

Company Report For TrustPower Ltd



MBA 31 Syndicate A:
Melinda Wu
Fa Niemi
Ronda Tokona
James Dixon
Razak Bakar
Jorit Nuhs

Table of Contents

Executive Summary.....	1
Introduction.....	2
Report Objectives.....	2
Explanation of Methods.....	3
Discussion of Results.....	3
Profitability.....	4
Efficiency.....	5
Relationship between Profitability and Efficiency.....	5
Liquidity.....	5
Financial Risk.....	6
Investment.....	7
SWOT Analysis.....	9
Strengths.....	9
Weaknesses.....	10
Opportunities.....	11
Threats.....	12
Conclusions & Recommendations.....	13
Appendix A – Profitability.....	I
Return on Ordinary Shareholder Funds (ROSF).....	I
Net Profit Margin.....	I
Gross Profit Margin.....	I
Appendix B – Efficiency.....	II
Sales revenue to capital employed (asset turnover ratio).....	II
Average settlement period for debtors.....	II
Appendix C – Relationships of Profitability to Efficiency.....	III
Return on Assets (ROCE).....	III
Appendix D – Liquidity.....	IV
Current Ratio.....	IV
Cash Generated from Operations to Maturing Obligations.....	IV
Appendix E – Financial Risk.....	V
Gearing.....	V
Interest Cover.....	V
Appendix F – Investment.....	VI
Shareholders Equity.....	VI
Economic Value Added (EVA).....	VI
Earnings per Share (EPS).....	VI
Cash Generated from Operations per Share (CGO).....	VI
Price / Earnings (P/E) Ratio.....	VII
Dividend Payout Ratio.....	VII
Dividend Yield Ratio - 4.55.....	VII
Appendix G – Contact Energy Ratios.....	VIII
Bibliography & References.....	XI

Executive Summary

TrustPower was formed in 1994 as a generation and retailer company in the NZ electricity industry. TrustPower is distinguished from its competitors because they solely generate from renewable resources and have a strong environmentally sustainable image. They focus on the production of hydro electricity, and have diversified to wind farm technology, and telecommunications.

The purpose of this report is to provide an analysis of the financial performance of TrustPower through a comparison of its financial statements from 31 March 2006 to 31 December 2006, in an industrial context. The company's profitability increased with an increase in its net and gross profit margins. The rate of return on shareholders funds also increased during this period as did the return on capital employed ratio indicating the return on assets was larger than the rate the business had to pay for most of its funds.

The company is becoming less efficient in using its resources as indicated by a low asset turnover ratio, such turnover being mirrored by its competitor, Contact Energy. In March, the company barely covered its current liabilities, and by December, the position deteriorated so that the company only had 42 cents to pay for every \$1 of liability. This position is also reflected in the cash generated from operations. The gearing has decreased over the nine months and is therefore reducing the amount of interest payable on long term liabilities. This reduces the risk to the shareholder. The interest cover ratio indicates that the company has enough profit to cover its interest payments on liabilities.

The investment ratios reveal the earnings per share ratio has remained steady and the price earning ratio has increased by \$3.62 demonstrating that investors future expectations are positive. However, the cash generated from operations per share declined by 3 cents indicating that the investment in capital expenditure has reduced available cash reserves.

The SWOT analysis reveals the strength of the company in terms of its ability to diversify and make capital investments in alternative energy use like wind farm technology. This impetus is supported by government policy focus on alternative energy resources, and regulatory support in the form of tariffs. However, threats are posed by bigger competitors encroaching on the company's debut into wind farm technology. There are reasons to be cautious around investing in TrustPower, notably, liquidity problems, reduced working capital, and strong competitor encroachment into renewable resources. However, overall, TrustPower has shown a solid performance with good profits during a period of expansion and growth, and signs of share market confidence through an increased share price, and dividend payout.