

Study on Financial Health of Emirates Airlines

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ABSTRACT

This research work carried out as a part of MBA course work on Emirates Airlines Group to find out the financial health of the organization. Three years annual reports of Emirates Airlines and also collected its competitor's financial information was used to do a thorough financial analysis to analyse the financial condition of Emirates Airlines when compared to its competitors.

Key Words: Financial analysis, Corporate Decision Making, Ratio Analysis, Corporate Valuation

INTRODUCTION

The transportation sector is known as the vein of the economic activities, as there are three modes of transportations the surface, sea and air, in the world we live today no doubt the major role played by the transportation sector. In this project, we selected one of the most advanced industries within this sector and within the whole range of industries which is the airlines industry. This industry is one of the most developing and achieving high growth especially in the field of passenger as it is the most used mean of transportation when it comes to passengers travel.

Emirates airlines was established in 1985, owned by the government of Dubai, it is one of the top10 airlines in the world in terms of revenues, and passengers carried, and it is ranked first in the Middle East in terms of fleet size, revenues, and passengers carried. The company's fleet reaches more than 230 aircraft, and it is flying to over 140 destinations covering more than 80 countries, and this network still expanding. In 2014 Emirates was named the world's "Most Valuable Airline Brand", while in 2011 it made the largest single order in

Boeing's history that reached \$18 billion in list price (Emirates, 2015).

REVIEW OF LITERATURE

Shen, Hsu, & Chen (2006) assess the corporate or the business value, that some researchers used the regression analysis and structural equation modeling, where as to they tried to test the hypothesis of having a relationship or correlation between ownership structures and the corporate value adding to the factors formed this value.

(Bauer & Hammerschmidt (2005) tried to develop a method for corporate valuation through using the shareholder value (SHV) approach adding to customer lifetime value, and they used the discounted cash flow method in modeling profit streams

Guzhva, Beltsova, & Golubev(2010) used the contingent claims valuation model in order to assess the market valuation of convertible preferred stocks of one of the main airlines. It used the U.S. airlines and examines the data of ten years daily price.

El-Gazzar, Finn, & Tang (2009) tested the valuation effect of some of these tools, mainly those related to earnings, on security prices taking the case of airline companies, where it found

out that those indicators namely book value, cash flow, and operational efficiencies were of high importance in the context of market assessment of company's profitability and its security prices (Huang, Chen, & Hsu (2006) says that corporate valuation is very critical for most investors, especially for public investors, as security markets had been growing with an increasing rate in recent years, and that more investors are coming to the market, where corporate valuation became a crucial issue in order to take the right decision

Iyer (2005) used corporate valuation to identify the Competitive advantage of accompany, as a study had been made for corporate valuation of Delta Air Lines and other companies in different industries.

Malíková, Olga; Brabec, Zdeněk (2012) explains about the most efficient investment opportunity in today's financial market. The best way to perform the analysis on a company to evaluate its efficiency is through studying the financial statements and performing a financial analysis on it. The results of the ratios are influenced by the presumption related to the financial statements that have been prepared.

Lan, Z. Joe (2012) says that financial statements can be used to analyze the company's position in the market and its performance using the statements as tools to measure how financially the company is stable. The Analysis is going to be made on the three most important financial statements applicable for investment research are reportedly the income statement, the balance sheet, and cash flow statement. A completed transaction links all three statements.

Sharma, Anil K.; Kumar, Satish; Singh, Ramanjeet (2012) reveals that

value relevance of financial statements, is negligible in Indian markets. However, some ratios based on these financial statements show significant association with stock market indicators. The results depart from financial studies conducted in other markets. The results further indicate that the value relevance of Return is statistically significant and is a useful measure for investment decision. ROMIC, LIDIJA (2011), financial statements are meant to be understood by readers who are knowledgeable of the economic activities and accounting strategies in the business world.

Hossan F., Habib M.A.(2010), analyzed the company's performance through ratio analysis of two pharmaceutical companies in Bangladesh. The authors have collected the data of these companies for the year 2007–2008. In this paper, the different financial ratios are evaluated such market value ratios, liquidity ratios, profitability ratios, debt management ratio, asset management ratios, and finally measure the best performance between two companies. Asset management ration is about the measuring of assets and control them efficiently. It also quantifies seven categories for both the selected pharmaceutical companies considering their account receivable turnover, fixed asset turnover, average collection period, total asset turnover inventory turnover, account payable turnover in days account payable turnover etc. Based on the financial analysis, the paper concludes which company is performing well financially and has better position in the pharmaceutical market.

Bhunja A., Mukhuti S. S., Roy S. G. (2011), study is regarding the identification of financial strengths and weaknesses of the Indian public sector pharmaceutical companies by assessing the balance sheet and profit and loss

account. In this study, the authors have selected two public sector pharmaceutical companies. The data has been collected for 12 years period (1997-98 to 2008-09) from CMIE database. The paper identifies the strong liquidity position of both selected companies which shows that the companies have capability to pay short term obligations. However, these companies rely more on external funding in terms of long term borrowings which creates a risk for the creditors. Further, it mentions that the financial stability of both the companies is drastically decreasing. The study aims at guiding the investors about their investment decisions in Indian pharmaceutical Industry by measuring the company's liquidity, stability, profitability, solvency and other financial indicators and in turn ensuring adequate returns to the stakeholders.

Siddiqua M. J., Hpssan M. T. (2012), This paper explains the requirement of the preparation of cash flow statement, which describes the changes, occurred in the company's cash and cash equivalents during the financial year, for the public companies in Bangladesh conforming to Companies Act 1994. The pharmaceutical companies in Bangladesh are preparing the cash flow statement along with the financial statements by providing the information regarding company's operating, investing and financing activities in the given financial period. The authors have found out that although most of the pharmaceutical companies are abiding to the law by producing the cash flow statements however, no one is interested in disclosing some more useful information voluntarily regarding the cash flows like operating capacity due to increase in operating capacity, segmental cash flows or cash flow per share etc. The paper recommends the improvement in

presentation of the statement incorporating the above said factors.

Kakkad R (2013), examined the literature review on ratio analysis to assess the health of pharmaceutical industry in India. Indian pharmaceutical market is growing at a CAGR of about 12% since last 5 years. The aged population of average age of 67 is around 67 million in India. As per statistics, people of this age group consume 3 to 4 times more drugs as compared to younger population. This is an indicator of significant growth of pharmaceutical industry in India. Although conducting financial performance analysis of the company is a tedious work, it has ample of benefits. The ratio analysis gives a clear picture about the successfulness of an organization in short and long run. The paper provides the insight to the financial health of the pharmaceutical companies in India. By taking an example of Dr. Reddy's Laboratories Ltd. and Lupin Ltd. examples the paper examines the soundness of the industry using the tools such as ratio analysis and T test.

Majumder T.H., Rahman M. M reviewed the case study of pharmaceutical industry in Bangladesh. The industrialization of the country is moving at rapid pace and pharmaceutical sector is a leading industry in Bangladesh that facilitates country's GDP growth. It is observed that over last few years, the net profit of this industry is diminishing. The authors have tried to search for the reasons behind declining growth of the pharmaceutical industry in Bangladesh by carrying out financial performance of this industry to test its strengths and weaknesses for which they have used financial ratios, Multivariate Discriminate Analysis (MDA) as developed by Prof. Altman as well as some statistical tools, coefficient of variance (CV) and T-test etc. as measuring tools. Upon review of the

collected data from financial statements of various pharmaceutical companies in the country, the authors have found that most of the companies' financial position, their performance, liquidity position and profit earning capacity are not strong and sound and most of the companies are heading towards bankruptcy in near future. In order to sustain in the industry, the authors recommended immediate improvement in the financial performance of these companies by taking necessary measures to overcome the issues relating to strict government regulation, insufficiency of financial management, absence of realistic goals, and increased cost of materials, labor and overhead.

Malíková, Olga; Brabec, Zdeněk (2012) talks about how to seek the most efficient investment opportunity in today's financial market. The best way to perform the analysis on a company to evaluate its efficiency is through studying the financial statements and performing a financial analysis on it. The result of the ratios are influenced by the presumption related to the financial statements that have been prepared. Lan, Z. Joe (2012) says that financial statements can be used to analyze the company's position in the market and its performance using the statements as tools to measure how financially the company is stable. The Analysis is going to be made on the three most important financial statements applicable for investment research are reportedly the income statement, the balance sheet, and cash flow statement. A completed transaction links all three statements.

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METHODOLOGY

This research aims to assess the financial health of Emirates Airlines where ratios are used to assess the financial strength of Emirates Airlines. Also Emirates Airlines is compared with its competitors air France-KLM airlines and Korean air over three years period from 2012 to 2014. This comparison will be based on the Ratio Analysis and corporate valuation that includes: Profitability, Enterprise value, credit/ Growth, Asset management and Liquidity.

FINANCIAL RATIO ANALYSIS

Before conducting the financial analysis, it is essential to understand the historic financial performance of Emirates Airlines and its competitors air France-KLM airlines and Korean air. The financial condition of the companies will be assessed by briefly looking at the profitability, liquidity and other ratios then to compare them against a peer group. The peers are carefully chosen to consist of firms that are mostly similar to American Airline operations.

Profitability ratios

The profitability ratios indicate of the business's ability to generate earnings compared to the expenses occurred. Having a higher value than the competitors and the industry average is an indicator that the firm is doing well.

Emirates airlines has a better performance than global competitors in all

profitability ratios, specially in 2014, where we find that all of Emirates profitability ratios increased over time through the study period and it witnesses a jump in 2014 comparing to previous years.

Liquidity ratios

These ratios determine the company's financial strength and its ability to pay the short term debt obligations. The higher the ratios are; the bigger is the margin of safety the company have to cover its short term debts. Emirates airlines has good liquidity ratios through the period of study, that the ratios shows it has good ability to satisfy the liabilities with its assets, even it is performing better than the other two competitors, with high current assets compared to current liabilities.

Yield Ratio :

This financial ratio shows how much amount the company will pay to its shareholders as dividends for each share price. Unfortunately, there are some data that are not available for years 2012 and 2013 of the Emirates airlines, so we are obliged to limit the analysis of yield ratios to cover only the year 2014. Through the data we have for 2014, we can conclude that Emirates airlines has obviously high enterprise value compared to other two competitors, also it has higher return on invested capital.

Growth Ratio

The usage of growth ratio is one of the ways to estimate the future growth and high growth rate doesn't always reflects the future but it keeps on changing continuously based on the changes in the economy and industry as well. we find that Emirates airlines has a good performance comparing to global competitors in all ratios, that means the company is growing with steady growth and it is promising in the future.

Credit / Leverage Ratio

Credit Ratio shows the ability of any company to meet its long term obligations. From the credit ratios perspective, we find that Emirates airlines are performing better than global competitors, as we find all credit ratios are lower than competitors, also we find that Emirates use to have a significantly high free cash flow comparing to competitors, but it goes negative in the last year.

CONCLUSION

In summary, this report offers a quick review of the financial health of the Emirates airlines, and comparing this performance with two of the big competitors namely the air France-KLM airlines and the Korean air. We used the financial ratio analysis to identify the financial efficiency of the Emirates airlines. we can conclude from the various financial ratios that Emirates is one of the promising and most developing air lines, and it is performing almost to the standards of the airlines industry, and in some aspects it performed better than the other two competitors specially in regard of profitability, as it has higher profitability than the other two, also this profitability has witnessed a big jump in 2014. So to conclude, emirates airlines is financially sound when compared to its competitors and its growing stronger financially.

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| | Emirates Airlines | | | air France - KLM | | | Korean Air | | |
|---------------------------------|-------------------|------|------|------------------|--------|--------|------------|-------|-------|
| PROFITABILITY | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 |
| 5 Year Average Return On Assets | 6.37 | 4.53 | 4.77 | -1.27 | -3.18 | -2.79 | -1.74 | 0.29 | -0.02 |
| Return on Invested Capital | 3.64 | 4.77 | 6.39 | -6.75 | -10.32 | -13.24 | 1.23 | 0.31 | 2.10 |
| EBIT to Net Sales | 2.95 | 3.99 | 5.28 | -3.43 | -0.89 | 3.01 | 2.50 | -0.17 | 3.32 |
| Return on Assets | 2.11 | 2.66 | 3.31 | -4.35 | -6.91 | -0.81 | 1.09 | -0.98 | -2.07 |

| | Emirates Airlines | | | air France - KLM | | | Korean Air | | |
|--------------------------------|-------------------|-------|-------|------------------|-------|-------|------------|-------|-------|
| LIQUIDITY | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 |
| Quick Ratio | 0.46 | 0.37 | 0.41 | 0.63 | 0.60 | 0.48 | 0.39 | 0.25 | 0.21 |
| Current Assets to Total Assets | 32.68 | 36.86 | 26.92 | 27.59 | 31.22 | 30.89 | 14.65 | 13.70 | 21.09 |
| Current Ratio | 0.98 | 1.12 | 0.84 | 0.77 | 0.73 | 0.61 | 0.54 | 0.40 | 0.66 |
| LT Debt to Total Assets | 34.82 | 37.43 | 37.89 | 34.81 | 33.81 | 34.41 | 48.28 | 41.68 | 46.79 |

| | Emirates Airlines | air France - KLM | Korean Air |
|----------------------------|-------------------|------------------|------------|
| YIELD | 2014 | 2014 | 2014 |
| Financial Leverage | 4.10 | 30.91 | 9.81 |
| Basic EPS 5 Year Average | 0.37 | -2.52 | -162.11 |
| EBIT to Interest Expense | 3.61 | 2.28 | 0.86 |
| EPS Growth | -10.00 | 88.54 | 10.00 |
| EV To EBITA | 30.83 | 7.97 | 42.70 |
| Return on Invested Capital | 6.39 | -13.24 | 2.10 |
| Current EV To EBITA | 30.83 | 7.97 | 42.70 |
| EV To Book Value | 4.22 | | 8.81 |
| EV To Market Cap | 3.39 | 3.28 | 6.60 |
| EV To Shares Outstanding | 2.47 | 31.57 | 286.29 |
| Enterprise Value | 24290.39 | 9477.87 | 16798.43 |

| | Emirates Airlines | | | air France - KLM | | | Korean Air | | |
|--------------------------------|-------------------|-------|-------|------------------|-------|-------|------------|-------|-------|
| GROWTH | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 |
| Inventory to Sales | 2.39 | 2.20 | 2.11 | 2.03 | 2.00 | 2.16 | 3.88 | 3.92 | 3.61 |
| Net Fixed Asset Turnover | 1.38 | 1.34 | 1.26 | 2.07 | 2.20 | 2.30 | 0.87 | 0.78 | 0.76 |
| Net Fixed Assets to Tot Assets | 63.82 | 60.17 | 70.45 | 43.60 | 44.10 | 45.11 | 64.77 | 67.64 | 67.24 |
| Sales to Net Fixed Assets | 1.25 | 1.25 | 1.13 | 2.14 | 2.28 | 2.38 | 0.85 | 0.76 | 0.75 |
| Sales to Total Assets | 0.80 | 0.75 | 0.79 | 0.93 | 1.00 | 1.07 | 0.55 | 0.52 | 0.51 |

| | Emirates Airlines | | | air France - KLM | | | Korean Air | | |
|-----------------------------|-------------------|-------------|-------------|------------------|-------------|-------------|-------------|-------------|-------------|
| CREDIT | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 |
| Common Equity to Tot Assets | 27.53 | 24.01 | 24.78 | 17.92 | 8.83 | -2.89 | 11.38 | 11.52 | 8.89 |
| LT Debt to Common Equity | 126.47 | 155.89 | 152.92 | 194.25 | 382.90 | | 424.23 | 361.70 | 526.45 |
| LT Debt to Total Capital | 51.28 | 55.83 | 56.70 | 58.91 | 65.16 | 84.18 | 61.25 | 52.90 | 59.24 |
| Tot Debt to Common Equity | 145.50 | 178.04 | 168.54 | 228.59 | 485.48 | | 581.58 | 579.96 | 783.12 |
| Total Debt To EV | | | 0.75 | 1.36 | 1.48 | 1.29 | 0.90 | 0.95 | 0.89 |
| Total Debt to Total Equity | 143.86 | 175.95 | 166.59 | 226.02 | 475.32 | | 523.57 | 559.06 | 741.93 |
| Total Debt to Total Assets | 40.06 | 42.75 | 41.76 | 40.97 | 42.87 | 43.60 | 66.19 | 66.84 | 69.60 |
| Free Cash Flow | 1307.00 | 7041.00 | -1309.00 | -767.67 | 411.78 | -530.07 | 745.05 | 198.51 | 263.23 |