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# Measuring the Financial Performance of a Telecommunications Corporation

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***Abstract:*** ***The aim of this paper is to measure the financial performance of the Emirates Telecommunications Group Company, the largest provider of internet and telephony services in the United Arab Emirates, during the years 2016 to 2018. This paper empirically analyzes three groups of indicators, profitability, liquidity and capital structure. Due to its high degree of validity in its ability to dissect and measure various aspects of a firm's financial health, financial ratio analysis was performed using data provided by the Emirates Telecommunications Group Company in its annual reports. Ratio analysis has consistently been recognized as the gold standard for investorsinterested in analyzing the financial performance of large institutions. Relevant ratios that reflect various aspects of the firm's financial health have been analyzedand compiled in order to reach a conclusion regarding the overall financial standing of Emirates Telecommunications Group Company. The findings indicate a noticeable improvement in the level of profitability in 2018 when compared to the previous years, possibly indicating a strengthening in the firm's ability to control costs in its pursuit of higher profit margins. Liquidity, or cash on hand levels have slightly declined for the three years under study. The Profitability, liquidity and capital structure analysis clearly shows a stable and largely positive trend for the years 2016 through to 2018, highlighting an improvement in the firm's management of resources and pointing towards a positive outlook for the company and good news for investors should current trends continue. Due to the public availability of the data required as well as the validity of this type of analysis, current and prospective investors alike are encouraged to employ ratio analysis in order to measure the viability of their investments as well as discover new investment opportunities where they may arise.***

***Keywords:*** *Financial Analysis; Performance Management; Communication Technology; Performance Indicators*

## I. INTRODUCTION

In investment science, financial accounting is considered a vital source of information in aiding the decision-making process of investors. With respect to current shareholders it can provide valuable and illuminating insight regarding questions such as whether to buy more common or preferred stocks or whether the shareholder should sell some of their currently owned shares. Financial accounting assists in answering these questions by assessing the calculated risk and anticipated return from acquiring shares in the two distinct stock options, be they common or preferred.

Additionally, this set of information is equally as useful for potential investors as it helps guide them towards buying stocks that best fits the levels of risk and return that they are most comfortable with.

From a managers perspective, sound financial accounting is perhaps more important than it is to the individual investor since it is financial accounting information that helps managers diagnose any organizational problems where they exist and consequently helps managers put in place strategies that best achieve a company's short and long term goals. Financial accounting thus allows management to quantify the performance of their organization and make comparisons with other players and competitors that operate within their industry. By analyzing the performance of their organization against that of the industry as a whole, financial accounting can help ascertain whether poor performance is the result of bad company strategy or is potentially indicative of an industry wide slowdown. Managers can then make the necessary adjustments to redirect the company towards more sustainable growth, saving the company from more damage due to fundamental flaws in terms of their operations and strategies. Employees may also consult financial information in order to paint an accurate picture of the long-term viability of their organizations, raising alarms to their seniors regarding any potential vulnerabilities or problems with company strategy at the operating level, helping to guide their employer towards success and thus ensuring their long term employment as well as the future of their company. Similarly, both suppliers and lenders rely on financial accounting information. Suppliers need to make an accurate judgment regarding the ability of their clients so they can best negotiate contractual terms and conditions regarding credit and payment for their goods and services. Lenders also require financial information from their clients as this allows them to assess the financial position of the company that they are lending capital to. Financial accounting information is thus crucial in deciding the amount of credit to be given as well as the interest rate at which it is given. Only after investigating the company's ability to honor their debts can an informed decision be made on the part of the creditor regarding whether or not a loan should be given. Financial accounting information is the main source of information for tax collection agencies when calculating the necessary tax rate that should be levied on the corporation and thus the corresponding amount in taxes that the corporation is required to pay out.

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Finally, both researchers and financial analysts consult the financial accounting data to identify any new or current developments or trends in the performance of the corporation or the industry as a whole. Profit growth movement for example can be visualized by conducting a type of analysis known as time-series analysis. Additionally, financial accounting information is equally valuable to analysts by allowing them to investigate structural and performance commonalities between industry competitors by allowing them to perform cross sectional analysis between two or more industry players.

## II. LITERATURE REVIEW

Pandey et al., (2013) analyzed the financial statements of the four telecom companies in India, BSNL, RELLANCE, AIRTEL, and MTNL. Four financial ratios have been analyzed and used, current ratio, fixed assets to total turnover, debt to equity ratio and return on equity ratio to assess if there is a difference in these group of companies. The authors used ANOVA analysis to test the data for five years, 2008 to 2012. The results of their analysis reals a significant differences of the above ratios between companies under study.

Bhargava (2017) analyzed the financial statements of two information technology companies in India, WIPRO Ltd and INFOSYS Ltd for five years, 2011-12 to 2015-16. He used several financial ratios to make a comparison between the two companies in relation to profitability and capital structure. The result of his analysis showed a significant differences of the ratios used between the two companies.

Bansal (2015) measured the finance and accounting performance of leading IT Indian companies for the period 2010-2014. He analyzed the financial statements of four IT companies, TATA CONSULTING SERVICES, WIPRO Ltd, INFOSYS Ltd, and TECH MAHINDRA Ltd. The analysis was conducted for five years, 2010-2014 to compare the measurements of liquidity, profitability, market performance, solvency, and leverage levels. He conclude that Infosys Ltd is the most sought-after company for investor. Along similar lines is Tata Consulting Services, whose working capital turnover, total asset turnover and DuPont analysis returns show encouraging signs for shareholders who have profits as their point of consideration.

Muthusamy (2012) analyzed the financial statements of six Indian telecom companies for five years, 2005 to 2010. He used financial ratio analysis to make a comparison between these companies for profitability, liquidity, and turnover. ANOVA analysis has been used to assess the differences in these ratios among the companies. The results of his analysis showed a significant differences between the performance indicators among the said companies.

Kajananthan and Achchuthan (2013) analyzed the data of liquidity and capital structure of Sri Lanka Telecom Plc for the years 2005 to 2011. Three types of analyses have been conducted, descriptive statistics, time series analysis, and regression analysis. The authors found that the decision making on the capital structure is highly depending on the liquidity management of the Sri Lanka Telecom Plc.

## III. RESEARCH METHODOLOGY

Financial statements of Emirates Telecommunication Group Company were obtained from its annual reports for the years 2016 to 2018. Different types of financial ratios of the three main groups' indicators, profitability, liquidity and capital structure are going to be analyzed to reach a sound conclusion regarding its performance for the years under study.

## IV. PROFITABILITY ANALYSIS

Table 1 shows that this organization made a good level of profitability in 2016 using three indicators, profit margin, return on assets and return on equity. The profitability level has declined in 2017 mainly due the declining in revenue level. The analysis of the year 2018 shows an increase is in profitability comparing to the two previous years. Profit margin indicator shows that the profit generated from providing different services to its customers slightly decrease in 2017 to 22.08% comparing to 2016 figure and then increased to 24.46% in 2018. The profitability measurement in relation to total assets again slightly decrease in 2017 and increase to 10.18% in 2018. It seems that this is efficiently using it assets. Return on equity ratio indicates the profitability of investing in this company. The high ratio can attract investors to be part of its shareholders. As with other profitability ratios this ratio has declines in 2016 to 19.62% and raised to 22.39% in 2018.

**Table 1: Profitability Indicators**

| *Details* | *2016* | *2017* | *2018* | *Average* |
|---|---|---|---|---|
| *Profit Margin* | *22.95%* | *22.08%* | *24.46%* | *23.16%* |
| *Return on Assets* | *9.76%* | *8.85%* | *10.18%* | *9.60%* |
| *Return on Equity* | *21.33%* | *19.62%* | *22.39%* | *21.11%* |

## V. LIQUIDY ANALYSIS

Table 2 shows the analysis of the three levels of liquidity indicators, current ratio, Quick (acid) ration and working capital. Although there is a declining in these indicators over the years, it is not significant declined for both current and quick ratios. The current ratio shows the company's ability to pay the current creditors using from its current assets. This ratio has been slightly declining during the years under study. The quick ratio also shows the ability of this company in paying its current creditors without considering the inventory account. The analysis shows a decline in this ratio for the years 2016, 2017, and 2018. The working capital indicator shows the access of current assets over current liability indicating extra current assets to use in running the business after paying the current liabilities. The working capital indicator has significant negatively movement trend since there was a significant reduction in the current assets in 2018 comparing to 2017.

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**Table 2: Liquidity Indicators**

| Details | 2016 | 2017 | 2018 | Average |
|---|---|---|---|---|
| Current Ratio (times) | 1.108 | 1.095 | 1.007 | 1.07 |
| Quick Ratio (times) | 1.091 | 1.081 | 0.992 | 1.05 |
| Working Capital | 4483000 | 4163000 | 3324000 | 3990000 |

## VI. CAPITAL STRUCTURE ANALYSIS

Table 3 indicates that less than 20% of the total assets is financed by debt sources. The ratio of other liabilities to total assets formed on average 35.79%. Both ratios are stable for the three years under study. In relation to total liability to total equity ratio, the analysis shows slightly increase in year of 2017. Finally, equity ratio shows that more 45% of the total assets is financed by internal source. Again, this ratio is stable over the three years.

**Table 3: Capital Structure Indicators**

| Details | 2016 | 2017 | 2018 | Average |
|---|---|---|---|---|
| Debt Ratio | 18.10% | 19.17% | 18.78% | 18.68% |
| Other Liabilities ratio | 36.13% | 35.74% | 35.51% | 35.78% |
| Total Liability/Total Equity (Times) | 1.185 | 1.217 | 1.187 | 1.196 |
| Equity Ratio | 45.77% | 45.09% | 45.71% | 45.52% |

## VII. RESULTS AND DISCUSSION

Financial analysis is the use of financial statements to analyze a company's financial position and performance. In this research, our analyses were focusing on three broad areas, profitability, liquidity and capital structure areas, covering the components of balance sheet equation and profit & loss account statement. For each main indicator, different financial ratios have been used to measure the performance for consecutive three years, 2016, 2017, and 2018 of the Emirates TelecommunicationsGroup Company in United Arab Emirates.

Since profitability ratios show the combined effect of many management decisions, they are used to evaluate overall management effectiveness of the company. Three common profitability ratios have been used to measure profitability level in relation to sales, assets investment and shareholders. The profit margin ratio measures the overall operating efficiency. The analysis of this ratio indicates an increase in 2018 to 24, 46% reaching the average into 23.16%. The return on investment measures the overall effectiveness of management in generating profit from using total assets. The analysis also shows an increase in the level of performance in 2018 comparing with the two previous years. The average for this ratio is 9.60 indicating a stability level over the years under study. The final profitability ratio is the return on equity which is used to measure the rate of return realized by the company's shareholders on their investment and serves as an indicator of management performance. The average of this ratio for the years under study is 21.11% indicating less variation between the three years.

To assess the ability of this company of repaying short term obligations, we have used the three types of measurements, current ratio, quick ratio and working capital. In comparing with the average of the three years, the declining was very slight, with average of 1.07 time for current ratio, 1.05 time for quick ratio and 3990000 Dirhams for working capital. The short-term risk ratios suggest that this company has relatively little short-term liquidity risk. Although current and quick ratios are on the low side, the net operating cash flow to current liabilities is 45.93% in 2017 and 40.75% in 2018 indicating a high level of financial readiness allowing the company todivert funds strictly from generated operating cash flow to pay off creditors.

To assess the ability of this company to continue operating for the longer-term, four types of ratios have been used to measure the amount of liabilities, particularly long-term debt. The higher this proportion the greater the long-term solvencies risk. The analysis shows that this company has increased its dependency on outside sources to finance its activities in 2017 by increasing its loans and other liabilities. In 2018, to reduce the risk, the company managed to reduce the liability and debt ratio and increase slightly the equity ratio. On average the debt ratio formed 18.68%, other liabilities to total assets average 35.78%, total liabilities to total assets 1.196 times, and equity ratio is 45.52%.

## VIII. CONCLUSION

The goal of this paper was to measure the financial performance of Emirates Telecommunications Group Company. The research was focused on analyzing three groups of performance indicators used to measure a firm's performance, profitability, liquidity and capital structure. Results of the analysis showed that the profit margin ratio stood at an average of 23.11% while the return on assets was 9.6%. The average return on equity stood at 21.11%. The current ratio witnessed a slight decline over the years studied to yield an average of 1.07 in addition to an average of 1.05 for the quick ratio, while the availability of working capital continued to decline, yielding an average 3990000 AED. A break down analysis of its capital structure showed that the company is financed by an average of 45.52% of its own money, while the proportion of its assets financed externally stood at 54.48%. Future research should build on this study to include telecommunications companies from foreign countries in order to make a comparative analysis of the telecommunications industry on an international scale.

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