

Case study – Horizontal trend analysis

This is the solution to the case study found at the end of:

- Chapter 12 *Understanding financial reports: analysis of trends*

BAA plc: Horizontal trend analysis (% change on previous year) for a selection of key figures for five years ending 31 March 2003

	2003	2002	2001	2000
	%	%	%	%
Passengers served (in millions)	4.8	(2.2)	5.9	4.7
Sales turnover	(2.8)	(12.0)	3.1	8.9
Profit on ordinary activities before taxation	3.8	(7.6)	10.7	(2.6)
Taxation	7.3	(2.6)	34.8	—
Profit before dividends	226.7	(57.6)	50.2	(34.9)
Fixed assets	12.2	3.5	6.4	0.2
Total assets less current liabilities	13.3	13.4	4.4	2.8
Creditors due after more than one year	21.0	40.6	18.5	(5.5)
Shareholders' funds [total net assets]	(3.4)	(1.8)	6.8	6.7

BAA plc: common size statistics for the five years ending 31 March 2003

	2003	2002	2001	2000	1999
	%	%	%	%	%
Sales turnover	100.0	100.0	100.0	100.0	100.0
Profit on ordinary	27.1	25.3	24.2	22.5	25.2
activities before					
taxation					
Taxation	8.4	7.6	6.9	5.2	5.7
Profit before dividends	19.3	8.3	17.2	11.8	19.8
Fixed assets	174.7	150.3	142.6	143.2	152.5
Total assets less	187.6	160.0	138.3	141.6	146.9
current liabilities					
Creditors due after	(82.7)	(66.1)	(46.1)	(41.6)	(46.9)
more than one year					
Shareholders' funds	100.0	100.0	100.0	100.0	100.0
[total net assets]					

Commentary on fluctuations and trends

BAA plc's statistics show a year-on-year increase in the number of passengers served, except in 2002. BAA's financial year ended 31 March 2002 included 11 September 2001 which was followed by a world-wide loss of confidence in air travel. The figures illustrate the effect that this catastrophic event had upon BAA's

business, although the effect, in terms of passenger numbers, was relatively short-lived. Taken as a whole, growth in passenger numbers over the five-year period has been substantial, but this has not been matched by consistent increases in sales turnover. Sales in 2003 have not yet recovered to their 2001 level, but the horizontal trend analysis indicates that recovery is taking place. BAA has continued to be profitable throughout the period although there are significant fluctuations in the profit figures. After a major fall in 2002, profit before dividends has recovered almost to its 2001 level. Indeed, the common size analysis shows that the level of profitability in 2003 (in terms of both profitability before tax and profitability for the year) compares very favourably with prior years.

Investment in fixed assets has increased by a substantial margin. The common size analysis shows that fixed assets measured as a percentage of net assets is higher in 2003 than at any time in the previous five years. (The chairman's statement in the 2003 financial statements refers to BAA's 'investment programme to ... provide the high-quality infrastructure the company needs'). However, it is also clear from the analysis that long-term liabilities are substantially higher in 2003 than in previous years, and it appears that the investment programme is being financed largely by loan capital.

In summary, BAA appears to be coping well with the challenges facing the whole aviation industry. Despite adverse conditions, it has continued to make a respectable profit for its investors.

Conclusions

An analysis of the type discussed in this chapter is just a starting off point in understanding the activities of a very large business such as BAA plc (see the case study at the end of this chapter). The figures are extracted from an annual report of 96 pages, which contains large amounts of detailed information. In order to gain a full understanding of the activities of the business it is necessary to look

in detail not only at a series of annual reports, but also press comment and reports about BAA's activities. Also, it is necessary to understand some of the wider issues that affect those activities. BAA plc's future will be affected by an anticipated increase in demand for airport services, but also by decisions on the building and siting of future airports and new runways. Environmental and social factors will also have a part to play in the government's decisions on expansion of airline services within the UK.