minority Interest

- Non-100% subsidiaries
 - Adjustment of earnings
 - Can cause massive distortion if minority interest is large
 - e.g. Hong Leong Asia's special share in China Yuchai confers control despite 34.9% stake
 - Dividends are reduced proportionately

Extraordinary Items

- One-Off Items
 - Gains
 - Disposal, Bargain Purchase
 - Losses
 - Disposal, Impairment, Bad Debts, Inventory Writedown
 - FRS 39 (Fair Value)
 - Investment Property Revaluation
 - Investments Marked to Market

Net Profit to Shareholders

- “The Bottomline”
- Net of everything
- Distortions
 - Extraordinary Items
 - Tax Changes
 - Large Minority Interests
- More useful after adjustments