

Financial Statement Analysis for Kier Group PLC

Aso Ahmed Abdullah¹

¹ Cihan University

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Abstract

The aim of this report to analysis critical evaluation of the history of development, analysis of the financial performance in last two years and critical evaluation of ?Balanced Scorecard? to analyse Kier Group plc?s performance. This study closely calculate financial performance for Kier group and compared with comparative company Barratt Plc during 2010 to 2011. As well as the report evaluate Balanced Scorecard. The report for Kier group plc is that the share price, revenue and dividend per share increased in the past two years resulting in increasing revenue from the construction division. Kier increased profit in the last two years and increased a dividend which is a good indication for growth in market share. However the credit crunch, current financial crisis and falling house prices have affected both the property division and have hit their competitor company Barratt plc very hard. Revenue has not increased in last two years plus stock turnover increased sharply. However Barratt Developments can?t survive according to the Z analysis results from appendix 11, but Kier Group is in a better financial position, because Kier has specialised in building and civil engineering, support services, public and private house building property developments and the private finance initiative.

Index terms— civil engineering, support services, public and private house building property developments.

1 Introduction

he main principle of this report is to prepare a critical evaluation of the history of the development of Kier Group plc and perform an analysis of the financial performance in the last two years and analyse the extent to which a balanced scorecard could be used to analyse Kier Group?s performance. The report will be compared to a competitor company in same industry namely Barratt developments Plc.

The report will identify any trends in share prices, dividends, revenue, debts, inventory, finance costs, gearing ratio, etc. The movements over the past two years for the main company will then be compared to the competitor company and the general economy.

The report will consider how much the current global financial crisis (especially in the Eurozone) has affected both companies, in which way the companies have been affected such as currency downgrading, customer?s confidence and marketing demand. In addition the tasks will analyse benchmarking.

2 a) History and Development

Kier Group Plc was founded in 1928. "A civil engineer from Denmark, Olaf Kier joined along with another engineer to create the contracting firm J Lotz and Kier becoming one of the earliest pioneers in reinforced concrete design and construction" (insiteatkier, 2011). During second the world war Kier had an enormous role, to engage with defence projects. By 1949 J L Kier started working overseas including major projects such as nuclear power stations and dams in Mauritius, Seychelles, Bahamas and Spain. In 1972 Marriott joined Kier, expanding the Group?s commercial and building activities. This was shortly followed by the merge of J L Kier and W & C French in 1973 to become French Kier Holdings Ltd.

Then in 1992 the following takeover by Hanson plc triggered a buyout by management at Beazer, leading to the forming of the Kier Group, creating Britain's first major contractor to be employee-owned, reinforcing Kier's status as a true 'people' company (Kier, 1992). After continuing long success in the past the group had one major task left, namely floatation, and in 1996 the group entered the London stock exchange as FTSE 250 company.

Kier Group plc's market is based in the UK, but also operates overseas including in China, the Caribbean and the Middle East. The most important activities include construction services, a property group specialising in building and civil engineering, support services, residential and commercial property development and infrastructure project investment. The Group employs 10,700 people worldwide and has annual revenue of £2.2bn (Annual Report 2011). The main revenue for year end 2011 is coming from construction which is counting about 66%.

Further more in 2003 the groups agreed with Sheffield City Council to provide services including repairs and general maintenance for the council houses and in 2004 Kier were nominated as one of the key partners for the government (Pesola, 2004). Then in 2009 Kier started work on a £600m outsourcing contract for North Tyneside Council. The Kier groups practices SWOT and focusing on Corporate Social Responsibility (CSR) including producing greener construction, environmental friendly and low carbon emissions. The group's visions are to build, maintain, protect and enhance the reputation among their employees, customers, supply chain and partners and investor. The group publish a CSR report annually and they have set up a target to achieve and it is boosting its status.

The group's strategic development is included in the business model supporting all four divisions, construction, support service, partnership homes and developments. Massoudi (2011) said Kier are concerned over eurozone uncertainty and its sensitivity to confidence in the UK. Kier decided to keep operating abroad such as in Middle East and China because the regions have not been affected by the current economic crisis and thus generating a better return.

3 II.

4 Financial Statement Analysis

The aim of the financial statement analysis is to determine the financial position, and therefore the long term investment potential of the company. To be able to execute the report the six main financial ratios will be applied, namely profitability, efficiency, liquidity, cash flow, gearing and investor's ratios to the financial statements for the year ended 30/06/2010 to 30/06/2011 of the main company and compare it to a competitor company. The Z-analysis ratio will be applied to the accounts (Please see appendix 1 for more details).

5 a) Profitability Ratio

i. Return on Capital Employed (ROCE) Atrill and McLaney (2008) described ROCE ratio as a "fundamental measure of business performance". This ratio expresses the relationship between the operating profit generated by the business and the longterm capital invested in the business. ROCE is calculated as follow: The ROCE for Kier has increased in the past two years by 11%, despite operating profit increasing by 24% in 2011. This is due to an increase in trade creditors which affected ROCE and the share holders may not be convinced with the result. Nevertheless the competitor company Barratt's ROCE has increased sharply by 95% and this is due to operating profit increasing by 41% in 2011 and also non-current liabilities have reduced in 2011 by 29% due to paying off long term loans and borrowing. Overall Kier is doing much better and is more secure in terms of liquidity problems because noncurrent liabilities are much smaller than equity.

ii. Operating profit margin (OPM)

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The OPM for Kier has increased by 20% in 2011 total revenue by 3.25%. This is due to reducing cost of sales and disruptions costs. (Please see appendix 2 for more details). However OPM for Barratt increased sharply by 71% in 2011 this is due to reducing cost of sales.

7 iii. Asset turnover

Asset turnover measures a firm's efficiency at using its assets in generating sales or revenue -the higher the number the better (please see appendix 3 for more details). Assets turnover is calculated as follow: The GPM for Kier plc has decreased in 2011 by 18% despite revenue increasing by 3% in 2011, but cost of sales increased by 5% which is more than the increase in revenue (please see appendix 4 for more details). But the competitor company Barratt somehow managed to increase GPM by 27% in 2011 despite no increase in revenue, instead they managed to reduce cost of sales.

8 v. Return on equity

ROE is viewed as one of the most important financial ratios. (please see appendix 5 for more details The above figure shows ROE for Kier has been reduced by 2% in 2011 regardless of net profit in 2011 increasing by 35%.

Also the ordinary share capital and reserves have increased in 2011 by 37% and for that reason actually ROE decreased in 2011. However the competitor company Barratt improved significantly and ROE increased by 88% this is due to reducing loss for the year from £118m to £14m.

9 b) Liquidity Ratio

Brealey et al (2010, p.45) defined liquidity as "the ability to sell or exchange as for cash on short notice." (Please see appendix 6 for more details). It is very worthwhile to use the following ratios:

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10 . Current ratio

The ratio is mainly used to give an idea of the company's ability to pay back its short-term liabilities with its short-term assets. The higher the current ratio, the more capable the company is of paying its obligations. Current ratio is calculated as follow. We can see the Kier current ratio has increased in the past two years by only 0.04 due to an increase in assets which indicates that the company can pay all its liabilities. Barratt's has decreased by 0.51 in the past two years and they are not in a good position financially. Moreover the company may be facing a shortage of cash in the future. Also if they are not able to pay off their trade creditors then the finance cost may increase in the future, which will threaten Barratt's liquidity.

11 ii. Acid test ratio

A stringent test that indicates whether a firm has enough short-term assets to cover its immediate liabilities without selling inventory. The acid-test ratio is far more strenuous than the working capital ratio, primarily because the working capital ratio allows for the inclusion of inventory assets. The ratio expressed as: Acid Test Ratio As per current ratio, this graph shows that Kier's ability to meet short-term obligations has reduced by 0.002 in the past two years due to increasing inventory in 2011. As long as current assets meet current liabilities then it ensures the business can keep running without going into liquidity problems. Although the Barratt acid test ratio decreased sharply by almost 4 times in 2011, it's due to a decrease in current liabilities in 2011 by 65% because they paid back loans and borrowings of £513m and this will improve balance sheet and profit in the future.

12 c) Efficiency Analysis i. Stock turnover

This ratio shows how well inventory is managed by calculating the number of times that a business turnover (or sell) inventory during an accounting period. It is calculated as follow:

Acid test ratio The above representations show that Kier increased by 1 day in 2011 to sell stocks. The longer the inventory period the more it will cost and opportunities to fund new projects it may be delayed and be tied up (please appendix 7 for more details).

13 iii. Settlement period for trade receivable

This ratio actually measures the amount of days it takes to convert your trade receivable to cash (please see appendix 8 for more details). It is calculated as follow:

Settlement period for trade receivable The trade receivable for Kier has fallen from 59 days to 57 days in 2011 which is a good indication for the business and it means they can meet their targets and it is good efficiency. Also the competitor company fell from 12 days to 11 days in 2011, this is much better than Kier they are able to convert trade receivable to cash in 11 days, it may be related to the company policy.

14 iv. Settlement period for trade payable

This ratio actually measures how long the business takes to pay those who supplied goods and service (please appendix 9 for more details). It is calculated as follow:

Settlement period for trade payable The trade payable for Kier plc has fallen from 160 to 150 days in 2011 and it shows signs of improvement, also the period of trade receivables is actually much less than the period of creditors and that will ensure the business can survive from liquidity problems. However Barratt plc the trade payable has increased by 8 days in 2011 which means it takes 207 days to pay suppliers and this is not good for the business. This is because they may increase finance costs which will reduce net profit. The main reason for the increase in trade payables is due to holding stock materials for long and also due to the current economic and property market causing a slowdown in sales.

15 d) Cash Flow Ratios

This ratio is very important in terms of avoiding lack of liquidity and it helps the finance manager be aware of shortage of cash in short-period to meet liabilities (please see appendix 10 for more details). The following ratios consider some of the more important features of resource management:

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The above presentations shows Kier are in serious problems to meet their current liabilities and they do not have enough cash to pay off some of their trade creditors, this may create a shortage of cash in due course (please see Z-Analysis in appendix 11). Nevertheless Barratt are also struggling with shortage of cash and both companies may face liquidity problems (please see appendix 7 for more details).

17 ii. Free cash flow

Free cash flows to a company measure of possible cash flows that can be circulated to capital providers without affecting the production capacity of the company. Free cash flow to calculate as follow:

Free cash flow 2011 2010 Kier 1 10 Barratt 5 37

The above figures show Kier plc's free cash flow reduced sharply in 2011 by 90 due to an increase in capital expenditure (please see note 28b and 14 from Kier annual report) and reducing operating activities. However the competitor company's free cash flow has been reduced in 2011 because the operating activities have not increased and capital expenditure has increased (please see note 13 from Barratt annual report).

18 Cash flow to maturing obligations

19 iii. Free exhaustion ratio

This ratio allows finance managers to analyse how many days the company can afford to pay its shortterm liabilities from cash at bank. This ratio is important for those organisations that rely on the funds. The calculation is as follows: Kier plc are holding cash at a lower level due to the company's structure, the cash exhaustion in 2011 has been reduced by 4%, they may consider investing to get a better return. However Barratt plc also reduced their cash in hand sharply due to the Bank of England keep interest rates at a minimum rate of 0.05%. (Please see note 21 from Barratt annual report).

20 e) Financial gearing ratio

At The Gearing Ratio for the Kier has increased by 21% times in 2011, the level of finance cost has not been reduced in 2011 despite that operating profit has increased from 58m to 73 m in 21011. However the competitor company adopted a different strategy. The operating profit has increased by 42% in 2011 and they reduced finance costs by 58%; this is really a huge improvement and it will boost operating profits in future (please see appendix 14 for more details).

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21 . Gearing ratio

The gearing ratio evaluates the input of longterm lenders to the long-term capital structure of a firm. The gearing ratio is calculated as follow: The gearing level for Kier plc has been reduced by 22% in 2011, this is due to paying off long-term borrowing, (please see note 23 from Kier annual report). Also Barratt managed to reduce long-term borrowings in 2011 by more than 50%. A high gearing ratio will create liquidity problems (please see appendix 14 for more details) and have a impact on finance costs.

22 f) Investment ratios

These ratios indicate the relationships of the companies' share prices to dividends and earnings The dividend yield for Kier has been reduced by 21% in 2011 as the market value per share increased from 967.50p at 30/06/2010 to 1360p at 30/06/2011 (please see appendix 6 for more details). This is a good significant result and the company also increased its dividend payments from 58p to 64p in 2011. However the Directors of Barratt plc decided not pay dividends for the second year, which ended 30 June 2011, despite increasing market value per share (please see appendix 16 for more details). The Board is committed to reinstating the payment of dividends and will, when it becomes appropriate to do so.

23 Interest cover ratio

ii. Dividend cover ratio This ratio measures the extent of earnings that are being paid out in the form of dividends. This means, how many times will the dividends paid be covered by earnings. The ratio is calculated as follows: The dividend cover for the Kier plc has increased 0.83 times in 2011. This is good as the profit after tax increased by 54% in 2011, but the company only increased the final dividend payment by 10%. The board of directors may have a different strategy to investing returns elsewhere which gives the company higher returns. The competitor company have not paid any dividend due to making a loss at the end of the financial year.

24 iii. Earning per share (EPS)

EPS is the relationship of the profit after tax attributable to each share in issue. It is how much of the after tax earnings shareholders will obtain for each share they hold in the company. EPS is calculated as follow:

Dividend cover ratio The EPS for the Kier plc has increased by 26% in the past two years due to increasing profit after tax by 53%. The company is in a good profitable position.

Nonetheless the number of ordinary share increased sharply from 38m to 42m in 2011. The above figure representing MUP for Kier plc has fallen in 2011 by 23% due to a decrease in gross profits by 15% in 2011 and the cost of sales increased by 5% in the same period. This is not a good indicator for Kier as it shows that extra sales have been cancelled by increased cost of sales; the finance directors must investigate the reasons and factors for the increased cost of sales. However the competitor company Barratt managed to increase MUR in 2011 by 23% due to a reduction in cost of sales by 3% in 2011. This is important for every business to meet targets and not over spend. The higher MUR the better profitability for the business.

25 Fixed assets turnover

The purpose of this ratio is to evaluate how Kier plc used their fixed assets to generate the revenue (please see appendix 17 The above ratio shows Kier plc's declined in 2011 by 10%, despite turnover increasing by 3% in 2011; but the fixed assets increased by 12% in same period. According to above explanation Kier may over invest, however Kier is in the construction industry and they require high quality machines and they also need plants for future development. Fixed assets vary greatly among companies. Nevertheless fixed assets turnover for Barratt has changed because turnover has not increased in 2011 and they don't invest in fixed assets.

26 III.

27 Benchmarking a) What are the purposes of Benchmarking?

Bendell et al. (1998) said the purpose of benchmarking is to evaluate a current position of the organisations. It permits evaluation against another industry in the same sector. Benchmarking allows companies to recognising strengths and weaknesses and learns how to get better. Benchmarking is a way of finding and adopting best practices. Benchmarking may be practiced through number of different applications (please see appendix 18).

Bramham (1997) said it's important to set out clear objectives of the exercise such as investigating, analysing, planning and action; it is significant to ensure there are resources available to support your decisions. There is no point in collecting data and information if you do not have support or resources to make use of them. As with all perfect performances, it is better to begin with an identified problem area that is able to be defined or an activity where improvement will provide maximum benefit. You may not be able to see the need for improvement by looking internally. Look The financial performance measures and benchmarks for construction division are to examine their production competitiveness every six months. It examines if the division spends above group average for rent and utilities. How does the cost of materials compare within the group? Are employee salaries and benefits competitive with the rest of the group? Decision-making involves using financial information and analysis to manage a business effectively. These techniques allow operators to:

- ? set appropriate prices for products and services;
- ? improve profitability by accelerating the cash conversion cycle; ? establish an effective credit policy;
- ? maintain an appropriate inventory;
- ? assess the financial viability of capital investments such as new projects, expansions and renovations; and ? identify appropriate sources of financing.

In addition, financial ratios are helpful when reviewing divisions for effectiveness. Ratios should be tracked regularly to determine where fluctuations occur and what drives these differences.

ii. Improve market share.

The improvement of market share is based on the increase level of revenue and net profits; and every six months the division manager can measure market share through financial ratios such as profitability ratios. Kier plc can achieve better results than their competitors by changing the price or offer special incentives for buyers. Alternatively, Kier can find new methods to distribute products so people can buy it in more places. Finally, Kier can advertise and promote new products. Using these techniques in any combination may improve market share.

Increased market share is not always the best solution for businesses. It might not be profitable if it is associated with expensive advertising or a big price decrease. A company may not be able to meet the

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Financial Statement Analysis for Kier Group PLC demand of an increased market share without huge investments in new equipment and employees. In some cases it can be to a company's advantage to decrease market share, if the lower costs of lower market share can improve profitability. Managing market share, therefore, is a very important aspect of managing a business.

iii. Internal business perspective This activity is based on good management skills such as reducing cost of sales and controlling the cash a company has on hand. The internal measure shows how long the company can maintain operations without additional revenue or financing (please see appendix 6). This perspective refers to internal business processes. This activity could be exercised through liquidity ratios every six months. Harris et al. (2006). Said this perspective allows the managers to know how well their business is running, and whether

its products and services conform to customer requirements (the mission). These metrics have to be carefully designed by those who know these processes most intimately; with their unique missions this is not something that can be developed by outside consultants.

iv. Innovation and enterprise Innovation and enterprise is pushing Kier's construction division to grow sharply especially from 2004 when they entered into partnerships with the local government and city councils. It is important for Kier to have the latest technology to deliver outstanding and complex projects. Since the current financial crisis and housing market bubble the competition among construction industries has become very difficult. Besides the fallen housing market, Kier needs to focus on their construction division with the latest technology and it needs to measure how it is going to improve revenue and long term profits.

The business structure is mainly local -to a very fragmented sustainable construction market. Many technical solutions are already available, but demand is highly fragmented. 40% of demand for Kier's construction work comes from the public sector. The introduction of machinery could improve Kier's construction division revenue further and speed up the delivery time for projects.

29 IV.

30 Conclusion

The conclusion of this report for Kier group plc is that the share price, revenue and dividend per share increased in the past two years resulting in increasing revenue from the construction division. Kier increased profit in the last two years and increased a dividend which is a good indication for growth in market share. However the credit crunch, current financial crisis and falling house prices have affected both the property division and have hit their competitor company Barratt plc very hard. Revenue has not increased in last two years plus stock turnover increased sharply. The future of the market share for Barratt is uncertain, as they have not paid dividends in the last two years due to making a loss and it's possible that they are facing more losses in the future.

However Barratt Developments can't survive according to the Z analysis results from appendix 11, but Kier Group is in a better financial position, because Kier has specialised in building and civil engineering, support services, public and private house building property developments and the private finance initiative. The recent eurozone crisis and credit squeeze has further affected customer attitude and pressure on lending institutions has led to a tightening of lending criteria and mortgage availability, said Mark Clare, Barratt's chief executive. It is not yet clear how quickly the market will recover but Barratt has to assume that there will be downward pressure on volumes and price inflation in the short-term according to ??BBC 2007).

Kier Group predicted a boom in construction in the next few years as the big builders form stronger relationships with local council's contractors ahead of the 2012 Olympics. John Dodd, chief executive said "he was comfortable with the prospects for the housing division and optimistic about winning a series of council maintenance contracts in the second half of the year."

V. ??006) describe ratio analysis as the relationship between different items in the financial statements such as (Income Statements, Statement of Financial position and Cash flow statements). They also added that the expertise lies in knowing which ratios provide useful information. According to Melville (1999) ratio analysis on a single set of accounts is usually a pointless exercise. He further stated that most ratios mean very little in absolute terms and only become meaningful when used as a basis for comparison. There are two methods that for comparison. a) Comparing one year with another for the same company. By doing so, any trends might be extrapolated into the future and used for making economic forecasts. b) The second method is comparing one business with another. Melville stressed that the two companies or businesses must be in the same sector or industry (which I will apply for this report) for the comparison to be valid. And this is also supported by ??lliott and Elliott (2006) where they use the term "Compare like with like." 2. Operating profit margin (OPM) This is the most suitable calculation of operational presentation. This ratio compares one output of the company such as operation profit with another output such as cost of sales; sometimes actual sales increase but at the same time cost of sales increase, so in this situation the operating profit is actually not increasing because increasing cost of sales cover the proportion of increase in operating profit.

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Benedict and Elliott (2011) suggested when the OPM increased compare it to previous financial year and this is usually achieved in identical circumstances, such as good management and economy e.g. maximise sales and minimums costing.

From the finance directors point of view they may think they are doing well, but from the shareholders point of view Kier are actually not operating very well compared to Barratt plc because their OP has increased sharply by almost 42% and its pushed OPM to rise by 41%. Nevertheless we have to be cautious they may have different targets such as increasing revenue by providing long term credit and it may causes liquidity problems in long term.

32 Asset turnover

When assets turnover increase then it is good for investors because when equity increases then the share price increases as well and the value of the company also increases. This is good for the long-term period and it is secure of liquidity problems. It also indicates pricing strategy: companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover. Atrill (2009) explained asset turnover in different ways he said the higher ratios indicate that assets are being used more proactively to generate higher revenue and the financial manager should take careful consideration by using assets to generate higher profits. E.g. if you purchase a new machine and the machine actually creates more than expected (overtrading) this is good in the short term but if you are expecting to use the machine for long periods then it's not a very beneficial decision because when the machine get old it's impossible to use it as a new machine so the age of the assets should be taken to consideration.

33 C

Financial Statement Analysis for Kier Group PLC

34 Gross profit margin (GPM)

The gross profit tells an investor the percentage of revenue / sales left after subtracting the cost of goods sold. Melville (1999) further stated that the comparison between two companies in the same sector is very important as it might shed some light on the pricing policies adopted by each of the companies concerned. This is a clear indication of both companies' ability to use investments to generate earnings.

There are many factors can have an effect on increasing cost of sales e.g. currency deflation, economic down turn or unexpected costs which are not under control and for sure they have an impact on the GPM. Nevertheless the competitor company's GPM has increased by 22% in 2011, which sounds good but in reality it's not good because their revenue only increased by 0.001% and at the same time Barratt plc managed to reduce cost of sales by 3% in 2011. Usually when revenue increases then cost of sales increase too, but if we looking at Barratt the opposite happened.

35 Return on equity

ROE shows the profit attributable to the amount invested by the owners of the business and it measures a firm's efficiency at generating profits from every pound of net assets, and shows how well a company uses investment pound to generate earnings growth.

36 Liquidity Ratios

Wild et al (2007) said the significance of liquidity makes company percussions about failure to meet their requirement in short-term. Liquidity raises issues of a high level degree of risk. Occasionally companies offer discounts as a means of raising cash and the best way to prevent a shortage of cash they need to be careful that trade payables and receivables balance and that they have enough cash for any emergency matters. More extreme liquidity problems can lead to company to instability, bankruptcy or sale of assets at lower prices. Also liquidity can lead to a delay of products from suppliers and hence a loss of reputation amongst customers and suppliers.

37 Stock days

This ratio shows how well inventory is managed by calculating the number of times that a business turnover (or sell) inventory during an accounting period. Atrill and McLaney (2008) state that inventories are very much important for some types of businesses such as manufactures and inventories could account for a significant amount of the total assets held.

For the amount of inventories to carried, the business must consider demand for the inventories and supply shortage. But the main factors for the increasing stock turnover period for Kier are purely based on the current economic and financial crisis because Kier a construction and property provider and the downturn of property market had a direct impact.

Overall Kier plc is much better compared to Barratt because 66% of the revenue is coming from construction contracts. Barratt plc are struggling with the amount of stock they hold and 95% of their stocks are property and the revenue only increased by 0.001% in 2011; again the housing market and uncertainty among first time buyers are the main causes for increasing stock days. 8. Settlement period for trade receivable A low figure represents greater efficiency but the higher the period to collecting receivables then this will result in an increased risk. The risk of trade receivables is actually much higher than the profit, for example you are selling your products on promises, what happens if promises are not delivered? Then there are other costs involved such as administration and agency costs which may damage relations with customers. The settlement period for the trade receivable ratio analyse how long credit customers take to pay the amounts that they owe to the business. 9. Settlement period for trade payable

The terms and options should be considering by the finance manger. It's not necessary to pay back your credit before the expiry date but it must be in correlation between your receivables and payables to ensure the business is collecting trade receivables before paying suppliers. In addition the finance manger should not use the saving account to pay creditors unless it is urgent. 10. Cash flow ratio Operational cash flows represent all money brought into the business through producing and selling various goods or services. If the ratio is greater than 14% the companies is doing well, however any companies with less than 5% ratio indicate shortage of cash. Mills and Yamamura (2011) said when it comes to liquidity analysis; cash flow information is more reliable than balance sheet or income statement information. Balance sheet data are static measuring a single point in time while the income statement contains many random noncash allocations e.g. pension contributions and depreciation and paying off. In contrast, the cash flow statement records the changes in the other statements and nets out the bookkeeping artifice, focusing on what shareholders really care about: cash available for operations and investments.

The cash flows derived from the operations of a company after subtracting working capital, investment, and taxes and represent the funds available for distribution to the capital contributors i.e. shareholders and debt providers.

38 Z-score analysis

The Z-Score is a measure of a company's health and utilizes several key ratios for its formulation. The two best known Z-scores are Altman's. The company is considered 'unsafe' based on the financial figures in the annual report ended 30/06/2011 and they may go to bankruptcy unless the housing market recovers soon.

39 Financial gearing ratios

Financial gearing happens when a business is financed by borrowing to operate. For example Manchester United Football Club has been bought by borrowing rather than by owners such as Liverpool Football Club. When a business has high levels of borrowing then they have to pay interest, and this has a direct impact on the income statement. Therefore a higher level of gearing causes shareholders and investors to hesitate investing in the company.

40 Interest cover ratio

If the level of operating profits can't cover interest payable then the firms in serious financial difficulties and there is risk to the shareholder that the lender may take action against the firm to recover the interest by taking some assets instead of the interest.

41 Loan and borrowing

When a company has a large amount of loans, they are in a risky position, because they have to pay interest, and if they are not able pay the interest then it will be a problem.

The loan and borrowing for Kier Plc has not changed in the past two years. Profit for the year increased from 40m to 62m in 2011 but they did not pay back the loan this is due to some strategic issues such as low interest rates or increase in the dividend payment which they did it in 2011. There are strong suggestions the company is not paying back the loan and borrowings because they may have borrowed on a fixed rate as the finance cost has not changed from 2010 to 2011.

The comparative company Barratt Developments Company has borrowing huge amounts of money, because they bought rival builder Wilson Bowden for £2.2bn in 2006, before the credit crunch precipitated a fall in house prices. By end of June 2011 Barratt reduced the loans and borrowing from 918m to 405m, also they reduced level the of finance cost from 249m to 156m. For sure in 2012 the company will reduce the finance cost further and it can bring confidence to the business and it will improve share price.

The firm's shares have fallen alarmingly and some City insiders believe the company will have to go cap-in-hand to the City and raise money via a rights issue. ??Guardian, 2008). Barratt forecasts increasing house sales during the coming years, by cutting the cost of houses, and making a better offer for first time buyers, but this is not guaranteed as the current housing market is uncertain.

42 Investment ratio

It is important to pay suppliers on time before the expiry date and to ensure there is no damage to the relationship with suppliers and the reputation of the business. Also the delay in paying creditors may result in a loss of creditor discounts by not paying on time. Settlement period for the trade payable ratio estimate by how long it takes to pay those who supplied goods and services on credit.

Note that when we refer to the share price, we are talking about the Market value and not the Nominal value as indicated by the par value. For this reason, it is difficult to perform these ratios on unlisted companies as the market price for their shares is not freely available. One would first have to value the shares of the business before calculating the ratios. Market value ratios are strong indicators of what investors think of the firm's past performance and future prospects.

43 Movement in share price

The share price for Kier Plc in the past two years has increased sharply, and shareholders invested in the company because of higher returned dividends and increase in the value of shares. When the companies Financial Statement Analysis for Kier Group PLC are in a good profit position, then share price might go up, because it's attractive for buyers. The share price for Kier group plc increased from 9680p in 30 June 2010 to 1360p in 30 June 2011. However the share price for the comparative company Barratt Development Plc has decreased extraordinarily from 9500p in 30 June 2010 to 1140p in 30 June 2011, because of the company's net loss after tax for 2011 of 13m and in 2010 of 118m. If property markets recover then the share price will go up very quickly so there is a very strong correlation between the housing market and Barratt.

The share prices are determined by supply and demand, which in turn is determined by a whole range of factors. Many of these relate to the performance of the company, for example if a company undertakes an attractive investment, investors will be keen to buy shares, demand will exceed supply, and the share price will tend to increase.

Alternatively, if the sales and profits of a company decline, investors will be unenthusiastic about the company, and they will tend to sell their shares. Supply will exceed demand and the share price will tend to fall. However it's important to understand that investors buy and sell the shares for reasons that have nothing to do with the performance of the company. ??Arnold, 2003) Sources: Hemscott

The above figures show how the current financial crisis has had an effect on the company's share prices, the share prices for Barratt was 1700p in August 2009 and the share price decreased to 3500p in January 2011. This completed the blow for shareholders because the shares are hugely declining. However the shares for the main company Kier Plc have not been affected as much as Barratt due to having won many contracts from the 2012 Olympic Games and continuing to operate overseas.

Barratt Developments has seen its share price fall to around the 475p mark from a year-high of nearly 1,300p and has warned the market that it has suffered a 14% fall in private house sales this autumn. Kingfisher is one of a number of shares that usually perform badly when the US economy slows down, according to quantitative analysts at JP Morgan. The analysts said other shares likely to suffer in the future included Barratt Developments. (the business, 2007).

The company can keep stockholders happy by returning a dividend, fundamentally when the companies make a profit they can pay a dividend to a shareholder, but when the company doesn't have a profit, then they can but they have to use other paid resources. Nonetheless Kier Plc also increased the dividend in the past two years, the dividend has increased from 58p in 2010 to 64p in 2011 and these kinds of returns are impressive to the shareholder. This makes them have the confidence to buy more shares in the company because the shareholder thinks about the increasing value of the shares and hence an increase in the return of the dividend as well.

Nonetheless Barratt Developments has not paid a dividend in the past two years because of making a loss in both years. This will have created uncertainty among the shareholder to buying more shares in the company, because the shareholders and new investors will think it is not worth it to invest in the business. Financial Statement Analysis for Kier Group PLC

It can be seen that the revenue has increased by 3.26% over the past two year period and net profit for the year increased by 35% in 2011. It is also useful to look at contributing factors such as sales marketing expenses and cost of sales. Also it is interesting to note the dividend per share has increased in the past two years by 10%, which is more attractive for shareholders and is a contributing factor towards the increasing profits. Finally you can see in the analysis that Kier is in a more profitable position invest and hence more suited to attract investors to investing in the company.

44 Limitations of research

This report was produced by numerical analysis of figures presented in the company reports for the last 2 years. Therefore it must be noted that some figures may have been presented in a manner that looks favorably on performance or contains some bias.

It also must be noted that there was a change in Accounting Standards during the period that this report looks at. From 2005 all European Union companies must prepare their consolidated reports using IFRS (International Financial Reporting Standards). Prior to this, both Kier and Barratt prepared their reports using UK GAAP (General Accepted Accounting Principle). This has meant that there has been a change in the construction of some figures.

Therefore, wherever possible, the 2 year summary of the Annual Reports 2010 and 2011 has been used as it presents the data in both IFRS and UK GAAP formats, although some figures do vary when looking at individual reports for data which is not included in the 2 year summary.

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Figure 1: Financial

$$\text{ROCE} = \frac{\text{Operating profit}}{\text{Share capital} + \text{Reserves} + \text{Non-current liabilities}} \times 100$$

Figure 2:

$$\text{OPM} = \frac{\text{Operating profit}}{\text{Sales revenue}} \times 100$$

Figure 3: Financial

$$\text{Asset Turnover} = \frac{\text{Sales revenue}}{\text{Share capital} + \text{Reserves} + \text{Non-current liabilities}}$$

Figure 4:

$$\text{GPM} = \frac{\text{Gross profit}}{\text{Sales revenue}} \times 100$$

Figure 5:

2016

$$\text{Return on equity} = \frac{\text{Profit available to ordinary shares}}{\text{Share capital} + \text{Reserves}} \times 100$$

Figure 6:) 2016 C

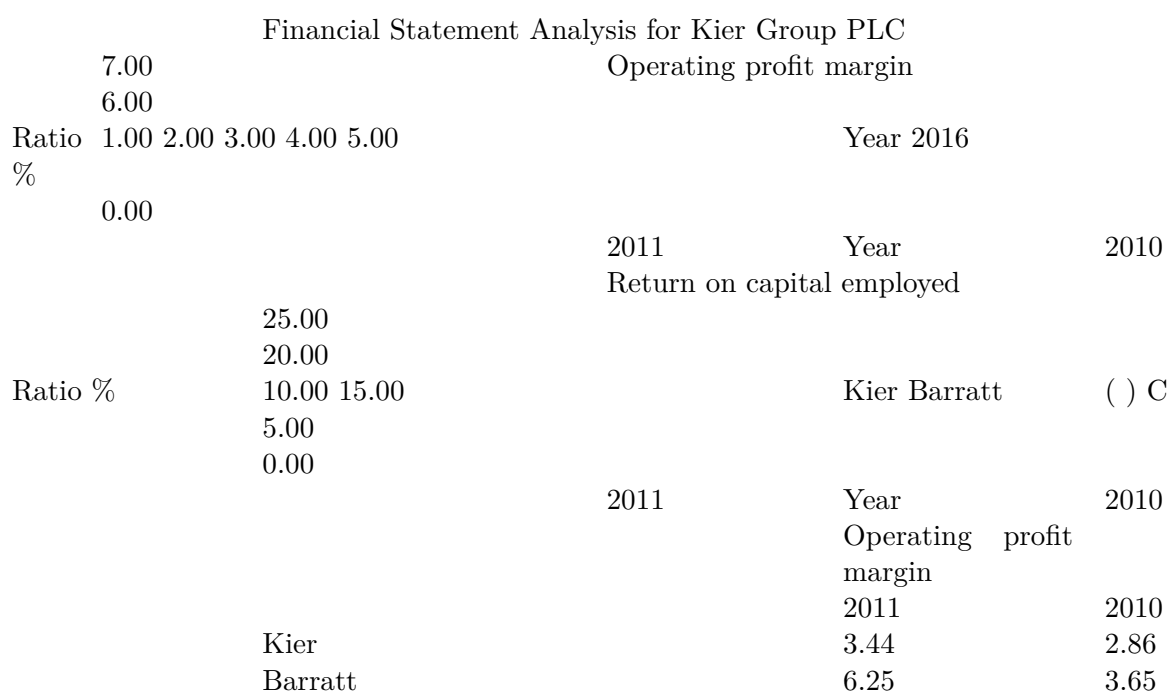


Figure 7:

2016	Gross profit margin		
	Kier	2011 8.38	2010 10.17
Year	Barratt	11.19	8.84
Volume XVI Issue II Version I ()			
	Asset Turnover		
	Kier	2011 6.33	2010 6.85
	Barratt	0.54	0.48
Times	Asset Turnover		
	8.00		
	7.00		
	6.00		
	3.00	4.00	Kier
	5.00		Bar-ratt
	2.00		
	1.00		
	0.00		
	2011	Year	2010
Despite increasing in revenue by 3.25% in 2011 asset turnover declined by 0.08 times because the value of equity has increased rapidly by 37% in 2011, and non-current liabilities has decreased by 14% in same period (please see appendix 3 for more details).		However the Barratt plc asset turnover increased by 0.12 time in 2011, it's not as good as because the revenue has increased only by 0.0001% 2011 and the equity value has declined by 2%, this would cause uncertainty amongst shareholders and	

[Note: © 2016 Global Journals Inc. (US) 1CFinancial Statement Analysis for Kier Group PLC investors. Overall Kier plc is in a better position than Barratt plc. iv. Gross profit margin (GPM)]

Figure 8:

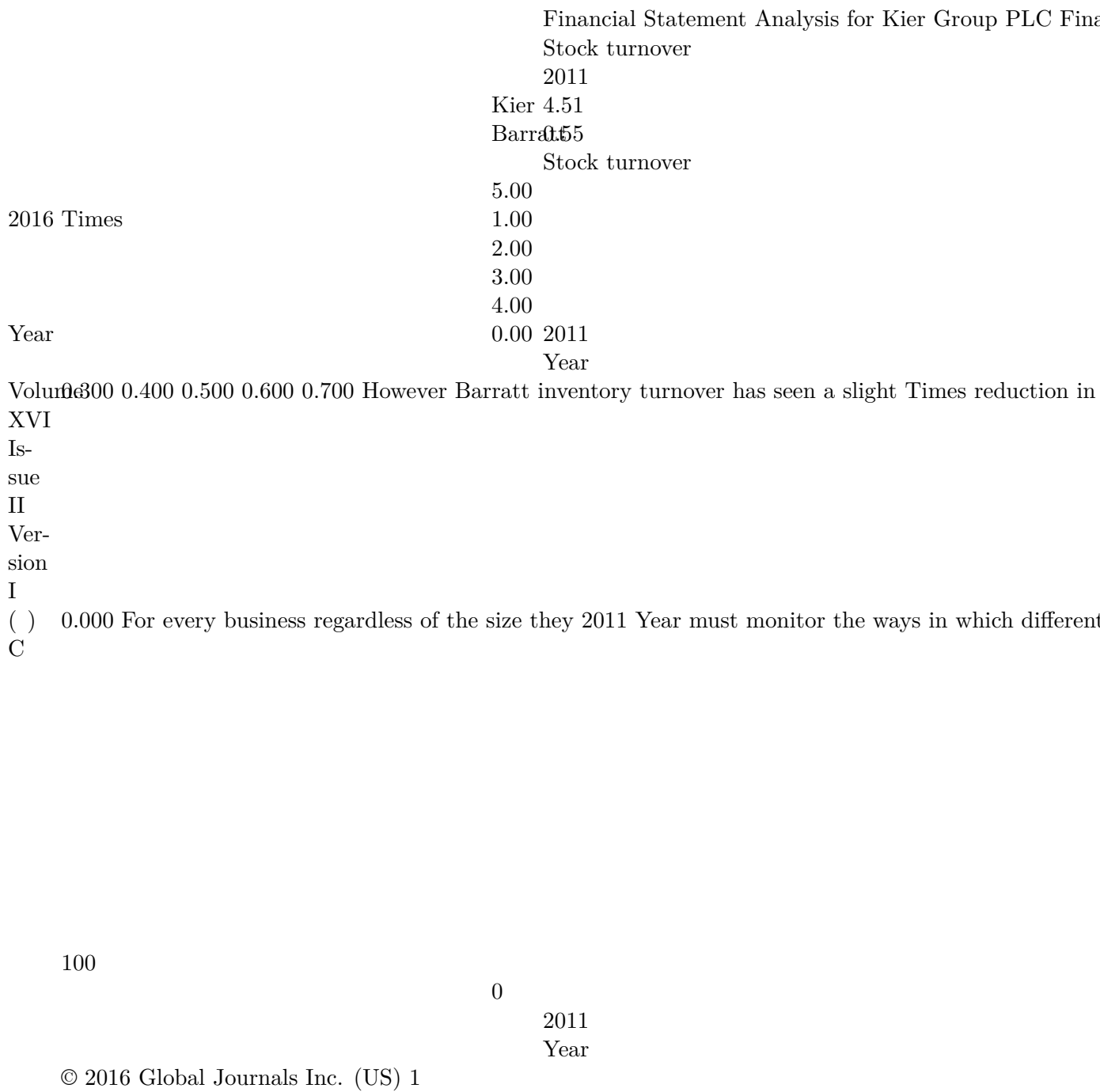


Figure 9:

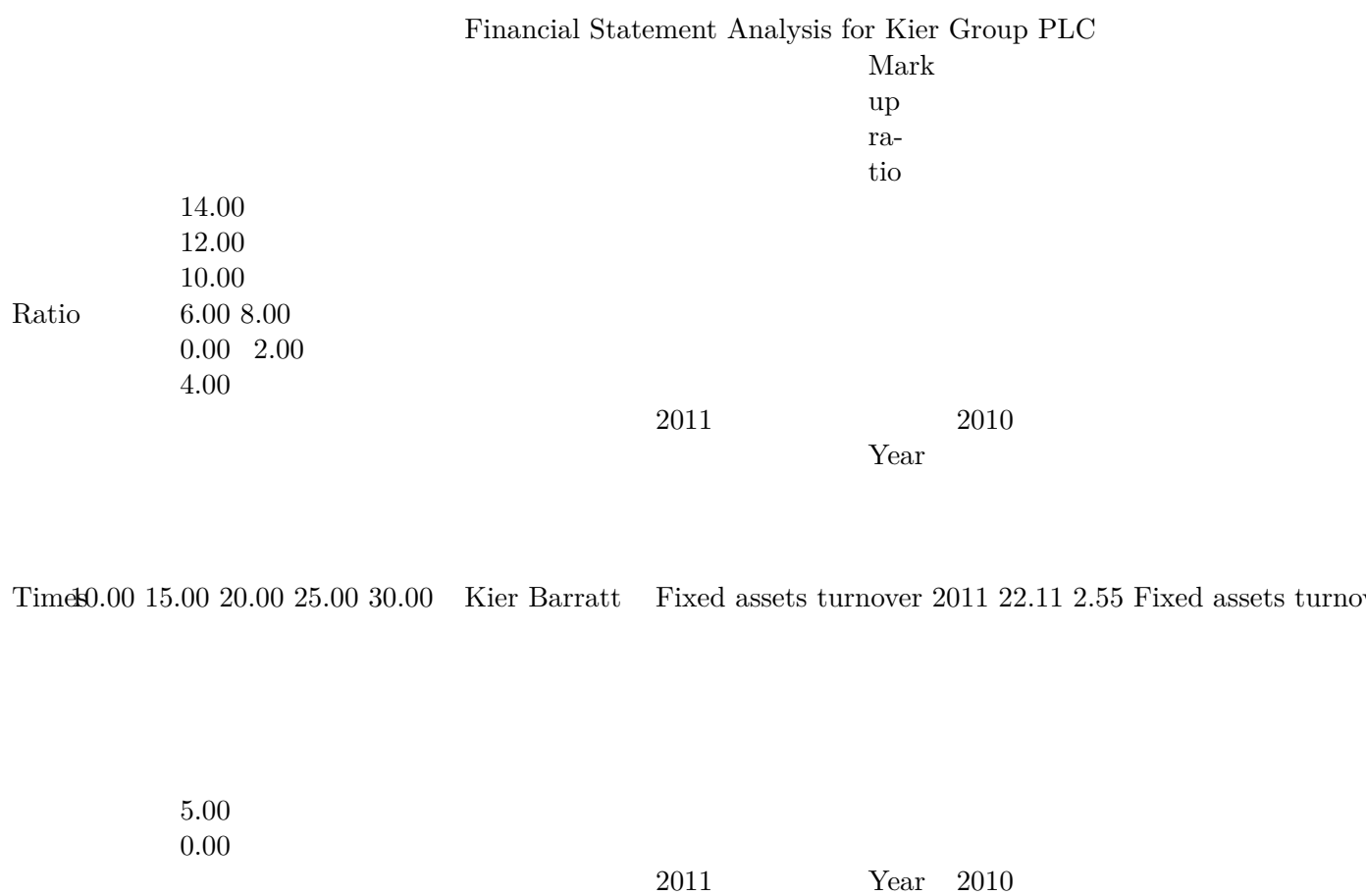


Figure 10:

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.2 Global Journal of Management and Business Research

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.3 2016

.4 C

Financial Statement Analysis for Kier Group PLC However the erouzone crisis will have an effect on both companies until it ends ?? guardian, 2008).

Once more British people can't afford to buy property, because lack of "Confidence is a very important factor in the housing market and much of this confidence is determined by expectations of the future path of house prices, said Earley, Nationwide's chief economist" (ft, 2008). However, economists expect consumer spending to slow during 2008-2011 in response to tighter credit conditions, rising food and energy bills and greater economic uncertainty. 17. Fixed assets turnover Melville (1999) said fixed assets turnover indicates how well your business is using its fixed assets to generate sales. Generally speaking, the higher the ratio, the better because a high ratio indicates your business has less money tied up in fixed assets for each pound of sales revenue. A decaling ratio may indicate that you've over-invested in plant, equipment.

.5 Trade analysis

The purpose of trade analysis is to evaluate an entity's profit and loss accounts and balance sheets for a specified period, requiring one period's results to be given a base of 100 and the other period results for each line in the accounts to be then converted into factors that relate to that base period of 100 Melville (1999).

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