

EXPRESS DISSERTATION

1.1. Objectives

The objectives of this report include,

- To conduct a financial ratio analysis and determine the position of Barratt Development Plc in the housing market.
- To assess the stock performance of Barratt development Plc in comparison to its competitors and understand the current market trends.
- To promote a non-financial market analysis using PESTLE, SWOT and general strategy analysis of Barratt Plc.

1.2. Organisational Profile

This report is an analysis of Barratt Development Plc, one of the world's largest residential property development companies in the UK founded in 1958. The organisation has been listed on the LSE since 1968 and today is an important constituent of FTSE 100 index. The organisation has two national brands Barratt Homes and David Wilson Homes aimed at house building. In London, the organisation operates as Barratt London. Furthermore, the company also has a commercial property development business Wilson Bowden Development whose focus is on retail, industrial and office purposes (Barratt Development, 2014).

1.3. Research Contextual Information

1.3.1. Contextual Information

Steiner (2010) reports that the corporate planning and financial analysis of an organisation helps understand the industrial environment in which the organisation operates in and their level of market growth. Wheelen and Hunger (2011) further argues that the measures adopted by an organisation to help promote strategy development should include financial analysis, macro environmental analysis and the stock market performance analysis. Therefore, this report will focus on conducting financial analysis through profitability ratios and non-financial analysis through macro-environment and stock performance analysis to help arrive at recommendations.

1.3.2. Financial Ratio Analysis Methodology

According to Arnold (2008), the assessment of the financial health of an organisation is dependent on the key financial ratios of the organisation as it helps act as a key diagnostic tool which can be used to understand the source of financial stability of an organisation.

The ratio analysis can be categorised based on the following factors

1. The liquidity ratios focus on the cash available for organisational operations.
2. Efficiency ratios determine the ability with the organisational resources are utilised.
3. Gearings ratios are debt management ratios which are used to keep track of the debt faced by an organisation.
4. Profit ratios help identify with the degree of accounting profits.
5. Market ratios helps discriminate between the securities of the firm (in terms of undervalue and overvalue) to help make effective investment decisions.

The following table summarises the formula adopted for determination of the different financial ratios. The liquidity, profitability and efficiency ratio are calculated.

Table 1: The liquidity, profitability and efficiency ratio

Ratio	Formula
Profitability Ratios	
Gross Margin	Gross Profit/Net Sales
Operating Margin	Operating Profit/Net Sales
Net Margin	Net Profit/Net Sales
Return on Equity	Net Income/Shareholder Funds
Return on Net Assets	Net Income/(Fixed Assets+Working capital)
Return on Capital Employed	EBIT/Capital Employed
Liquidity Ratios	
Current Ratio	Current Assets/Current Liabilities
Quick ratio	Current Assets- (Inventories+Prepayments)/Current Liabilities
Efficiency Ratio	
Asset Turnover Ratio	Net Sales/Total Assets
Stock Turnover Ratio	Cost of Sales/Average Inventory

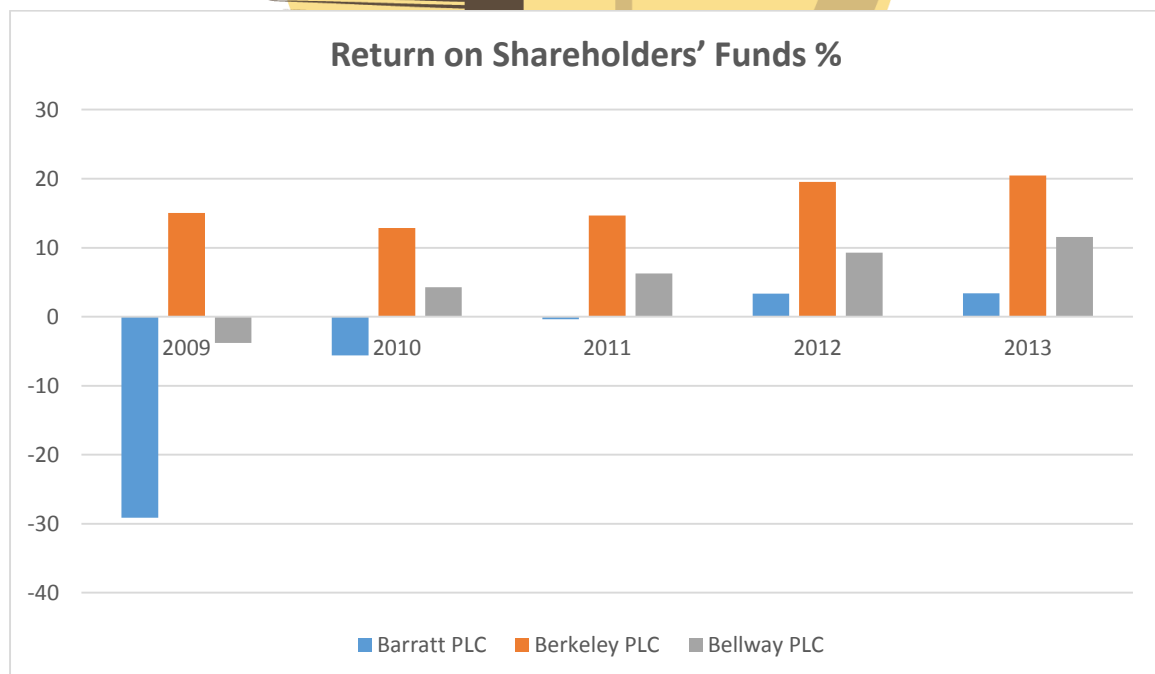
1.3.3. Overview of UK Housing Industry

According to Kuttner (2012) the UK housing industry is an important determinant of the stability of the economy as it is found to boom when the economy and consumer wealth is relatively high. Ball (2010) reports that the UK housing industry faced significant problems due to impact of the financial crisis leading to a drop in housing price which in turn impacted the economy. Stephens et al., (2005) further argue that the stock of housing industries in the UK including both private residential properties as well as developed homes and apartments may have an impact and can be used as a determinant of the economy. Kuttner (2012) concludes that the housing industry is recovering due to a significant increase in public confidence and government reforms. In this background, this report will assess the performance of a company in this sector.

1.4. Financial Ratio Analysis

1.4.1. Profitability Ratios

Figure 1: Return on Shareholders' Funds

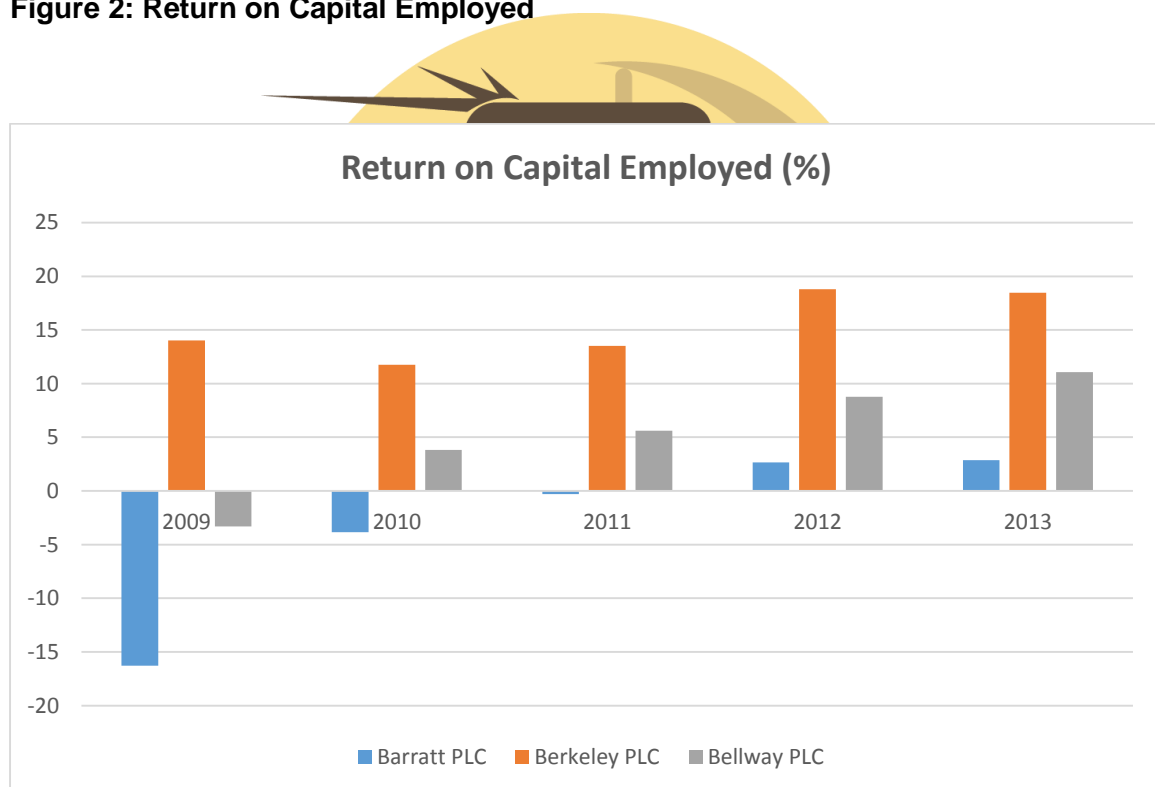


Return on Shareholders' Funds

It measures the return obtained on the invested money. This is the ratio investors study when they make a decision on whether to invest or not in the company. From the above

figure, it is clear that Barratt Plc suffered through massive losses during the year 2009 leading to a decrease in return on shareholder funds. However, Barratt have shown a consistently upward trend when it comes to their returns on shareholder funds over the next four years. 2012 was the year when Barratt Plc showed positive returns. 2009 was the year BellwayPlc also experienced negative returns. BellwayPlc was able to return to positive returns from the next year onwards and have shown increasing returns consistently from thereon. Berkeley Plc is the group that has shown positive returns all through the recession and still has the highest return on shareholder funds in the year 2013.

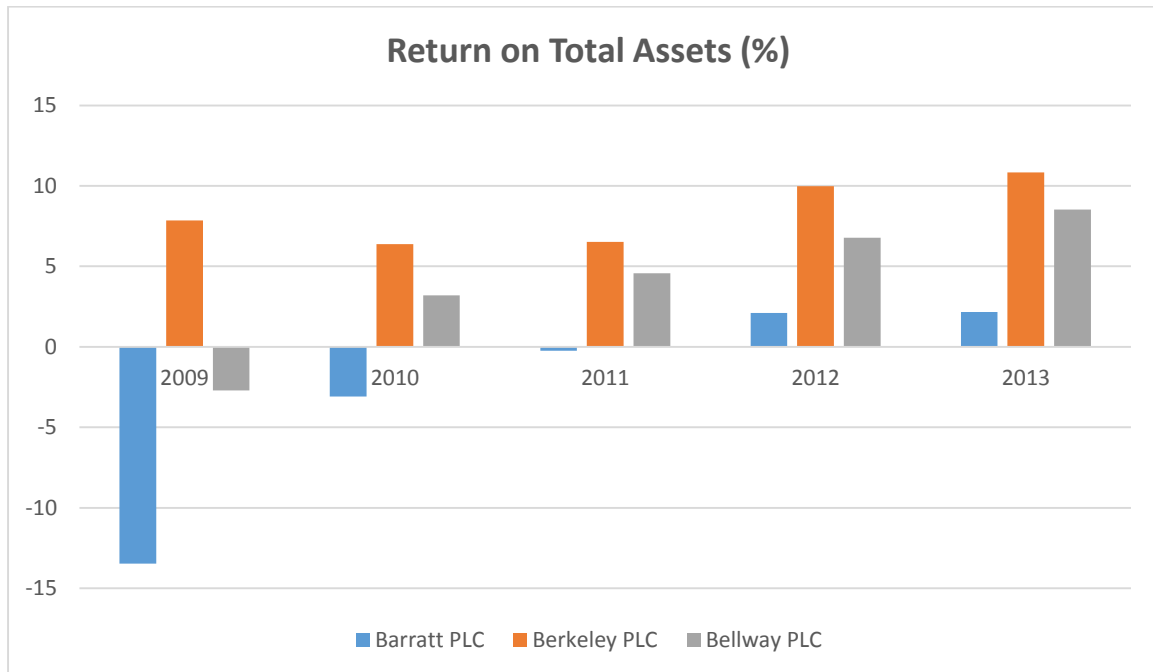
Figure 2: Return on Capital Employed



Return on Capital Employed

The above figure depicts the percentage of returns made by the companies on capital employed and helps determine how effectively the investments is being used to generate profit. It can be observed that Barratt Plc show the lowest return on the capital employed when compared to Berkeley Plc and Bellway Plc. However, it has to be noted that Barratt Plc has shown an increasing trend when it comes to their returns on capital employed over the past five years. Berkeley Plc has shown the highest return for the capital employed over the past 5 years. In contrast, BellwayPlc had a rough year in 2009 when they showed negative returns for the capital employed and they have shown much higher returns over the last four years.

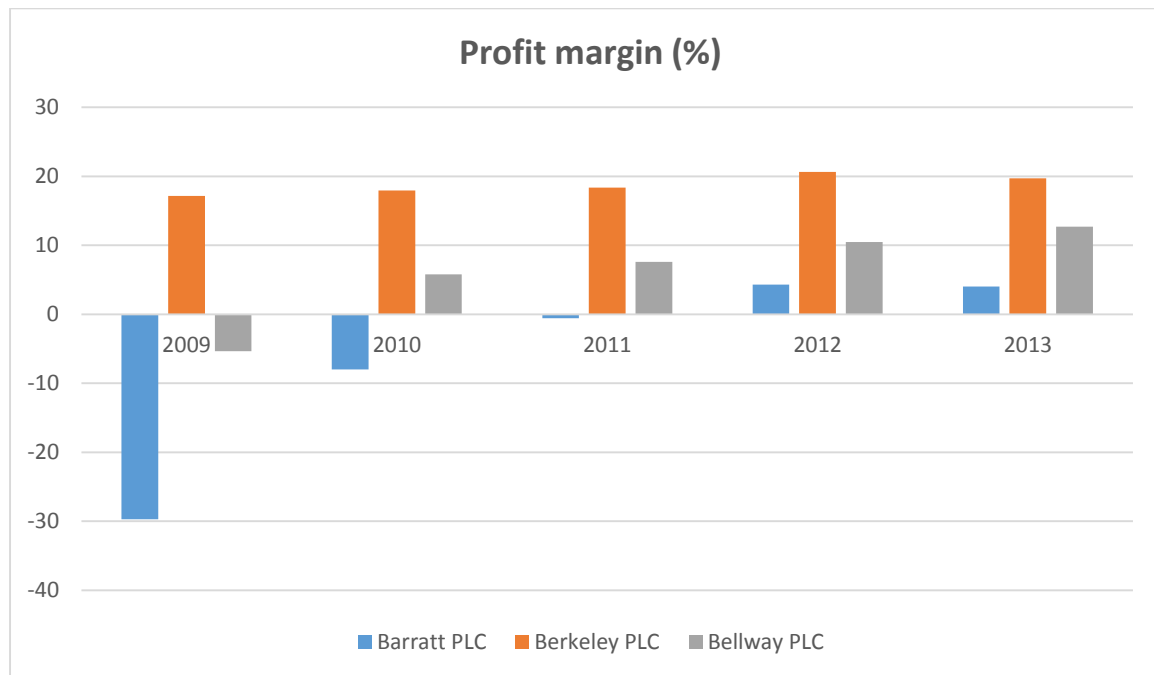
Figure 3: Return on Total Assets



Return on Total Assets

This ratio is a significant profitability ratio since it gauges the companies' efficiency in managing the assets and how they utilise it to produce profits. The above figure depicts the return on total assets made by Berkeley Plc, Barratt Plc and Bellway Plc. Once again, Barratt Plc's performance is quite poor compared to its competitors. Barratt Plc has shown negative return on its total assets till the year 2011. It is only in the last two years, has Barratt Plc shown a positive return on its assets. In comparison, both BellwayPlc and Berkeley Plc have shown positive returns on the total assets almost consistently over the past five years. The only exception is in the year 2009, when BellwayPlc showed negative returns on the total assets.

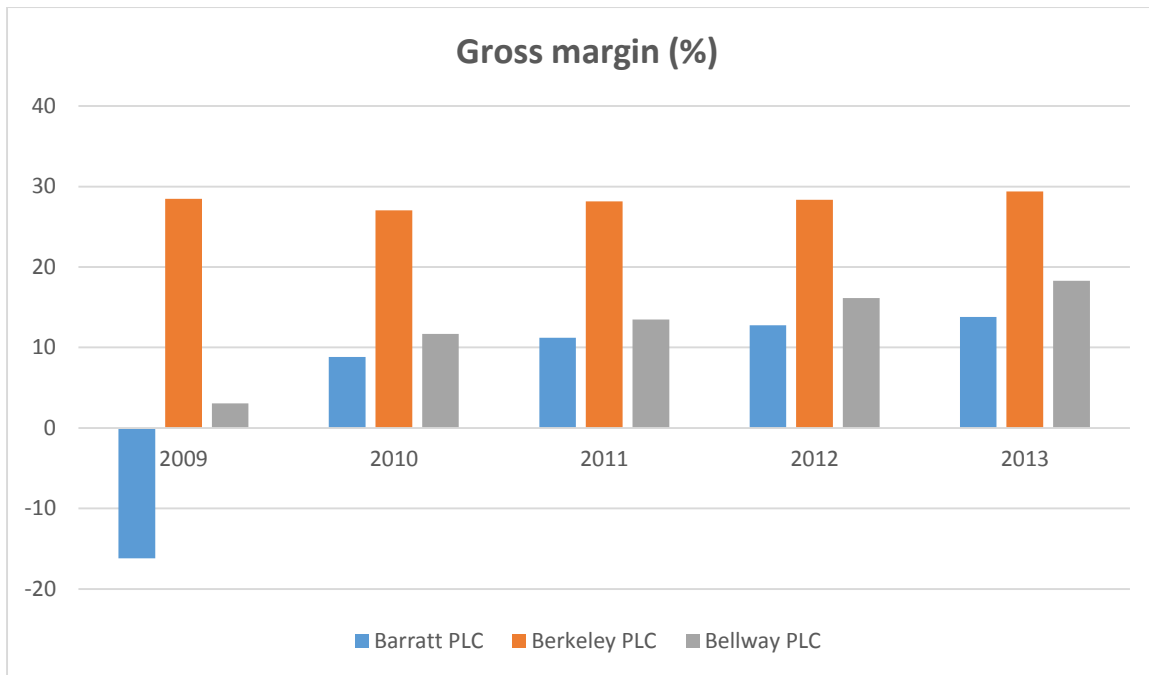
Figure 4: Net Profit margin



Net Profit margin

This ratio is a measure of profit after considering all the expenses incurred consisting of taxes, depreciation and interest. The above figure shows the profit margins for the past five years for Barratt Plc, Berkeley Plc and Bellway Plc. It is evident from the figure that in 2009, both Barratt Plc and BellwayPlc suffered losses to their profit margins, especially with Barratt Plc taking a significantly heavy loss in their profit margins. Barratt Plc has recovered ever since and has shown positive profit margins over the last two years. In contrast, the strongest entity is Berkeley Plc which has shown a healthy profit margin all through the past five years. BellwayPlc also has made consistent improvements to their profit margin since 2009 and is currently showing a healthy and positive profit margin.

Figure 5: Gross margin



Gross margin

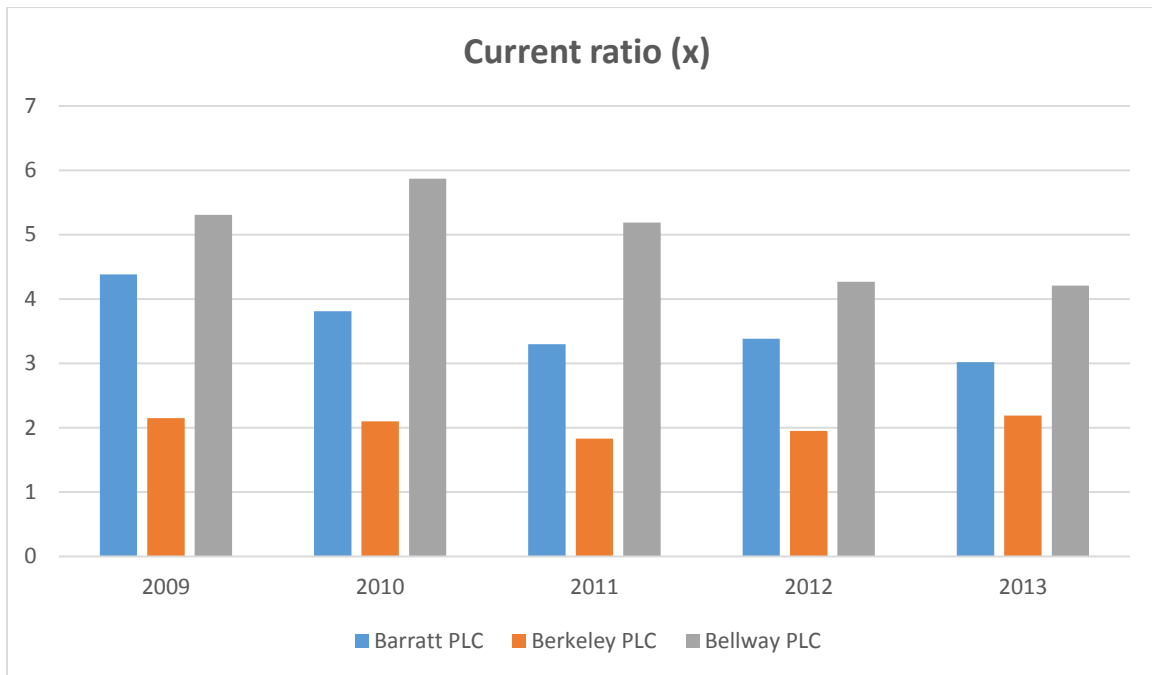
This margin views the expense of goods as a proportion of sales. This ratio probes at how well a company can manage its cost of its inventory and the production of its goods and consequently pass on its costs to the consumers. The above figure depicts the gross margins of Barratt Plc, Berkeley Plc and BellwayPlc over the past 5 years. It is clear that, from 2010 onwards, all three companies have enjoyed a positive gross margin. Berkeley Plc has shown the highest gross margin ratio compared to the other two companies, but their gross margin ratio has remained more or less the same over the years. In contrast, both Barratt Plc and BellwayPlc have shown consistently increasing gross margin ratios over the past 4 years.

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1.4.2. Liquidity Ratios

According to Vogel (2012), these are ratios which can be utilised by the organisation in order to comprehend the capacity of the organisation to fulfil its short term debt obligations. Two ratios are analysed in this report, which gives information on the capacity of a company to fulfil its short-time obligations of the organisation and can be applied to gauge the company's resources to pay their debts.

Figure 6: Current ratio

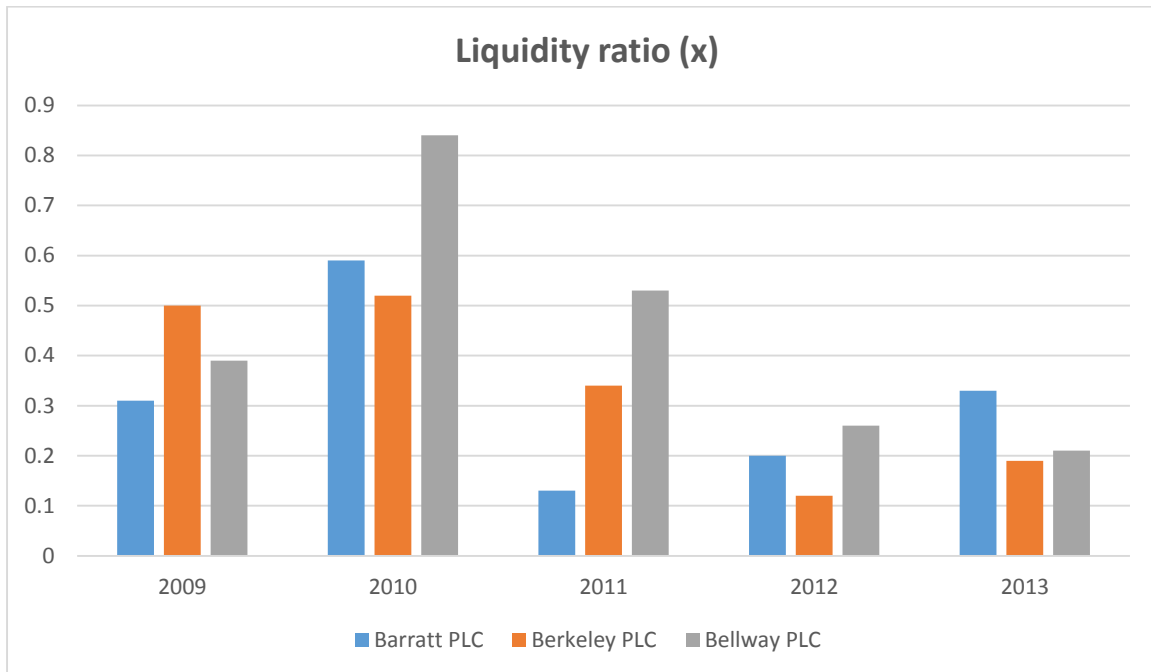


Current ratio

The above figure depicts the current ratio for all the three companies. All the three companies have managed to show a positive current ratio over the past five years. Among the three companies, Berkeley Plc has the lowest current ratio compared to BellwayPlc and Barratt Plc. In the case of Berkeley Plc, their current ratio has been quite similar over the past five years. The current ratio of BellwayPlc, though highest among the three competitors, has shown a decreasing trend since 2010. Even Barratt Plc has shown a decreasing current ration over the past five years

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Figure 7: Liquidity ratio

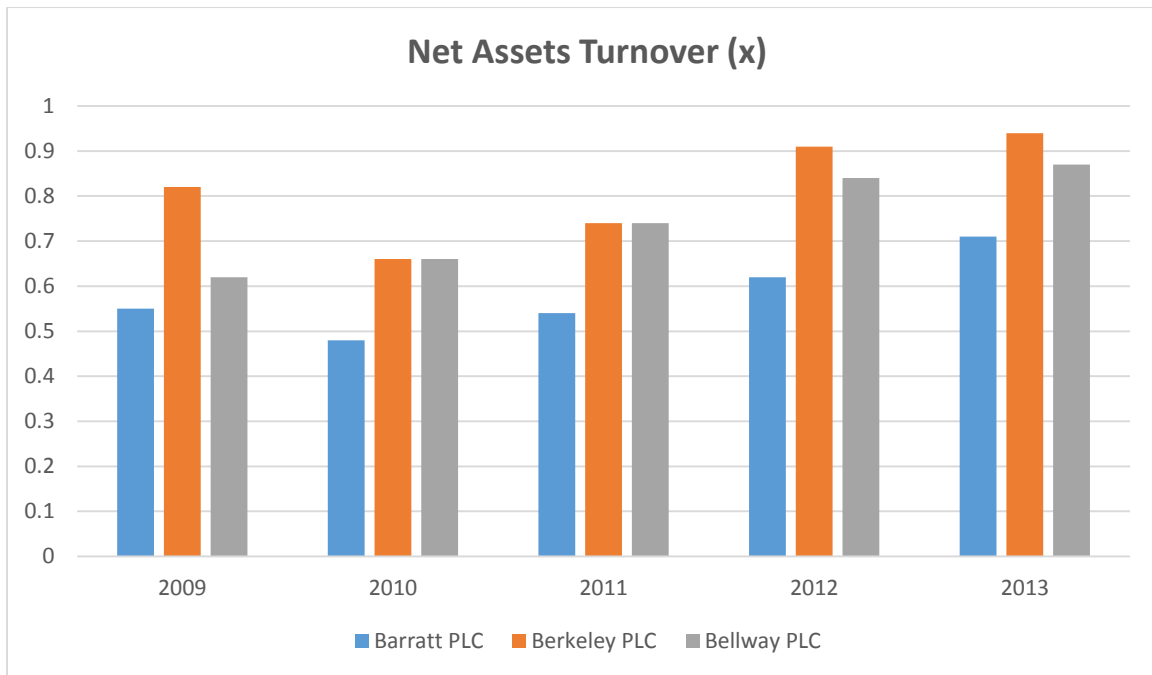


Liquidity ratio

The above figure depicts the liquidity ratio for all the three companies. All the three companies have managed to show a positive liquidity ratio over the past five years. The liquidity ratios for all three companies have seen significant fluctuations over the past 5 years. BellwayPlc has seen a sharp decline in its liquidity ratio since 2010, when it had the highest liquidity ratio of all to 2013. Barratt Plc's liquidity ratio also has seen sharp fluctuations. In 2009, it had the lowest liquidity ration and in 2013, it has the highest liquidity ration among all three companies.

1.4.3. Efficiency Ratios

Figure 8: Net Assets Turnover

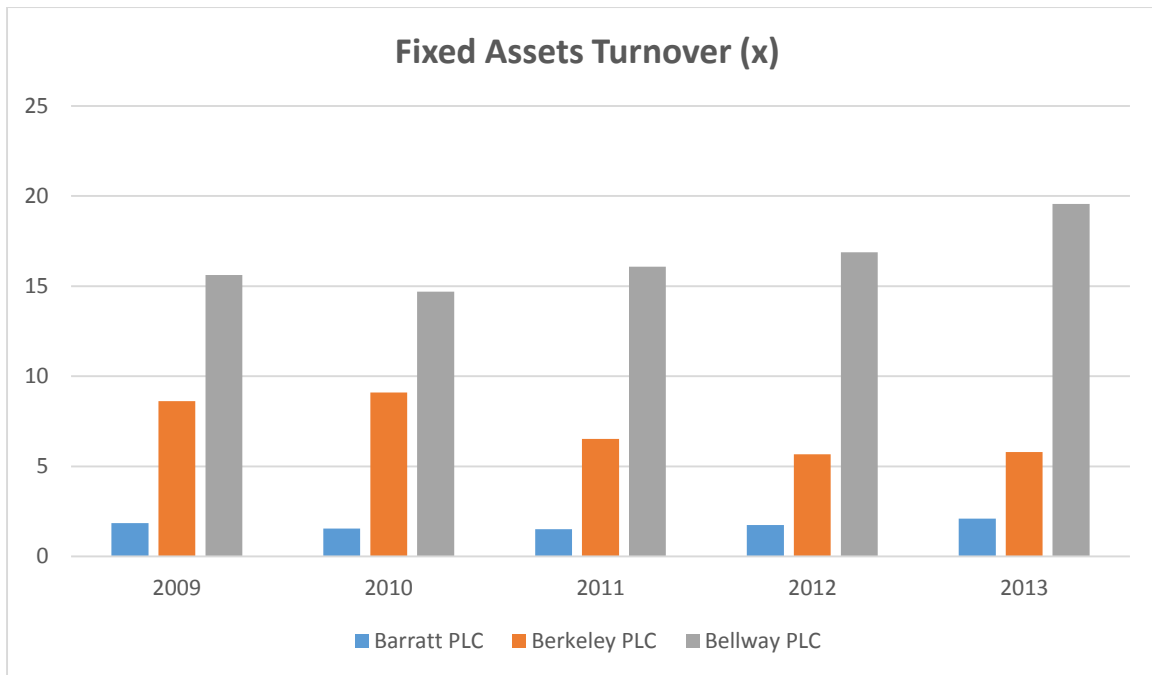


Net Assets Turnover

The above figure depicts the net assets turnover for all the three companies. All the three companies have managed to show a positive net assets turnover over the past five years. Among the three companies, Barratt Plc has the lowest net asset turnover ratio compared to BellwayPlc and Berkeley Plc. Barratt Plc has recorded its highest net asset turnover ratio in the year 2013. In the case of BellwayPlc and Berkeley Plc, they have both shown net asset turnovers quite similar to one another with Berkeley Plc having the edge. The year 2013 saw the highest net asset turnover for all three companies since the recession.

Figure 9: Fixed Assets Turnover

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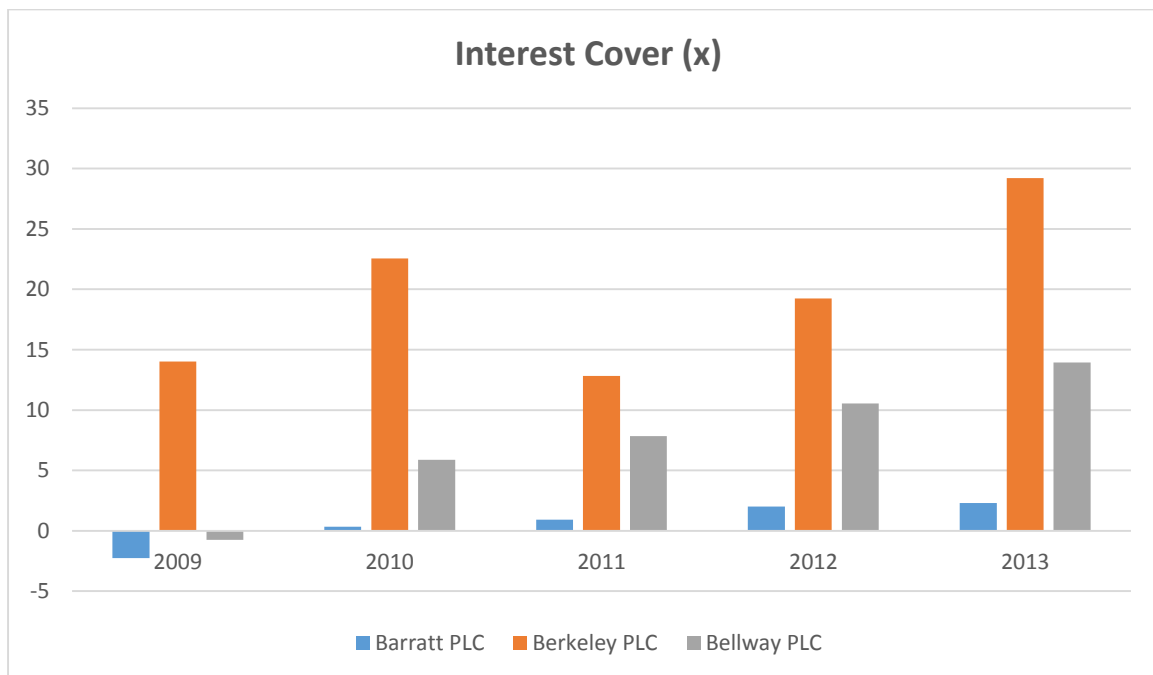
Fixed Assets Turnover

The above figure shows the fixed assets turnover for Barratt Plc, Berkeley Plc and Bellway Plc. It can be surmised from the above figure that Barratt Plc has had a stagnant fixed assets turnover ratio over the past 5 years. Berkeley Plc has shown a decreasing fixed asset turnover ratio since 2009. However, Berkeley Plc still shows a positive fixed turnover for the year 2013 and more than double of Barratt Plc's fixed turnover ratio. The most significant point that can be noted is the performance of Bellway Plc. They have had a significantly higher fixed asset turnovers over the past 5 years and have shown an increasing trend in the last three years.

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1.4.4. Gearing Ratio

Figure 10: Interest Cover



Interest Cover

The above figure depicts the interest cover of Barratt Plc, Berkeley Plc and BellwayPlc over the past 5 years. It can be observed that Barratt Plc show the lowest interest cover when compared to Berkeley Plc and Bellway Plc. However, it has to be noted that Barratt Plc has shown an increasing trend when it comes to their interest cover over the past five years. Berkeley Plc has shown the highest interest cover ratio over the past 5 years. In contrast, BellwayPlc had a rough year in 2009 when they showed negative interest cover and they have shown much higher interest cover over the last four years.

1.4.5. Limitations of using Ratio Analysis

Brighton and Houston (2012) stated that a primary disadvantage of the ratio analysis is its shortcoming to be considered at face value. Companies from several backgrounds cannot be taken into comparison as there are macroeconomic attributes which influence the

performance of an organisation comprising of market structures and regulation. According to Avadhani (2010), the analysis can only offer information on the performance of the company in the last few years while the shareholders and investors would prefer information with regards to the present use and the availability of information in the future. According to Reilley and Brown (2011), there are situations in which the information regarding the financial accounting present in the annual reports could comprise of estimates and rough figures, and in such situations the analysis of these ratios may not project the exact information and that the financial ratios should be used along with other factors providing information.

1.5. Non-Financial Information

1.5.1. PESTLE Analysis of Barratt Developments and UK Housing Industry

Political Factors

Lack of governmental reforms: According to Beveridge (2010), in 2007, the government had set an objective of building 240,000 more homes annually with about 70,000 being economical ones. O'Sullivan and Gibb (2008) pointed out that this was not brought into action due to insufficiency of credits. Ball (2010) also observed that there was a steep increase in the number of houses reclaimed due to the inability of home owner's to pay back their mortgage, along with the related rise in unemployment. In addition to this, due to the credit crisis, few structural alterations have been given to decrease the volatility in housing.

Government Subsidies and Affordable Housing: According to Malpass (2005), the UK government has encouraged the rental housing subsidisation. Stephens (2005) state that the Housing Benefits plan assures that all the families in the low income zone are eligible for rental subsidies and Pawson and Wilcox (2010) had stated that it was one of the largest expenses in the social security phase of the budget. Dowler (2009) is of the opinion that, as a result of recession, it was seen that the governments had faced difficulties with regard to for-sale homes and shared ownership of houses. On the other hand, Hilditch (2009) had stated that the failure of housing association to sell homes led to a total dip in the demand for economical housing.

Credit Market Liberalisation: The rise in deregulation had raised the housing demand and projected real housing prices. However, this also led to a linked rise in the household debts in the United Kingdom. Hincks (2010) had stated that the non-monitored liberalisation of the credit market in UK had taken part in the increase of recession in the UK and also for the dip in demand for houses.

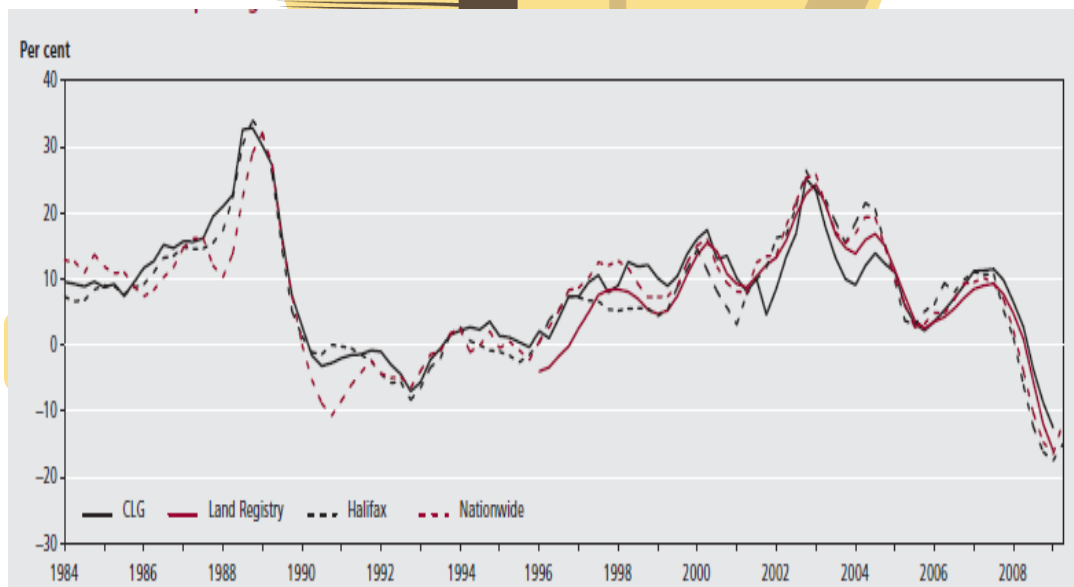
Economic Factors

Mortgage availability and indebtedness: The mortgage availability was very high during the period from 1996 to 2006, i.e. the housing booming period. Following the subprime issues, there was an associated decrease in the funding availability for money market lending. This has led to incorporation of strict rules and regulations with regards to lending to purchase houses. This decrease in availability of mortgage has decreased the housing demand. According to Elliot (2010), it was stated by the British Bankers' Association that a decrease of about 22.3% in approval of mortgages was seen in 2010 when compared to 2009.

Interest rate: According to Phillips (2013), the rates of interests are significant in the housing market as it influences the quantity of monthly mortgage payments. It is seen that rise in the mortgage payment in situations of recession, where the rise in salary potential is restricted, has influenced the customer's capacity to purchase products.

Supply- Demand: According to Gamble (2009), the supply and demand for the housing market in UK strongly relies on the house prices in the UK. From the figure below, it is observed that there was a major dip in the price of housing between 2000 and 2006; consequently there has been a major rise in the cost of houses.

Figure 11: UK annual increase in housing price (Chamberlin, 2009)



Social Factors

Geographical factors: According to Farber (2012), the housing sector has been affected strongly by the geographical factor. In the UK, regardless of the credit crisis, houses in Oxford, London and other places did not project any dip. On the other hand, Martins (2011) had asserted that the society-oriented factors such as school location, market and source of

transport affected the housing prices and hence, the demand for more houses in the geographical-friendly areas.

Customer confidence: According to Farber (2012), it is seen that there was a steep decrease in the confidence of customers after the credit crisis had occurred. This led to a dip in the number of people who had applied for mortgage loans. This had a direct effect on both the real estate and the housing sectors as private demands for housing started to fall.

Unemployment and consumer buying power: According to Wadsworth (2010), a direct effect of the recession on the society was unemployment. As a result of this issue, it was seen that there was a rise in house reclamations and dip in the demand for houses. On the other hand, a dip in the consumer purchasing power led to a rise in the rental property.

Technological Factors

Introduction of building information models: According to Howard and Bjork (2008), the governmental reform to implement Building Intelligence Models into public and private housing constructions has affected both the construction and housing industries. It is seen that the implementation of such technologies has encouraged the customisation of houses and their delivery time.

Supply chain management: The higher complexity of supply chain in the housing sector has led to complete automation and incorporation of technologies like Enterprise Resource Planning. This has a key role to play in the housing sector and for Barratt.

1.5.2. SWOT Analysis of Barratt Development Plc

Strengths

- According to Reuters (2013), Barratt development Plc. had accomplished major enhancements in their profit margins since the recession period.
- Reuters (2013) also reported that Barratt had occupied the highest position in the UK FTSE 250 index with a 4.5% growth in light of government announcements to alleviate issues for homebuyers.
- Barratt (2013) observed that the variety in the product portfolio that comprises of traditional housing, commercial property and apartments progress contributes to its success.

- The Barratt group had got the 5 star rating in the home builder consumer satisfaction recognition consistently over the past 5 years, which projects its efforts in offering people quality homes.

Opportunities

- According to Barratt (2013), the active steps taken by Barratt to protect strategic land leads, which comprises of green field extensions and prevalent settlements, offer a chance of future expansion.
- Barratt can further extend their operations in the US housing sectors by incorporating integration in the vertical supply chain.

Weaknesses:

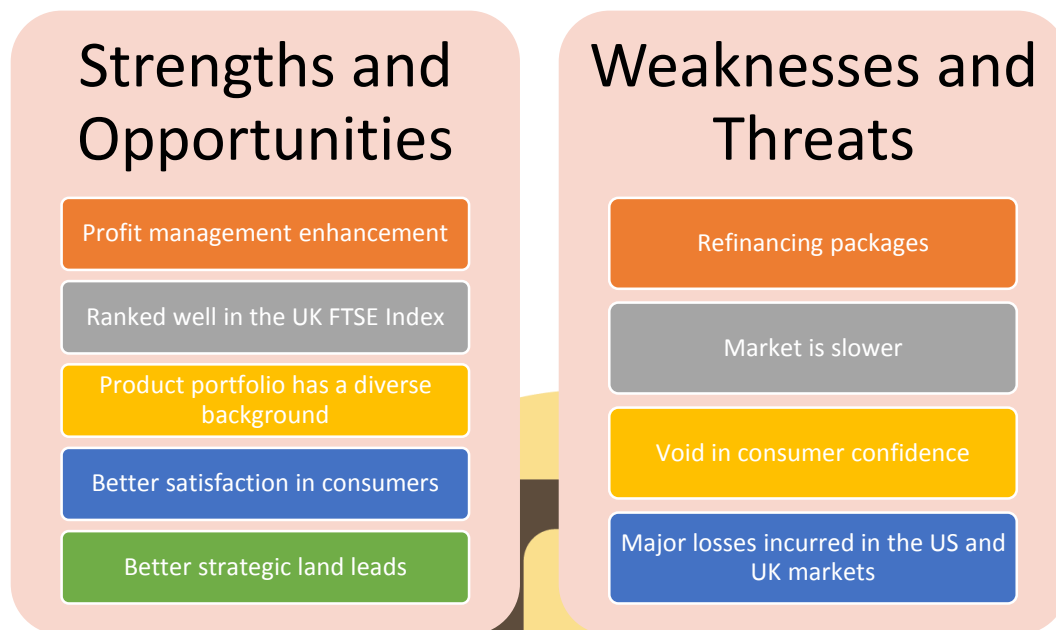
- According to Seawright (2007), the procurement of Wilson Bowden at the credit crisis juncture led to major deals of investment to encourage efficiency in operations, leading to the company's loss in the recession period.
- The inclusive package for refinancing and the legalisation of the group's shared equity will result in further decrease of profits.
- In spite of the global operations when compared to other industries like Berkeley and Bellway, Barratt ranks third in the list.

Threats

- The slowness of the market and the void of consumer confidence lead to decrease in sales.
- Due to the lack of availability of sufficient finances, Barratt faces a greater risk when compared to other international concerns, as the US real estate and housing industries incurred more losses when compared to their UK counterparts. A total loss in two different geographical areas portrays to be a risk for further sustainability.

Appendix I presents the SWOT analysis of Bellway PLC to show comparison of performance.

Figure 12: SWOT Analysis of Barratt Development Plc (Author, Current Study)



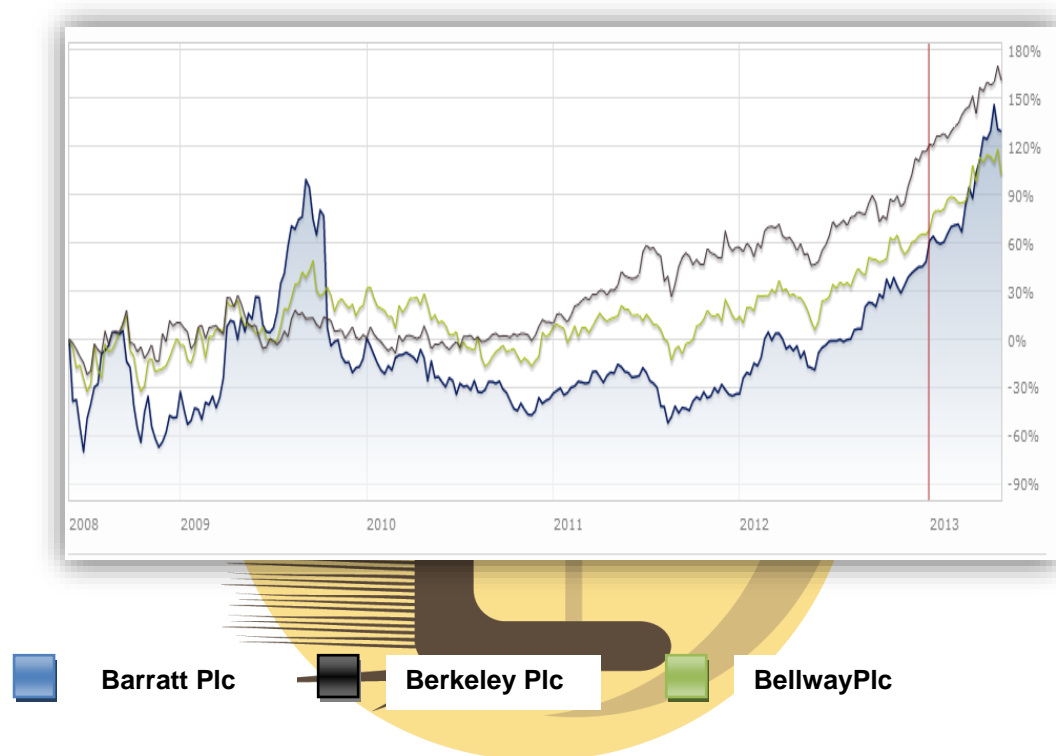
1.6. Assessment and Recommendations

1.6.1. Business Strategies of Barratt Development and Growth

According to Barratt (2014a) the organisation promotes clear joint ventures to help finance new and exciting projects. It is observed that the organisation promoted the formation of a new joint venture which is aimed at acting as a parent entity to help promote strategic alliance between Barratt and London and Quadrant to build more homes in London. Barratt (2014b) shows that the organisation also promotes JVs with British Land which has helped the organisation secure planning permissions for 463 homes and 160 room hotel at Aldgate Palace.

1.6.2. Stock Performance

Figure 13: Share Price Information of Housing Industry (Source: www.morningstar.com)



From the above graph is observed that similar trends are observed across the industry with respect to Barratt and its competitors. The PEST analysis and the SWOT analysis have shown that the GDP and inflation have had an impact on the market this has further impacted the share price of the organisation.

1.6.3. Assessment and Recommendations

It is argued that the fall out for the recession is found to be recovering in the business sector of Barratt and that the organisation is looking to perform better. The following table identifies the overall ranking and performance of the different companies in different ratios. It is observed that in general Barrat Development is looking for expansion and therefore this has

impacted its profitability. However, BellwayPlc is found to promote innovation and sustainability and that such a growth is required for Barratt. From appendix II, it is clear that when there is ranking of the different ratios based on performance (all ratios including those discussed above) it is observed that Barratt Plc is found to show significant leadership and is assessed to be a leader in the group.

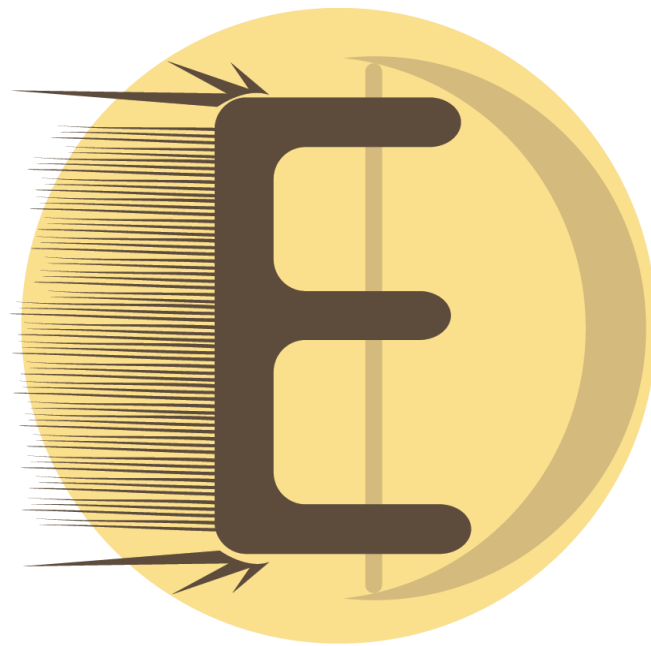
Table 2: Financial Planning for the Housing Industry

Housing Industry	Market Leader: Barratt Development Plc
<p>Industry</p> <p>From the PESTLE research and analysis performed, it is evident that the government has taken initiatives to enhance the mortgage available to the home buyers in order to nurture market recovery in the post-recession period. There is a major recovery in terms of consumer confidence and rise in sales.</p>	<p>In order to deal with the loss incurred due to recession, Bellway has taken steps to enhance their investments in land as a significant financial strategy. This has clearly influenced all types of financial ratios. Bellway should ensure that they implement more sustainable and smart steps of fostering their products.</p> <p>From the above financial analysis and the SWOT analysis, it is stated that Barratt has taken up a comfortable and a safe position in the market after the financial crisis. The company should incorporate future investments in extending its operations and take more steps to enhance their land investments.</p>

1.7. Conclusion

This report concludes that the financial performance of Barratt Development Plc is most effective in terms of profitability and efficiency. The liquidity of the organisation is a little less

due to the increase in number of JVs promoted. It is concluded that the organisation is on the right track towards success and continues to be a leader in the UK housing industry.



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