

Summaries of Profitability and Credit Risk Analysis

Chocoladefabriken Lindt & Sprungli AG

For Lindt, they maintained a constant growth from 2003 to 2007 on Net Operating Profit After Tax and Net Operating Asset. These ratios reflect a constant growth of this company in both revenue and operating assets. Also, the increasing Net Operating Profit Margin from 2003 to 2008 shows that the company is obtaining better capability to generate profit from the asset they have.

On the other side, the Net Working Capital is high and increasing. While the Liquidity Ratios and Solvency Ratios are really low and decreasing. They all show that the company is using low debt to support their operation. This generates a low credit risk, while also limited the growth of the company. The Return on Equity ratio is fluctuating over the years.

The further research and analysis about Lindt would be focused on their executive team and management strategies to see if the company has further growth potentials.

The Hershey Company

The Hershey Company is really hard to analysis. Their financial strategy is abnormal that they have been buying back their common stocks from the market for more than 6 years. The result is real high Return on Equity and high Solvency Ratios, which means a high risk and high return for investors.

However, in order to generate the cash to buy back stocks while keep their operation, the company is highly stretched with increasing Debt (both short-term and long-term) to Asset ratios. The Cash from Operations to Total Debt is lowering which means that the company is allocating more and more money on covering their debt instead of investing into their operations. It is further confirmed by the decreasing Net Operating Asset.

My question is why Hershey is using this financial strategy. It would be crucial to extensively analyze the future cash flow and terms for the short- and long-term debts to determine whether there is a huge risk in this company.

The Profitability Analysis and Credit Risk Analysis for Hershey

Hershey	2/19/2008	2/23/2007	2/28/2006	3/7/2005	3/12/2004	3/26/2003
PROFITABILITY ANALYSIS						
Net Working Capital (NWC)	74,733.00	(192,196.00)	(35,726.00)	(113,979.00)	(102,941.00)	545,759.00
Return On Equity (ROE)	97.86%	36.12%	81.80%	48.07%	52.75%	35.75%
NOPAT	373,360.51	288,743.97	633,104.73	544,681.43	621,808.90	505,229.39
Change in NOPAT	-29.31%	54.39%	-16.23%	12.40%	-23.07%	
Tax on Operating Profit	216,537.49	170,083.04	359,453.27	308,940.57	254,760.10	291,126.61
NOA	2,357,402.00	2,759,877.00	2,775,549.00	2,778,250.00	2,402,224.00	2,260,874.00
Operating Return (RNOA)	14.59%	10.43%	22.80%	21.03%	26.67%	
Net Operating Profit Margin (NOPM)	7.27%	5.84%	12.80%	11.30%	14.08%	12.11%
Net Operating Asset Turnover (NOAT)	2.01	1.79	1.78	1.86	1.89	
Non-Operating Return	83.27%	25.69%	59.00%	27.04%	26.08%	
CREDIT RISK ANALYSIS						
Liquidity Ratio						
Current Ratio	1.06	0.88	0.98	0.92	0.92	1.93
Quick Ratio	0.39	0.38	0.43	0.39	0.36	0.89
Solvency Ratio						
Liabilities to Equity Ratio	10.32	6.11	5.08	3.19	2.49	1.80
Long-term Debt to Equity	479.05%	216.90%	210.25%	92.76%	89.02%	75.71%
Coverage Ratio						
Times Interest	6.03	3.87	8.55	9.70	13.17	12.54
Cash from Operations to Total Debt	0.26	0.37	0.38	0.26	0.76	0.60
Free Operating Cash Flow to Total Debt	0.26	0.37	0.38	0.26	0.76	0.60

The Profitability Analysis and Credit Risk Analysis for Lindt

Lindt	2/19/2008	2/23/2007	2/28/2006	3/7/2005	3/12/2004	3/26/2003
PROFIBILITY ANALYSIS						
Net Working Capital (NWC)	749.00	741.00	763.10	630.90	529.60	561.20
Return On Equity (ROE)	17.68%	18.03%	18.10%	17.78%	18.77%	17.18%
NOPAT	269.05	252.48	210.97	174.70	151.25	129.37
Tax on Operating Profit	(92.15)	(98.32)	(86.23)	(73.90)	(64.55)	(59.33)
NOA	1,482.40	1,460.10	1,247.30	1,097.40	989.50	941.60
Operating Returen (RNOA)	18.29%	18.65%	18.00%	16.74%	15.66%	
Net Operating Profit Margin (NOPM)	9.16%	8.57%	8.16%	7.78%	7.58%	7.19%
Net Operating Asset Turnover (NOAT)	2.00	2.18	2.21	2.15	2.07	
Non-Operating Retern	-0.61%	-0.62%	0.10%	1.04%	3.11%	
CREDIT RISK ANALYSIS						
Liquidity Ratio						
Current Ratio	2.03	1.86	2.16	2.01	1.87	2.17
Quick Ratio	1.38	1.33	1.61	1.50	1.44	1.64
Solvency Ratio						
Liabilities to Equity Ratio	0.63	0.78	0.84	0.96	1.16	1.19
Long-term Debt to Equity	0.05%	0.06%	0.08%	0.13%	0.20%	1.41%
Coverage Ratio						
Times Interest	27.57	23.08	23.97	21.62	15.64	8.78
Cash from Operations to Total Debt	3.11	1.39	5.80	2.26	1.30	2.41
Free Operating Cash Flow to Total Debt	3.11	1.39	5.80	2.26	1.30	2.41