

FINANCIAL ANALYSIS OF CRANE GROUP AUSTRALIA

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ABSTRACT

Crane group has continued to develop and enhance its manufacturing capabilities. Starting in the mid 1990s, the company has some success as it revamped its network distribution operations. This study identifies whether this company has a strong financial fundamentals and whether investment in the company will be of a long term nature. Its financial statements had been analysed during 5 year period (2004 – 2008). The data were compiled from Annual reports; ASX historical information; Government reports; Media Items and Website Data. The analysis will cover company's recent financial position, performance and cash flow, including liquidity; profitability; short-term asset management; risk; leverage and capital structure; and trend and horizontal analysis over the last five years. It shows that the past financial position, performance and cash flow have no guarantee for future performance. In addition, this report considers that this company has the fundamental criteria required for long term investment. It is recommended that the client monitor the position in 6-12 months in light of the share price at that time, the capital markets and ongoing evidence of Crane Group Limiter's sales growth in the weakening economy. It cannot be stated that the company is immune to an economic downturn. Crane Group has delivered dividends consistently over the last few years.

Key words: *Crane Group, Liquidity, Profitability, Risk, Solvency and Capital Structure, Trend and Horizontal Analysis, Sustainable Growth Ratios, and Return to Shareholder ratios*

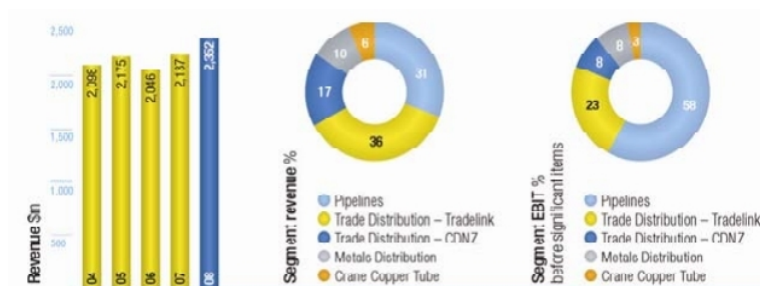
INTRODUCTION

Crane group is a leading manufacturer and distributor of non-ferrous metal products and plastic pipeline systems and a major distributor of plumbing and electrical supplies in Australia and New Zealand. It is a Public Listed, Public Company that is ranked number 103 out of the top 2000 companies in Australia. The company generates the majority of its income from the basic material wholesaling in Australia industry (CPA Australia, 2009). The majority of the company's revenues are derived from the Australian and New Zealand construction markets.). Differentiating Factor CRG has a strong reputation as being a smart manufacturer. It has continued to develop and en-

hance its manufacturing capabilities. The company is also expanding their distribution network by acquired other distribution companies that will complement their distribution network. Starting in the mid 1990s, the company has with some success revamped its network distribution operations (See Figure 1).

The analysis is based on the 5 business segments within the group. Crane Group limited operations are carried out through five business segments: Pipelines, Tradelink, CDNZ, Metals Distribution and Crane Copper Tube. Tradelink includes distributing of plumbing supplies and associated products in Australia. Pipelines includes manufacturing facilities in Australia and New Zealand

Figure 1
Crane Group Limited



(Source: Crane Group Annual Report 2008)

Table 1
Crane Group - Revenue and EBIT

Business Segments	2005		2006		2007		2008	
	Revenue	EBIT*	Revenue	EBIT*	Revenue	EBIT*	Revenue	EBIT*
Tradelink	31%	14%	33%	14%	34%	18%	36%	23%
CDNZ	20%	17%	20%	18%	19%	16%	17%	8%
Iplex	24%	48%	26%	50%	29%	53%	31%	58%
Metals	25%	21%	16%	11%	18%	13%	10%	8%

*before significant items %

(Source: Crane Group 2005, 2006, 2007 and 2008 Annual Report)

and supplying of plastic pipeline systems to the building products, civil/infrastructure, irrigation, mining and telecommunications markets. CDNZ includes supplying of plumbing, pipelines, electrical and safety products. Metal Distribution includes importing and distributing of copper, copper alloy, aluminium and stainless steel products. Crane Copper Tube includes manufacturing and distributing copper tube extrusions for the plumbing, refrigeration and Original Equipment Manufacturer (OEM) markets. The two major revenue generators within Crane Group in past 4 years are: Tradelink and Pipelines (e.g. Iplex). Our analysis will be based that the company fits into the GICS industries Building products and Trading companies and Distributors (as shown in Table 1).

Level of competition and Barriers to Entry

The Industry where Crane Group operates – according to CPA Australia report – is in a mature phase of its life cycle, which means

that the industry is generally growing at the same rate as the economy. Capital / labour intensity is low and the uptake of new technology is low. The industry's globalisation level is low and the trend is at the same rate as the economy. The industry has a low level of exports, which means exports generate less than 5 per cent of the industry's revenue. The industry has a low level of imports, which means imports generate less than 5 per cent of the industry's domestic demand. Exports are steady and imports are steady (CPA Australia, 2009).

Being in a mature market, barriers to entry for Crane group considered low, as CRG has been in the industry for period of time followed by number of acquisitions in the past. Other reasons are as access to the technology required to produce most types of plastic pipe is available, and the raw material, plastic resin, is obtainable. Brand loyalty is not strong given the similarity of the products. It is believed that, in a mature market, price and quality remain factors for consumer. There are significant number of

alternative domestic suppliers of metal products and distributor of plumbing and electrical supplies and a large number of current and potential overseas suppliers. The barriers of entry is high for new players according to IbisWorld report with significant investment required in acquiring plant and equipment, significant cost in research and development, existing operators have strategic alliances with some customers and economies of scale can be important (IbisWorld, 2009).

In comparison of their competitors, Crane Group limited distributes much of its manufactured product directly to construction companies and distributors and to plumbers through its own Tradelink plumbing supplies business. Its pipelines division also has bigger market share, Iplex supplied two water authorities in Victoria with significant volumes of PVC pipes (Ibisworld report, 2009).

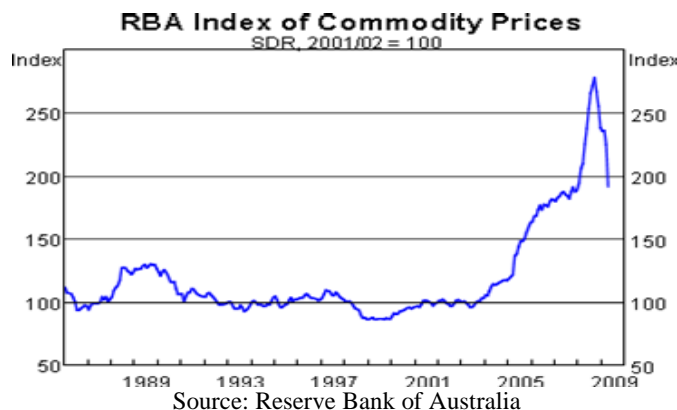
Economic Outlook

Australia's economic prospects have continued to deteriorate as a result of the global slump, and it already entered recession in fourth quarter 2008. Prime Minister Kevin Rudd said that a recession in Australia is inevitable because more than 20 nations around the world are being affected by the slowdown (ABC, 2009). While the economy will receive a boost from the wide range of policy measures unveiled in the

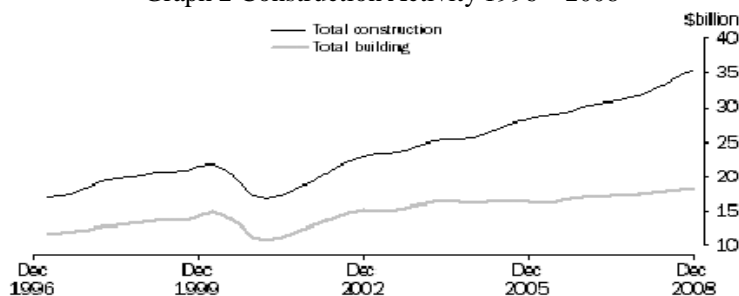
first months of 2009, these are unlikely to prevent it from slipping into a more prolonged period of downturn. The slowdown will be led by falling rates of private consumption growth and investment, while low commodities prices will continue to have an adverse effect on the country's terms of trade (which is shown in graph 1) on RBA index of commodity prices (1980s-2009). Business Monitor International in their Australian business forecast report for second quarter 2009 revised their 2009 and 2010 growth forecasts to -1.4% and 1.2% (from 0.5% and 1.9% previously) (Business Monitor International, 2009).

In recent month, latest reports suggest that Chinese economy has picked up and many commodity prices have climbing up a little. Westpac chief economist Bill Evans said that the current recession will have a lower impact on the Australian economy than the previous one due to pre-emptive measures from the federal government and the Reserve Bank of Australia (RBA) in comparison to the efforts by authorities in the early 1990s (The Australian, 2009). Both the RBA and the Commonwealth government have worked to reduce interest rates and offer households financial support through the introduction of stimulus packages and tax cuts. Emphasis on reforms, low inflation, a housing market boom, and growing ties with China have been key factors over the course of the economy's 17 solid

Graph 1
RBA Index Commodity Prices (1980s – 2009)



Graph 2 Construction Activity 1996 – 2008



(Source: Australian Bureau of Statistic)

years of expansion (Central Intelligence Agency, 2009). The latest budget 2009 - 2010 is aimed at supporting jobs by investing in the infrastructure. One of the key elements is investing in a \$22 billion Nation Building Infrastructure centre-piece. The Nation Building Infrastructure centre-piece provides funding for roads, metro rail, ports, the Clean Energy Initiative, universities, research, hospitals and broadband (2009-10 Commonwealth Budget, 2009). Other Australian government initiatives include National School Pride (NSP) Program, Defense Housing, and Social Housing, Roads and Infrastructure (Commonwealth of Australia, 2009) and extending first home owners grant.

Crane Group limited can expect to benefit as its competitors from the latest initiatives from the Federal government, with a strong market growth for Telecommunications, Mining, high demand for water projects throughout Australia due to climate change and projects such as the piping portions of the Food Bowl Modernisation Project; Geelong – Melbourne Pipeline; Grampians – Hamilton Pipeline and other future projects. These are few of future Victorian Government projects that have been identified for securing water supplies (Victorian Government, 2008).

Another area where Crane Group will benefit is construction. Construction has been a major factor in Australian economy. With the latest budget emphasising on infrastructure and the recognition of the importance of water projects throughout Australia (National Water Commission, 2009), busi-

nesses in construction industry will be able to survive the economic downturn. According to ANZ Economic outlook for June quarter, dwelling investment is expected to rise to 9.6% in 2010 and 11% in 2011.

The building and construction industry engages in three broad areas of activity: Residential building (houses, flats, etc.); Non-residential building (offices, shops, hotels, etc.); and Engineering construction (roads, bridges, water and sewerage, etc.), (Australian Bureau of Statistics, 2009). This recent volatility looks set to continue for the short to medium term. In considering the impact of the economic outlook on the proposed investment decision it addresses three key factors: interest rates, exchange rates and employment rate.

Declining Interest rates

In past couple of months, Reserve Bank of Australia has substantially reduced the interest rates (Stevens, G., 2009) in a move to respond to the recent market downturn. It is predicted that they will continue to use monetary policy to assist the economy by cutting rates. Australia has some of the highest interest rates in the world, which gives the RBA more leeway to stimulate the economy down the track. Commonwealth government increase first home buyer grant boost borrowing for housing; business borrowing, on the other hand, is declining, as companies curtail investment plans and seek to reduce leverage, in an environment of tighter lending standards. Much of the effect of these changes is yet to be observed. The stance of monetary policy, together with the

substantial fiscal initiatives, will provide significant support to domestic demand over the period ahead (Stevens, G., 2009).

Exchange Rates

Exchange rates are also one of the key factors that have impacted Crane group, since the company engages in import and export to fulfil their customer and own needs. Exchange rates movement in the past couple of months would have had their import buying power lower. Exchange rate variations affect competition from imported products, and competition from substitute products (which have varying import contents). On another note, \$USD profits will be higher when converted to \$AUD for consolidated reporting. For example, \$1M \$US earnings at 90c exchange \$AUD1.11M and \$1M \$US earnings at 75c exchange \$AUD1.33M or 17% increase.

Increasing unemployment

The unemployment rate in Australia is currently 5.5% (Australian Bureau of Statistics, 2009) and predicted to rise to 6% (OECD, 2009) by 2010 with the further contraction of the economy. Businesses prefer to have lower rates of unemployment, with increased uncertainty of job stability consumer sentiment declines. As the economy slows, the

unemployment rate is likely to rise to a 12-year high of 8¼% by late 2010. This rate may rise towards 9.0% should labour force participation rates either stabilise at current record highs or increase further (Hogan, W., 2009). As the majority of Crane Group main revenues are in construction markets, therefore increase in unemployment rates will impact consumer spending and consumer tends not to increase their debt levels.

DATA ANALYSIS AND DISCUSSION

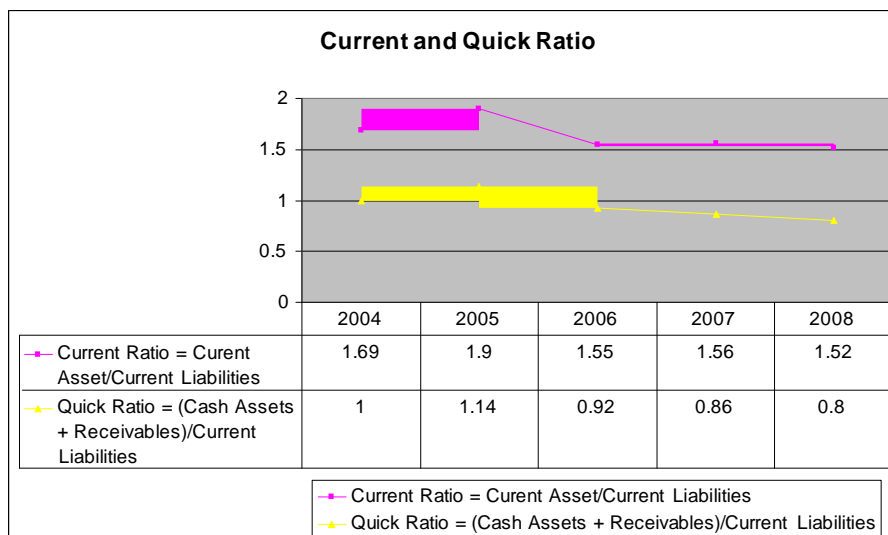
Financial analysis of crane group

Liquidity - Current and Quick Ratio

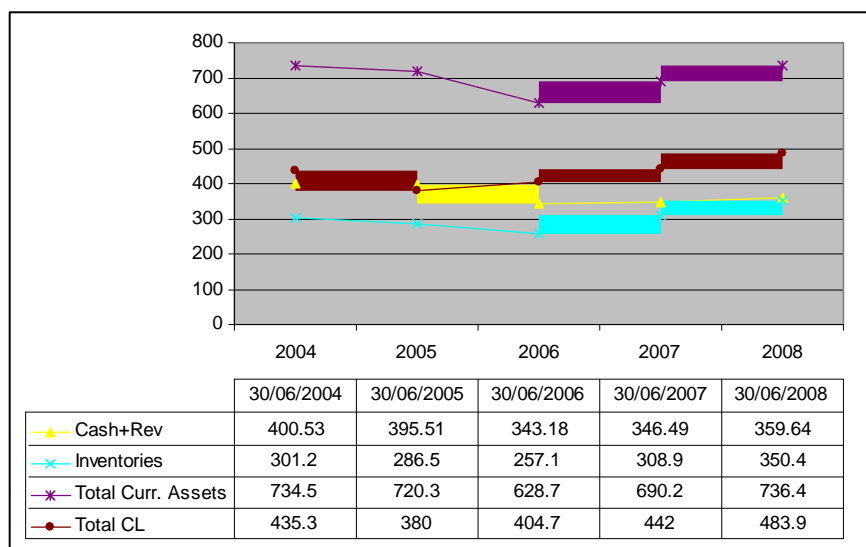
Current ratio (Graph 3) measures the entity's ability to satisfy its obligations in short term. It should be at least 1.5:1. A low ratio may indicate inability to meet short term debts in an emergency, a high ratio, however, may indicate excessive investment in working capital items. The quick ratio provides more rigorous measure of liquidity rather than the current ratio. A ratio of 0.9:1 is generally seen as being adequate (Hoggett, J.R., et al, 2009).

In 2005, strong cash flow from all business groups (Crane Group Annual Report 2005) has result in the highest level of cash asset and receivables and low level of current liabilities to push up both current and quick ratio to 1.9 and 1.14 respectively. In

Graph 3 Current and Quick Ratio



Graph 4 Break down of Current Assets and Current Liabilities



2006, due to the sale and closure of some businesses in the group (Crane Group Annual Report 2006), sales revenue decreased. The cash asset reduced by \$12m (19.2%) and short term debt increased by \$45m (133%). Both current ratio and quick ratio dropped to just above the adequate limit. In 2007, CRG spent \$100m to acquire Kingston Bridge Engineering Pty Ltd (KBE) (Crane Group Annual Report 2007). Cash asset maintain the similar level as last year, due to sales revenue increased, but the Short Term Debt and account payable increased by \$20m (5.7%). This results in the decline of quick ratio to 0.86, which is lower than the adequate level. CRG increased the inventory level by \$52m (20.1%), It is believed this is due to the government water pipe project. The current ratio maintain at the same level compare to 2006. Graph 2 highlights some important values from the balance sheet and their relative relationship.

In 2008, CRG invested \$16m to acquire 20% equity of Mitchell Water Australia Pty Limited (Crane Group Annual Report 2008). Its cash asset went down by \$20m (38.4%). The inventory also went up level up by \$41.5m (13.4%). The account payable at the same time was increased by \$58.4m (19.2%). The overall current ratio maintains

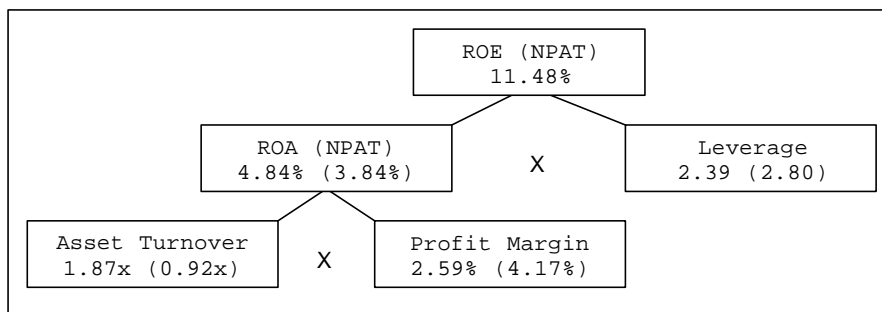
above the 1.5, but the quick ratio further reduced to 0.8 levels (Graph 4).

Crane Group claims their liquidity policy defines guidelines that “must be operated within in relation to the forecast percentage usage of debt facilities, the percentage of committed debt facilities maturing in any one financial year and the weighted average period to maturity of committed debt facilities”. The industry average level for the current ratio is 1.2 (IbisWorld, 2009), CRG’s current ratio is well above the safe level. However, their quick ratio has been decreased over the year. If the trend is continuing, they may face cash flow issue if the short term liability falls due. For this reason, in 2009, CRG has raise capital \$40m to add to their cash asset (Leppinus, S., 2009).

Profitability (Du Pont Framework)

Du Pont system of analysis links a number of key measurements of a company’s profitability. Figure 2 shows these key performance values compared to Basic Material Wholesaling in Australia Industry averages (IbisWorld, 2009 and Crane Group annual report 2008, 2009). To maintain the integrity of the Du Pont analysis, a consistent measurement of profit, net profit after tax (NPAT) has been used throughout. This

Figure 2
Du Pont System of Analysis of Crane Group 2008
Financial Performance Compared to Industry Average.



measurement of profit was selected because the industry figures were found for ROA used NPAT, and it is a more valuable measurement of profit for existing or potential equity holders, than other measurements such as earnings before interest and tax (EBIT).

As shown in Figure 2, return on equity (ROE) is 11.48%, higher than the industry average of 10.75%. This has been achieved despite a lower leverage ratio of 2.39 compared to the industry average of 2.80. This reflects a tighter financing policy of keeping debt down relative to equity. Over the last five years, Crane Group's leverage ratio has trended down from 3.10 in 2004 to 2.80 in 2008. Further equity rising in May 2009 also reflects Crane Group's policy of keeping its leverage ratio down (Leppinus, S., 2009).

The main driver behind the higher ROE is the return on assets (ROA, 4.84%) which is a full 100 percentage points higher than the industry average (3.84%). This is being achieved through a higher asset turnover (1.87x) compared to the industry average (0.92x). However, the profit margin (2.59%) is lower than the industry average (4.17%). Further analysis is needed to identify where this profit margin is being lost.

The 2008 Annual Report gives some insight into the profitability of the individual businesses held by Crane Group. The manufacturing businesses (Pipelines and Crane Cooper Tube) generate a higher profit margin before interest and tax (8.4%) than the

three wholesaling businesses (Tradelink, CDNZ and Metals distribution; 3.2%). Considering that the basic material wholesaling industry average profit margin after tax is 4.17%, this identifies that the profitability of these businesses is well below industry average.

A comparison of common size profit and loss statements across the last five years gives some insight into how Crane Group has tried to improve profit margin (Table 2). In 2006, gross profit margin increased from 19.7% in 2005 to 28.8%. It has remained in the 27-28% range since then. However, selling and distribution expenses and general and administration expenses have significantly increased from 12.8% in 2005 to 21-23% in the past three years, having a negative impact on profitability.

It is interesting to note that CRG may have changed its policy on depreciation based on the table below. As evident, the depreciation amount has dropped by \$19.5 million in 2008 when compared to 2004 while the property plant and equipment dollar value figure has increased \$4.8 million. This decrease in depreciation expense certainly improves the bottom line (Table 3.A).

Short term Asset management - Receivable turnover and inventory turnover

The inventory turnover ratio measures the adequacy of inventory and how efficiently it is being managed. The inventory increased

Table 2
Common Size Profit and Loss Statements Crane Group, 2004 to 2008.

	2004	2005	2006	2007	2008
Revenue					
Total	100	100	100	100	100
COGS	(79.0)	(80.3)	(71.2)	(72.8)	(72.1)
Gross Profit	21.0	19.7	28.8	27.2	27.9
Selling and Distribution*	(17.7)	(12.8)	(17.8)	(16.7)	(17.1)
General and Administration*			(5.1)	(4.3)	(4.5)
EBITDA	3.3	6.9	5.9	6.1	6.3
Depreciation, amortisation and impairment	(2.4)	(2.4)	(1.9)	(2.2)	(1.4)
EBIT	0.9	4.5	4.1	4.0	4.9
Income from investments	(0.0)	-	-	0.0	0.2
Interest expense	(1.3)	(1.3)	(0.9)	(1.0)	(1.3)
Profix before tax	(0.4)	3.2	3.2	2.9	3.7
Tax	(0.1)	(1.1)	(1.1)	(1.0)	(1.1)
Profit before net gain on sale/cloreses, and minority interests	(0.5)	2.1	2.1	2.0	2.6
Net gain on sale/closure of discontinued operations	-	-	1.8	0.2	-
Profit for period	(0.5)	2.1	3.9	2.2	2.6
Minority interests profit	0.3	0.4	0.3	(0.0)	0.0
Profit (NPAT) for CRG equity holders	(0.8)	1.7	3.6	2.2	2.6

* 2005 Crane Group Annual Report did not separate out Selling and Distribution expenses from General and Administration expenses for 2004 and 2005.

Table 3.A
Depreciation

AUD000's	30/06/04	30/06/05	30/06/06	30/06/07	30/06/08
Depreciation expense	5,377	52,834	35,891	33,311	31,902
Property Plant & Equipment (PPE)	240,463	223,151	185,665	196,811	245,284
Ratio of Depreciation to PPE	0.21	0.24	0.19	0.17	0.13

(Source: Crane Group limited annual report 2004, 2005, 2006, 2007 & 2008)

36.3% since 2006. In the mean time, the inventory turn-over decreased 0.86. Graph 5 shows that the Days Inventory has also increased by 6.2 days. These figures indicate the inventory management is worsened. They need to look into the operations to increase the efficiency of inventory.

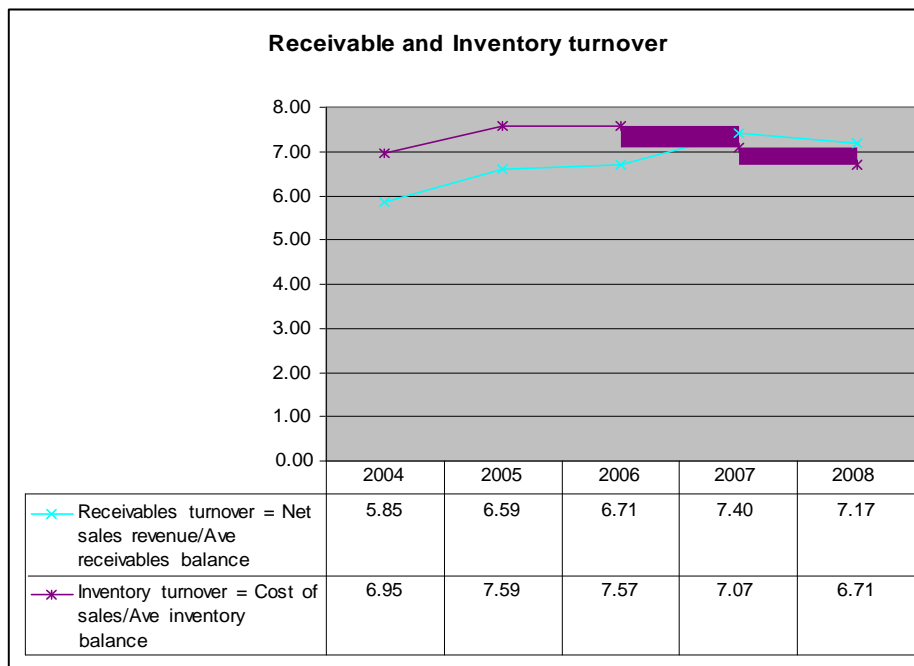
The receivables turnover ratio healthily increased by 1.32 from 2004 to 2008. The Days Receivables decreased by 11.5 days, shows at graph 6. In the mean while, Days payable increased 4.3 days. Days Payable are always longer than Days Receivables

(graph 6) means CRG get payed quicker than they pay their supplier, vendor provided "free" source of capital to their operations. This improves their cash flow position.

Risk

In addressing risk, the study focuses on a number of cash sufficiency ratios so it can assess Crane Group's ability to generate sufficient cash to meet its cash flow needs. This is critical as without cash, the group is unable to cover its main cash requirements, dividend payments, and long term debt

Graph 5
Receivable and Inventory Turnover Ratio



amongst other things. A quick snap shot over the five years is as in Table 3.B.

The huge improvement in cash flow adequacy in 2007 is primarily due to the significant drop in repayments borrowings, both dollar value and as a percentage of loans and borrowings, evident in the table below. This is also confirmed in the repayment of long term borrowings ratio. However, the cash flow adequacy result was not mirrored in 2008 due to the huge cost of acquiring businesses. Placing this transaction aside as a one-off expense and not including it in our calculations for cash flow adequacy would have resulted in 337.7%, which is a more comfortable position and in line with the capital raising exercise.

With the debt coverage ratio (as in Table 4.A), it shows some stability with three years (rounded) as the payback period. This may be attributable to the capital raised balancing off with the funds borrowed. In summary of the above tabled ratios, the risk can be classed as moderate though it would need to compare it against the industry average figures to be more correct.

Solvency and Capital Structure

Table 4 shows how - (1) the total assets for Crane Group have been funded for the five years from 30 June 2004 to 30 June 2008, (2) the funding book mix of debt versus equity and (3) the ability of the group to cover its borrowing costs from profits generated.

The trend shows the percentage of assets funded by debt has decreased slightly from that of debt to an equity funded position with a mix in 2004 of 64% and 36% respectively to that of 61% to 39% in 2008. In the 2007 to 2008 period, the slight improvement can be said to be attributable to capital raisings in July 2007 of \$60.0m.

However, the debt to equity ratio trend shows that total funds provided to Crane Group is still predominantly from debt with a ratio of 1.38:1. Though this is an improved position from 2004 where the total liabilities to equity were 1.80:1, the trend of a predominantly debt funded capital book saw the additional debt funding of \$80.0m in July 2008.

The future of more debt funding is ques

Graph 6
Short Term Asset Turnover

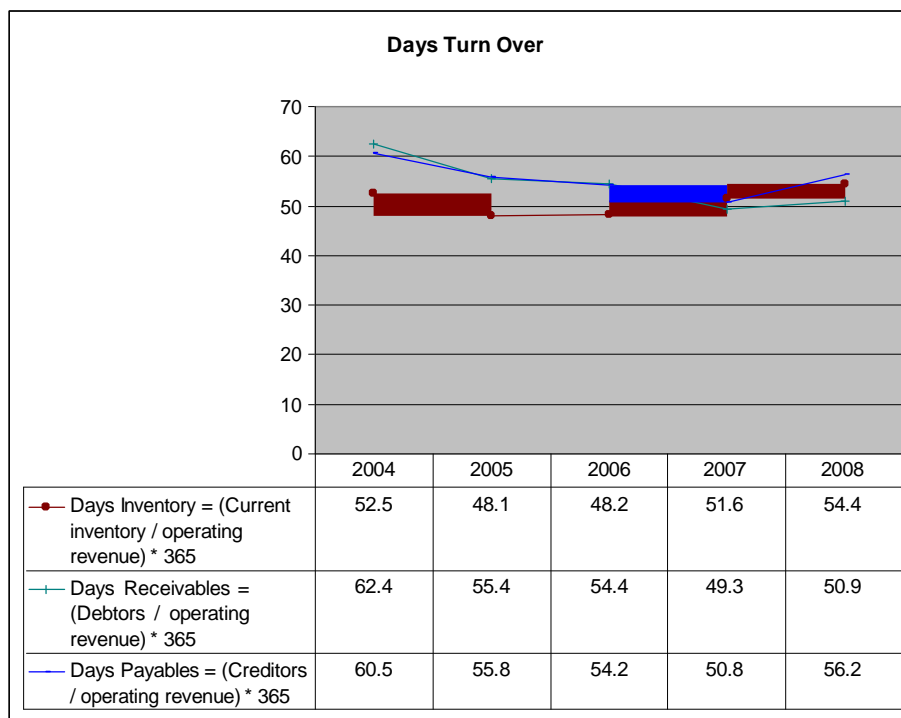


Table 3.B
Cash Sufficiency Ratios

Ratio/Industry average		2004	2005	2006	2007	2008
Cash flow Adequacy	Cash flows from Operating Activities /Repayment of long term borrowings and + Assets acquired + Dividends paid	53.68%	58.39%	53.91%	95.25%	41.89%
Repayment of long term borrowings	Repayment of long term borrowings/cash flows from operations	36.88%	108.64%	104.89%	3.84%	2.79%
Debt Coverage Ratio	Non-current liabilities/cash flows from operations	3.53 yrs	2.71 yrs	2.64 yrs	2.92 yrs	3.33 yrs

tionable with an observation, as at 30 June 2008, where total loans and borrowings (\$278.144m) exceeded property plant and equipment (\$245.284m). This could suggest that Crane Group's borrowing capacity may be restricted as it has borrowed more than the value of its assets, hence, are not able to provide additional security should it require more bank funding. The recent advice in May 2009 to the Australian Stock Exchange of a further \$22.8 million may be testimony to this.

Having said the above, Crane Group's

debt ratio is favourably lower than the industry average of 64% and may improve should the debt funding option be constrained though this is open to debate as strong cash flows opens the door to unsecured funding (Table 4.B). An investigation into this reveals this to be the case with bank loans for Crane Group currently unsecured (refer note 19 of the 2008 annual report).

In determining the offering of unsecured lending, financial institutions look at the interest cover ratio (or Times Interest Earned) closely amongst other key ratios as

Table 4.A
Leverage and Capital Structure Ratios

Ratio/Industry average		2004	2005	2006	2007	2008
Debt Ratio (64.24%)	Total Liabilities /Total Assets	64.33%	60.64%	57.54%	57.55%	58.03%
Equity to Asset Ratio	Total Equity/Total Assets Total	35.67%	39.36%	42.46%	42.45%	41.97%
Debt to Equity Ratio	Liabilities/Owners Equity	1.80 : 1	1.52 : 1	1.35 : 1	1.36 : 1	1.38 : 1
Interest Cover (3.25x)	Earnings Before Interest and Tax (EBIT)/ Interest	0.72x	3.94x	3.65x	3.66x	3.63x
Cash Cover Ratio	Net cashflow from Operations + Cash Interest Paid / Interest Expense	4.63	3.94	3.65	3.66	3.63

Table 4.B
Crane Group's Debt Ratio

AUD000's	2004	2005	2006	2007	2008
Loans & Borrowings (B/S)	345,215	295,397	239,898	252,112	310,097
Repayment of borrowings	35,578	128,965	83,377	2,939	2,536
Ratio Repayments to Loans & Borrowings	10.31%	43.66%	34.76%	1.17%	0.82%
Cash Acquisition of subsidiaries & businesses	64,256	2,761	0	14,023	138,605

it will show how many times the entity is able to cover its interest payments from the profit it generates within the financial year. Looking at Crane Group's ability to make interest payments over the last five years, the study observes that it dramatically improved from a net loss position, with no interest cover, in 2004, to an interest cover of 3.63 times in 2008. This can be deemed acceptable when compared to the industry average of 3.25 times.

However, as the interest cover ratio is based on accounting income, the cash cover ratio will be also examined as debt servicing relies on the availability of adequate cash flows rather than on the availability of sufficient accrual earning. A look into the results over the last five years provides further comfort with a cash cover ratio of 4.63 in 2004 improving to 92.8 in 2008. The dramatic improvement is primarily due to the significant drop in repayments borrowings, both dollar value and as a percentage of

loans and borrowings, evident in the table below. This is also confirmed in the repayment of long term borrowings ratio. The possible reason behind this is that Crane Group entered into an interest rate risk management and cross currency swaps outlined on pages 67 to 69 of the 2007 annual report.

Trend Analysis

Growth rate between sales and inventory

Between 2004 and 2006, sales revenue grew in proportion to inventory. However, over 2007 and 2008 this trend reversed, with a 36% growth in inventory compared to only a 14% growth in sales revenue. At the end of the 2008 financial year, inventory had shown a greater increase over the five year period compared to sales revenue. This rapid relative growth in inventory indicates inefficiencies in the use of assets (Table 5).

Sales and accounts receivable

Accounts receivable (Table 6) have trended

Table 5
Growth in Sales Revenue and Inventory between
2004 And 2008, Indexed to 2004 values.

	2004	2005	2006	2007	2008
Sales Revenue	1.00	1.04	0.98	1.04	1.12
Inventory	1.00	0.95	0.85	1.03	1.16

Table 6
Growth in Sales Revenue and Accounts Receivable
between 2004 And 2008, Indexed To 2004 Values.

	2004	2005	2006	2007	2008
Sales Revenue	1.00	1.04	0.98	1.04	1.12
Accounts receivable	1.00	0.94	0.81	0.85	0.91
Sales revenue index /accounts receivable index	1.00	1.10	1.21	1.23	1.23

Table 7
Growth in Sales Revenue and Cash Flows
from Operating Activities between 2004 and 2008, Indexed to 2004 Values.

	2004	2005	2006	2007	2008
Sales Revenue	1.00	1.04	0.98	1.04	1.12
Cash Flow from Operating Activities	1.00	1.23	0.82	0.79	0.94
Cash Flow from Operating Activities as % of Revenue	4.60%	5.43%	3.88%	3.50%	3.87%

to grow at a slower rate than sales over the preceding five year period, which indicates very good management of accounts receivables.

Sales revenue vs. cash flows from operations

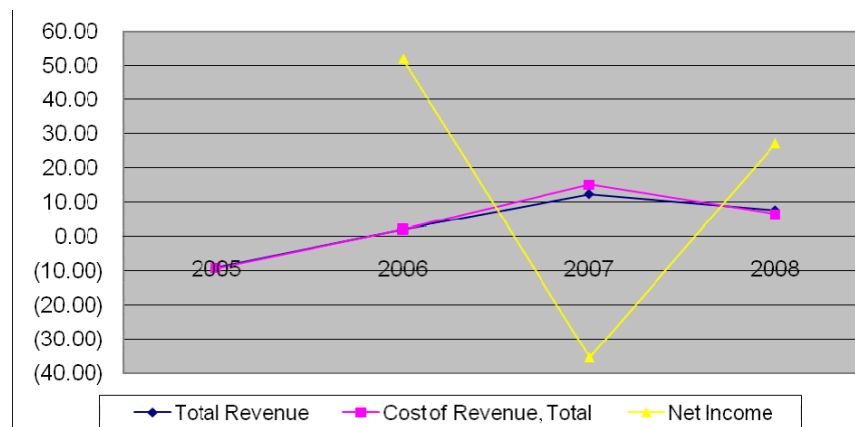
Although sales revenue (Table 7) has grown 12% over the preceding five years, cash flow from operating activities (CFOA) has decreased 6%. As a percentage of sales revenue, CFOA has decreased from 4.6% in 2004, and has been as 3.9% or lower for the past three years. This reduced cash flow is indicative of the both the growing inventory level and increasing selling, distribution, administration and general operating expenses seen in the past three years.

Horizontal Analysis

Based on the year over year changes in percentage calculated from Crane Group Ltd financial statements over last five years,

below meaningful information can be revealed and possible reasons can be identified as well. Observe in the percentage changes of revenue-cost-profit in the income statement (see graph 7), the total revenue increased 12.31% from 2006 to 2007, which was largely driven by the Iplex Group as read from the annual report. The cost of revenue increased 15.12% in the same period which is a bit higher than the revenue change percentage; this is not a favourable change to company as it could give negative impact on the profit in a result. Glaring change here is the net income in 2007 which is not aligned to the changes percentage in revenue and cost. The change percentage of net income is at -35.32%, which looks as a negative sign. Generally, the possible causes could be either the product price has been gone down significantly, or total expenses increased. Checking from the annual report, there were losses in net significant item as of \$6.2M after tax, an \$11.8M after-tax ex

Graph 7
Revenue – Cost – Profit



	2005	2006	2007	2008
Total Revenue	(8.98)	1.93	12.31	7.59
Cost of Revenue, Total	(9.21)	2.03	15.12	6.46
Net Income		52.06	(35.32)	27.20

pense for asset impairment, restructuring and redundancy costs relating to the Group's metal manufacturing business. Also, the net financing costs were \$22.7M for the period compared with \$18.2M in 2006, increased 24.73%.

Other significant change (Graph 7) is the dramatical net income increase from 2005 to 2006, which is 52.06%, however the total revenue only increased 1.93%. The cause could be attributed to the net significant item gains of \$27M after tax includes an after tax profit of \$39M from the sales of the Aluminium businesses to Capral.

As shown in graph 7, over the period of 2007 to 2008, the percentage of change in total long term debt has been increased as of 39.19%, the total liabilities raised 18.15%. With the expectation of difficult conditions in global credit markets in mind, the Group took a number of steps during the year to secure its medium and long-term funding positions. In July 2007, \$60M of additional equity capital was raised through an institutional placement. This funding increase will allow Crane Group to pursue future growth opportunities should they arise. This was a

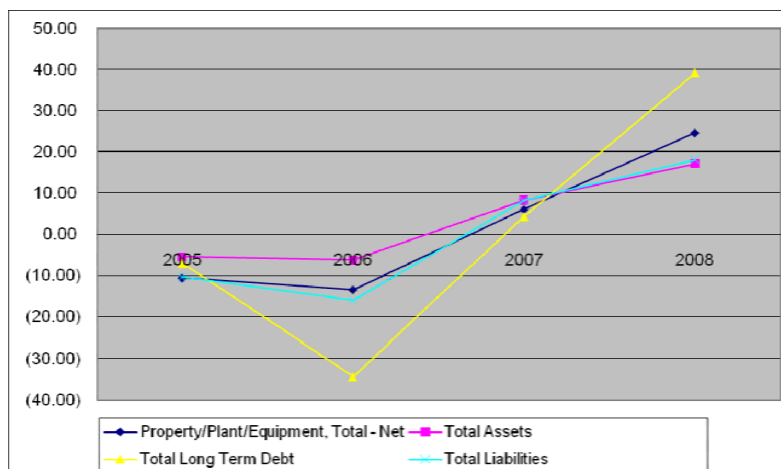
very successful financing arrangement over the past 5 years. However, a little notice shall be paid on a side negative effect of higher LT debt that is naturally the interest expense will be high as well, e.g. the interest expense of 2008 was up 21%. But this side effect to a fast growing business is rather insignificant.

Graph 8 also reveals that the fixed assets in 2008 increased much more aggressive than that in the previous years, this contributed into the high increase of total assets. This is due to the Crane Group completed five business acquisitions including Kingston Bridge Engineering, a polyethylene pipe and fittings manufactures based in Western Australia and Northern's Plumbing Supplies, a competitor to Tradelink that operated a 21 store network in Western Australia, and South Australia. Foreseeable, the future revenue will go up and the Crane Group Ltd will strengthen its position in the market place.

Sustainable Growth Rate

CRG demonstrated constant growth on ROA, ROE and SGR. SRG represents the

Graph 8
LT Debt – Assets – Liabilities



	2005	2006	2007	2008
Property/Plant/Equipment, Total – Net	(10.69)	(13.55)	5.98	24.64
Total Assets	(5.49)	(6.28)	8.25	17.17
Total Long Term Debt	(7.07)	(34.38)	4.28	39.19
Total Liabilities	(10.33)	(16.02)	8.24	18.15

level of growth which can be financed internally without the need to resort the additional outside capital. SRG growth from CRG is substantial, from 1.25% in 2004 to 4.26% in 2008. It represents the possible growth in sales without need for increasing gearing levels or issuing more equity (as in Graph 9).

Cash Flow Analysis - Cash Sufficiency

A cash flow analysis (In Table 8) shows that over the last five years Crane Group has been going through a significant growth period, and has had to rely on loans and share issues to cover the costs of this growth. Over the last five years, cash flows from operations have been sufficient to cover dividend payouts. The trend has been that the proportion of cash flow needed to cover dividend payouts is increasing, with around half the net cash flow from operations being needed to cover dividends. However, in the last three years, around 50% of dividends have been reinvested, freeing up

some of the cash flow.

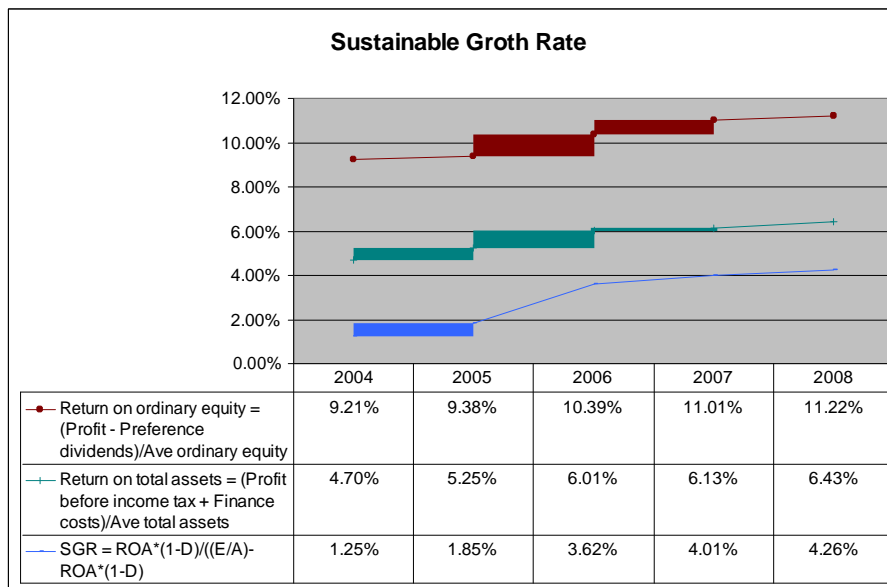
In regards to investment cash coverage, the last three years has seen a significant increase in the amount of cash needed to cover asset acquisitions. In 2008, the acquisition of KBE and more Tradelink stores saw cash needed to cover asset acquisitions increase to 2.29 times the net cash flow from operations. The continued investment by Crane Group throughout this period has seen the cash payout period increase to 8.65 times.

The last three years has also seen negative net cash flows, resulting in halving of the cash balance from \$65.6M to \$31.6M over this time.

Cash Flow Analysis - Cash Based Efficiency Analysis

With the increased investment, Crane Group's efficiency has decreased over the last five years: i.e. net cash flow from operations has not grown in proportionately to revenue, total assets, debt or equity (Table

Graph 9
Sustainable Growth Rate



9). This is of concern, because if this trend continues, it would indicate a continued reliance on debt and equity injections to keep Crane Group liquid.

Cash Flow Analysis - Return to Shareholder ratios and Share price movement

Recent institutional placement by Crane Group had raised \$40 million for takeover opportunities through a share sale to existing investors in the pipe manufacturer and plumbing supplier (The Sydney Morning Herald, 2009). This share placement will improve Crane group balance sheet. Crane Group stock has run up sharply in recent weeks from a low of \$6.60 on 10 March 2009 and climbing up to \$9.790 a share on 28 May 2009. John Durie from the Australian confirm that the stock has run up sharply in recent weeks from a low of \$6.40 a share to its close on 26 March 2009 at \$8.15 a share and most demand for the stock is around the low \$7 a share range, a big discount to the present price.

As shown in Table 10, CRG earnings per share higher than average industry of \$0.29 (IbisWorld, 2009), also with the dividend payout ratios well above industry aver-

age of 33.46 (IbisWorld, 2009). From the EPS calculation, in 2006 Crane has achieved the highest EPS ratio; this is despite the revenue in 2006 has dropped by almost 6% from 2005. This is because Crane group had a net gain on sale/closure of discontinued operations - net of tax of \$37,798,000.00. This gain is from the sale of Crane Group's Aluminium businesses were sold to Capral for \$124 million in October 2005. The increase of EPS in 2008 is due to the increase in revenue by 7.5% from 2007.

This study discusses earnings yield and not Price earnings (P/E) ratio since it is unclear whether the price earnings ratio has predictive value in the sense of distinguishing between entities likely to grow at high or low rates, or entities which are likely to offer supernormal versus subnormal returns (Ross, D., 2009). Yet, in a glance the table shows that P/E ratio for CRG has fallen to 10.41 compare to previous year of 16.28, coinciding with the market troubles in past 12 months. Since 2005 Crane group able to maintain earnings yield between 6%-10%. Thus, investor can expect to receive an average return of 10% at current level of profitability. This will look more attractive for

Table 8
Cash Flow Analysis 1

	2004	2005	2006	2007	2008
Cash flow adequacy	0.54	0.58	0.29	0.75	0.36
Investment cash coverage	1.07	0.28	1.72	0.80	2.29
Cash payback period	8.04	5.91	7.73	8.70	8.65

Table 9
Cash Flow Analysis 2

	2004	2005	2006	2007	2008
Cash flow to sales ratio	4.6%	5.4%	3.9%	3.5%	3.9%
Cash return on assets	8.0%	10.2%	7.4%	6.6%	6.7%
Cash return on debt	12.4%	16.9%	12.9%	11.5%	11.6%
Cash return on equity	24.8%	28.3%	17.5%	15.6%	16.0%

Table 10
Return to Shareholder Ratios

Ratios	2004	2005	2006	2007	2008
Earnings per share after significant items (cents)	-28	86.8	127	79.6	94
Market price as at the end of the financial year	\$8.50	\$12.25	\$16.87	\$12.96	\$9.79*
P/E ratio (Market price / EPS)	-30.36	14.11	13.28	16.28	10.41
Earnings yield	-3%	7%	8%	6%	10%
Dividend per share - ordinary (cents - fully franked)	60	60	60	65	71
Dividend yield (dividend / market price)	7.06	4.90	3.56	5.02	7.25
Dividend payout	n/a	70.7%	48.3%	85.70%	77.2%

*Market price for 2008 calculated based on closing price on 28 May 2009

investor in 2008, since bank interest rate has drop significantly.

Crane group in 2004 to 2006 had 60 cents dividend per ordinary share and increase it to 65 in 2007 and then 71 cents in 2008. Despite the economic outlook in late 2008, Crane group has growth their revenue to more than 12% in the past five years. This is also supported with Crane group dividend yield of 7.25%, an increase from 5.02% in 2007 and 3.56% in 2006. Crane group dividend policy indicated that Crane group has a high dividend payout, the only time Crane group has a lower payout in the past 4 years was in 2006 with 48.3%. In 2008, Crane group has showed again that they provide

77.2% of their profits available to ordinary shareholders. In comparison of the industry and the market, according to InvestSMART, Fairfax Digital, Crane group share has better Share price return in the 3, 6, and 12 months period (see Table 11).

Creative Accounting which may have influenced the numbers

There might be some rooms for Crane Group Ltd to apply the "creating accounting" practices, which could make the entity looks more profitable by altering financial numbers under certain accounting policies introduced, however this kind of practice is legal and gives motivation to management to

Table 11
Share Price Returns 2008 (Source: InvestSMART, Faifax Digital)

	Share Price Returns		
	3 Months (%)	6 Months (%)	12 Months (%)
CRG	19.7452	22.2367	-34.0351
Sector	17.2367	-8.7838	-458364
Market	13.5957	12.4576	-35.6219

Table 12
Crane Group Financial Performance

Snapshot	Liquidity	Current ratio	+
		Quick ratio	+
	Profitability	ROA	+
		ROE	+
		Profit Margin	-
		Share price movement & returns	+
	Short Term Asset Management	Receivable turnover	+
		Inventory turnover	-
	Leverage and Capital Structure	Debt ratio	+
		Equity ratio	0
		Times interest	+
	Shareholders return		+

+ Favourable result 0 Neutral result - .Problem area

be engaged in.

A questionable spot read from the 2004 annual report implies that the creating accounting practice might be used by Crane Group. “The carrying value of the new computer system has also been re-assessed this year as the implementation of the system is now complete. The cost of these initiatives, totalling \$52 million after tax, is included as a significant item in the result for the year ended 30 June 2004”. The experience can suggest that the roll out of a new computer system costs are often larger than expected and the values bring in can take rather a long period of time to emerge. Thus the negative number might be offset a bit and benefits might be pre-recognized to smooth the performance by adjusting glaring peak and valley from the number (Crane Group Annual Report 2004, 2005).

CONCLUSION AND LIMITATION

CRG’s current ratio has been declined over last 4 years. However, it is still well above the industry average level, so it maintains a

good level of liquidity. On the other hand, the quick has also declined at a faster rate than current ratio; this means CRG may keep high volume of inventory. This can be an issue to meet short term liability. On their Account payable and Account Receivable. They are increasing the Days Payable and decreasing the Days Receivable over the past 4 year. The average Days Payable is longer than Days Receivable. This improves their cash flow situation. However, they need to increase their inventory efficiency and may reduce their overall inventory stocks.

CRG leverage position has improved primarily due to capital raising. However, an interesting observation is the position, as at 30 June 2008, of total loans and borrowings (\$278.144m) compared to property plant and equipment (\$245.284m). This may suggest that Crane Group’s borrowing capacity may be restricted as it has borrowed more than the value of its assets hence are not able to provide additional security should it require more bank funding. CRG risk can be classed

as moderate though it would need to compare it against the industry average figures to be more correct.

The debt component of Crane Group's capital structure poses a degree of financial risk as the financial institutions rank ahead of the investors in a worst case scenario. However, if the benefits of debt funding outweigh the risk in terms of return to shareholder (returns are greater than the cost of debt), then this provides some comfort. In addition, the strong cash cover position in 2008, supported by a favourable interest cover, coupled with a relatively stable asset funding mix and debt to equity ratio over the last three years, the leverage and capital structure can be said to be sound.

As in Table 12, for CRG shareholder returns, it shows an overall increasing trend of the dividends on/per ordinary shares and number of ordinary shares issued at year end. This indicates the strong support from the sufficient available profits from which to declare dividends, also it can imply a higher shareholder return performance. We believe that the market is offering more value to investors now, than it was 12 months ago.

In short, the economic outlook are challenging for all businesses. And, since Crane Group revenues are derived from the Australian and New Zealand construction, mining, water projects and markets. It is believed that the company as a whole will outperform other competitors in an economic downturn. According to business week, May 2009, year over year, Crane Group Ltd. has been able to grow revenues from A\$2.2B to A\$2.4B. Most impressively, the company has been able to reduce the percentage of sales devoted to cost of goods sold from 72.11% to 71.89%. This was a driver that led to a bottom line growth from A\$47.8M to A\$60.8M. On 27 March 2009, Crane Group limited announced the completion of \$40,000,000.00 placement at \$7.50 per share, an 8% discount to the prior close. Given the cost reduction, strong funding, all the company's banking facilities are with Australian domestic banks, no major refi-

ancing until 2011 (Crane Group limited annual report 2008), branch network and opportunities and distribution network the company have. Based on the finding, this report considers that this company has the fundamental criteria required for long term investment.

Limitation of the Analysis

The analytical techniques (e.g. ratio analysis, horizontal & vertical analysis, etc.) used in this financial analysis assignment provide some insights into the financial position and financial performance, however, some limitations do exist and will have impacts on the accuracy of the analysis, conclusion and recommendation to some extent. Financial analysis is performed on historical data, thus it is not necessarily an accurate predictor of future performance, as various changes can happen in the future. And as the statements referred in this analysis are not inflation-adjusted, thus some ratios may provide misleading information on a trend basis. Also, the comparison made to the industrial data can only give implications of where the entity stands on its financial position in this industry, but again this comparison might not be much meaningful due to the diversification of the business in the industry. Last but not least, it's un-known that whether some techniques (i.e. "window dressing") were applied in the financial statements in order to show a strong financial position (Hogget, J., et al, 2009).

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