

Faculty of Economics and Management

Department of Economics



Summary of Diploma Thesis

Financial Analysis of a Chosen Firm

Author: Bc. Fadi Fayad
Supervisor: doc. Ing. Karel Tomšík, Ph.D.

© 2015 CULS Prague

Summary

This diploma thesis is focused on financial analysis of a chosen firm – in this case Vodafone Czech Republic, a.s. Theoretical part of the thesis focuses on summarization of theoretical knowledge, mainly on the topic of financial statements and financial analysis. Most of the theoretical part covers individual methods of technical (quantitative) analysis as described by contemporary literature of both Czech and English Speaking authors.

Analytical part of this thesis firstly focuses on examination of basic market information about Vodafone Czech Republic, its main competitors and overall reality of Czech telecommunications market – information necessary for proper interpretation of results of application of quantitative methods of financial analysis.

Analytical part then proceeds to apply quantitative methods of financial analysis on the selected company – results from individual calculations are presented and interpreted. Final part focuses on applying methods of financial analysis together with analysis of non-financial indicators and “spider web” analysis on both Vodafone Czech Republic, a.s. and its competitors to assess chosen firm’s position within the industry.

Synthetical part of the thesis focuses on interpretation of results of analytical part of the thesis as a whole and to present findings about chosen firm’s financial well-being and to assess possible future development for the company and the market.

Keywords: financial analysis, horizontal analysis, vertical analysis, ratio indicators, pyramid decomposition, bankruptcy models; telecommunications, mobile market, Vodafone, T-Mobile, O2

Aim of the Thesis and Methodology

Aim of the Thesis

Aim of this thesis is to apply methods of financial analysis on a chosen company – Vodafone Czech Republic, a.s. and partially on its competitors in order to assess the company's financial health and its position within the industry and to provide assessment of possible future development of the industry.

Methodology

The data necessary for application of methods of financial analysis will be gathered mostly from financial statements of Vodafone Czech Republic, a.s. and its competitors from years 2009 to 2013. (Data is stated in CZK without VAT. Financial year of Vodafone 1.4. to 31.3. of the next year is assigned to the first year of the period.)

The larger part of the thesis focuses on application of methods of quantitative financial analysis ranging from basic methods (analysis of differential indicators) to more complex methods (Du Pont ROE decomposition, Bankruptcy models).

Finally the method of synthesis will be applied on findings of the analytical part of this thesis in order to fulfill the aims of the thesis.

Results and Recommendations

Czech telecommunications market underwent in analyzed period significant change – from highly accelerating market to a very saturated one. This negative trend affected all of the key players on the market, not excluding Vodafone Czech Republic, a.s.

Main financial indicators of chosen firm deteriorated sharply in the period from 2009 to 2013. Key observable trend is a sharp decrease in revenues and earnings. Another significant trend can be seen in Vodafone Czech Republic's sources of financing – the value of equity has sharply decreased (drop over CZK 10bn.) and was replaced by a long term loan.

Balance rules analysis showed that the chosen company was only able to meet given recommendations in several instances. Golden balance rule was met only in year 2013, in all other periods Vodafone's fixed assets overweighed Vodafone's long term sources of financing. Golden rule of settlement risk was met only in years 2009 and 2010, after that (as mentioned in earlier paragraph) Vodafone relied heavily on financing by loan. Golden pari rule was met by chosen firm only in year 2010.

Result of financial ratio analysis also showed evidence of financial decline that took place during the analyzed period. Vodafone fell from acceptable values in years 2009 / 2010 below recommended thresholds in 2013. Again, the most significant part of this decline was due to a sharp decrease of revenues and therefore earnings and by large change in firm's financing.

Same findings were also presented by results of bankruptcy model analysis – which in both cases moved from acceptable zone at the beginning of the analyzed period to indicating serious problems for Vodafone in 2013.

Analysis of Vodafone's main competitors also provided evidence that Czech telecommunications market is in overall decline. Virtually every indicator for every company calculated showed a significantly worsening trend throughout the analyzed period. Despite the fact that each of the three major mobile operators had their specific financial problems, Vodafone's position based on results of analysis of its competitors seems to be the weakest.

Main recommendations arise from estimation of Czech telco market as a whole. Vodafone (as well as any of its competitors) should focus on strategies that should preserve and diversify its revenue streams – namely providing of mobile broadband data connection – focus on customer retention strategies (due to significant decrease in net adds of customers)

and focus on product differentiation where possible – namely in providing complex ICT solutions to commercial customers.

Selected Literary Sources:

ALBRECHT, W. Steve, STICE, Earl K., STICE, James D. *Financial Accounting*. 11th edition. Cengage Learning, 2010. 832 p. ISBN 978-0538746953.

BRIGHAM, Eugene F., HOUSTON, Joel F. *Fundamentals of Financial Management*, 7th edition. Cengage Learning, 2011. 688 p. ISBN 978-0538477116.

FABOZZI, Frank J., PETERSON, Pamela P. *Financial Management and Analysis*. 2nd edition. Wiley Finance, 2003. 1024 p. ISBN: 978-0-471-23484-5.

GRÜNWARD, Rolf, HOLEČKOVÁ, Jaroslava. *Finanční analýza a plánování podniku*. 1. vydání. Praha: Ekopress, 2010. 179 s. ISBN 978-80-86929-26-2.

HORNGREN, Charles T., HARRISON, Walter T., OLIVER, M. Suzanne. *Financial & Managerial Accounting*, 3rd edition. Prentice Hall, 2012. ISBN 978-0-13-249799-2.

RICH, Jay, JONES, Jeff, HEITGER, Dan L., MOWEN, Maryanne, HANSEN, Don. *Cornerstones of Financial and Managerial Accounting*. 2nd edition. Cengage Learning, 2011. 1408 p. ISBN 978-1111529147.

SEDLÁČEK, Jaroslav. *Finanční analýza podniku*. 2. aktualizované vydání. Praha: Computer Press, 2011. 160 s. ISBN978-8025-13386-6.

SHOLLEOVÁ, Hana. *Ekonomické a finanční řízení pro neekonomy*. 2. aktualizované a rozšířené vydání. Praha: Grada, 2012. 272 s. ISBN 978-80-247-4004-1.

SYNEK, Miroslav a kol. *Podniková ekonomika*. 4. přepracované a doplněné vydání. Praha: C. H. Beck, 2006. ISBN 80-7179-892-4.