

Fundamental Analysis

An analyst from **Borsagy.com** provides you with a photocopy of the financial statements of **Egyptian Company for Advanced Reports & Analysis (ECARA)**. However, the financial statements were not that clear and are missing parts in them as highlighted with "?". A client asks you a few questions (1-15 on the following pages) and requires answers immediately. Go through your clients' questions and try to answer them using the below financial statements and data.

NOTE THAT YOU DO NOT HAVE TO COMPLETE EVERY LINE ITEM THAT IS MISSING.

Egyptian Company for Advanced Reports & Analysis (ECARA)						
Balance sheet (LE mn)		2005	2006	Income statement (LE mn)		
Assets				2005	2006	
Current assets				Sales	500	
Cash & cash equivalent	138	?	Cost of goods sold (COGS)	(175)	?	
Accounts receivable	68	90	Gross profit (GP)	325	?	
Inventory	5	7	Selling, general, & admin (SG&A)	(25)	(30)	
Total current assets	211	393	EBITDA	300	?	
Long-term assets				Depr. & amort. (D&A)	(10)	(12)
Net fixed assets	1,000	1,100	EBIT	290	378	
Goodwill	-	-	Net interest expense	(68)	(65)	
Total long-term assets	1,000	1,100	EBT	222	313	
Total assets	1,211	1,493	Taxes	(55)	(78)	
Liabilities & equity				NPAT	166	235
Short-term debt (STD)	10	15	Cash flow statement (LE mn)		2005	2006
Curr. portion of LTD (CPLTD)	25	50	Operating cash flow	113	220	
Accounts payable	10	7	Investing cash flow	(1,010)	(112)	
Total current liabilities	45	72	Financing cash flow	1,035	50	
Long-term liabilities				Change in cash	?	?
Long-term debt (LTD)	500	450	Beginning of period cash	-	138	
Others	-	-	End of period cash	138	?	
Total long-term liabilities	500	450	Share data		2005	2006
Total liabilities	545	522	No. of shares outstanding (mn)	100	100	
Equity				Closing price (July 13, 2006)	15.00	15.00
Paid-in capital	600	?	EPS	1.66	?	
Reserves	8	20	DPS	1.00	?	
Retained earnings	58	151	Ratios		2005	2006
Total equity	666	?	P/E	?	?	
Total liabilities & equity	1,211	1,493	Dividend yield	?	?	
			Sales growth rate		20.0%	
			EBITDA growth rate		30.0%	
			Gross margin	65.0%	70.0%	
			EBITDA margin	?	?	
			Net margin	?	?	
			Debt-to-equity	?	?	

(1) What is ECARA's **paid-in capital** and **equity** in 2006?

	Paid-in capital	Equity
A.	600	666
B.	600	971
C.	800	971
D.	800	666

(2) What is ECARA's total **debt** and **debt-to-equity ratio** in 2006?

	Debt	Debt-to-equity ratio
A.	450	0.68
B.	465	0.48
C.	515	0.77
D.	515	0.53

(3) What is ECARA's **gross profit** and **Cost of goods sold** in 2006?

	Gross profit	Cost of goods sold (COGS)
A.	180	420
B.	420	180
C.	325	175
D.	180	175

(4) What is ECARA's **EBITDA** and **EBITDA margin** in 2006?

	EBITDA	EBITDA margin
A.	150	60%
B.	390	65%
C.	295	70%
D.	150	65%

(5) What is ECARA's **tax rate** and **EPS** in 2006?

	Tax rate	EPS
A.	25%	1.30
B.	20%	1.30
C.	25%	2.35
D.	20%	2.35

(6) What is ECARA's **change in cash** and **ending cash balance** in 2006?

	Change in cash	Ending cash balance
A.	158	296
B.	138	275
C.	158	275
D.	58	196

(7) If ECARA's DPS will grow at 30% in 2006, what is its **DPS** and **dividend yield** for 2006?

	DPS	Dividend yield
A.	1.00	7%
B.	1.30	9%
C.	2.16	14%
D.	1.30	12%

(8) The **required return for a normal investor** could best be described by which formula?

- A. $DPS/g + P$
- B. $P/DPS + g$
- C. $DPS + g$
- D. $DPS/P + g$

(9) What is **ECARA's 2006 P/E**? If the market's 2006 P/E is 8x, **is ECARA's stock overvalued?** and **which price** should it trade at if it was to be in line with the market P/E?

	2006 P/E	Overvalued?	ECARA's price should be
A.	6.4x	No	18.78
B.	6.4x	No	29.18
C.	9.0x	Yes	13.31
D.	9.0x	Yes	10.40

(10) What is ECARA's P/BV in **2005** and **2006**?

	2005 P/BV	2006 P/BV
A.	2.3x	2.3x
B.	1.5x	2.3x
C.	2.3x	1.5x
D.	1.5x	1.5x

(11) What is the definition of **Enterprise Value (EV)**? and what is **ECARA's 2006 EV**?

	Enterprise value	ECARA's 2006 EV
A.	Market cap - debt + cash	1,346
B.	Market cap - debt + cash	1,281
C.	Market cap + debt - cash	1,654
D.	Market cap + debt - cash	1,719

(12) What is ECARA's **2006 EV/EBITDA**? and if the market EV/EBITDA is 4.0x, what should **ECARA's stock price** be?

	2006 EV/EBITDA	ECARA's price should be
A.	4.4x	13.41
B.	4.2x	7.49
C.	3.3x	17.79
D.	4.4x	7.49

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- (13) If ECARA's 2006 EPS grows at 10% annually to 2010, what will **2010 EPS** be?
And if by end of 2010 ECARA's stock price is LE 35, what will its **2010 P/E** be then?

	2010 EPS	2010 P/E then
A.	2.58	13.6x
B.	3.44	4.4x
C.	3.12	11.2x
D.	3.44	10.2x

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- (14) In fundamental analysis, how would you describe the analysis that studies the **economy** then goes to **industry** and **company**?

- A. Bottom-up approach
- B. Horizontal approach
- C. Top-down approach
- D. Vertical approach

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- (15) Which **reports** that CIBC issues you are most likely to find the following in?

	Market P/E multiples	Trading Day Summary	ECARA's CEO buying stock in the company
A.	Daily Market Report	Daily Notes	Company Update
B.	Market Monitor	Daily Market Report	Daily Notes
C.	Company Update	Market Monitor	Daily Market Report
D.	Daily Notes	Company Update	Market Monitor