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Analysing the Financial Performance of MNCs in Australia Using Financial Ratios: A Critical Evaluation

Dr Ramzi Tarazi,

School of Business, Melbourne Institute of Technology, Sydney, Australia. Email: rtarazi@academic.mit.edu.au

Abstract

Australia is currently the leading provider of services and goods which are in high demand all over the world. It currently comes under one of the top five mineral exporters, and it boasts significant natural reserves. This research study aimed to analyse the financial performance of MNCs in Australia with the help of financial ratios. The whole discussion has been a critical elevation and thus data has been analysed through tables and quantitative calculations. The results of the survey have revealed that Commonwealth Bank has the highest gross profit ratio (GPR) while Macquarie Group Limited has the highest net profit ratio (NPR). Liquidity ratio; the value of the current ratio (CR) and quick ratio (QR) of Fortescue Ltd is the highest of the 10. Solvency ratio (SR); the value of the debt-to-equity (DER) ratio is highest for Atlassian Corporation while the highest value for the leverage ratio is for Macquarie Group Limited.

Keywords: *Financial, Evaluation, Company, Firm*

1. Introduction

MNCs or Multinational corporations are those businesses which operate in more than one nation and their equity and profitability are higher than any of the domestic companies. As of 30th June 2023 around 2,589,873 businesses were operating in Australia to pump the Aussie economy (ABS, 2023). In 2022-23 the entry rate was around 15.8% with total entries of 406,365, while the total exit rate was 15% with 386,392 (ABS, 2023). Having a higher number of MNCs has lots of advantages including employment opportunities, competition with the domestic players, reduced cost of labour, reduced dependencies on imports of items, and source of increasing tax and revenue collection.

In terms of market capitalization the most successful MNCs in Australia are BHP Group, Commonwealth Bank, Woolworths Group, CSL Limited, Telstra Group Ltd and others. The leading company in terms of Market capitalization in Australia is the BHP group. The total market capitalization was 232.02 billion AUD (Statista, 2023). The "Commonwealth Bank of Australia" had a total market capitalization of 176.84 billion AUD, CSL group with 128.68 billion AUD. The market cap of "The National Australian Bank" was around 89.1 billion AUD, "ANZ Holdings" with 77.42 billion AUD, and "Fortescue Metals Group" with a market cap of 66.75 billion AUD (Statista, 2023).

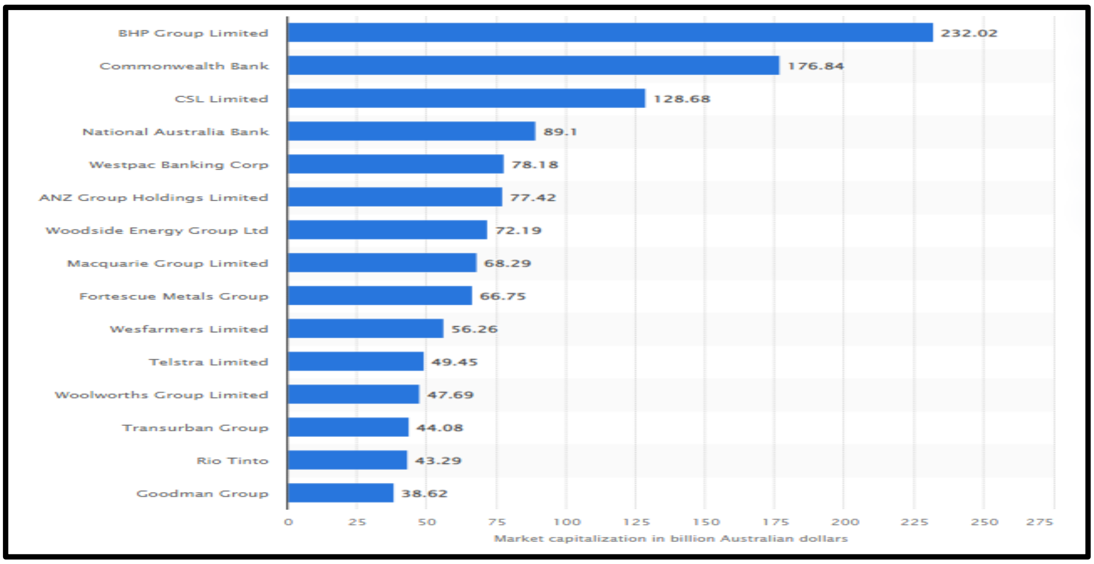

Figure 1: Market cap of top MNCs in Australia

(Source: Statista, 2023)

There are various ways by which the financial performance of MNCs can be judged and studying their market capitalization is one of the ways. Financial ratios are yet another way by which the financial performance of any organisation including MNCs can easily be understood. Financial ratio analysis is defined as the quantitative analysis where several insights of a company are studied including operational efficiency, profitability ratios and liquidity of the company in their financial statements (Rashid, 2021). Financial ratios are further subdivided into several subgroups which are "Solvency ratio, Liquidity ratio, and Profitability ratio". This research aims to analyse the financial performance of Australian MNCs with the help of calculating their financial ratios. Each of these key ratios has been further explained in the later part.

2. Definition of the key ratios

2.1 Solvency ratio (SR)

The term solvency ratio is defined as the potential of a firm to pay back its long-term debt obligations. Calculating a firm's solvency ratio helps investors in making their investing decisions and as a firm, it helps to understand the financial well-being of the companies (Wallstreetprep, 2023). The solvency ratio is further subdivided into two ratios that is Debt-equity ratio and the Leverage ratio.

"SR= Total Assets/ Total Liabilities"

2.1.1 Debt-equity ratio (DER)

DER is defined as the total amount of company debt in the company to its assets. It is generally calculated by calculating the ratio of total debt and total equity of the company (Wallstreetprep, 2023). In case the debt to GDP ratio is higher for a company it becomes quite difficult for the company to recover their liabilities. Hence, a lower debt-to-equity ratio is always preferred by the investors.

"DER= Total Debt/ Equity"

2.1.2 Leverage ratio (LR)

Leverage ratio is defined as the type of financial measurement which generally assesses the potential of a firm to meet its monetary commitments (Wallstreetprep, 2023).

"LR=Total Debt/EBITDA"

2.2 Liquidity ratio (LQR)

Liquidity ratio is defined as the measurement of the potential of a company under which a company pays off its short-term liabilities. It helps to understand the total amount of cash present with a firm, helps to understand the way a firm can convert its inventories, and it helps to organise a company's working capital (Wallstreetprep, 2023). LQR is further subdivided into two different parts which include the CR and the QR.

2.2.1 Current ratio (CR)

In financial terms, CR is the potential of a firm to pay off all its commitments in the next dozen months. The current ratio of a company is generally calculated with the help of bringing out the ratio of the current assets and current liabilities (Wallstreetprep, 2023). CR provides a firm's overall operational cycle and it is popularly known as WCR (Working capital ratio). A higher CR above 2 marks is good while a value less than 1 is not perceived as well from the perspective of any company.

2.2.2 Quick ratio (QR)

Quick ratio is defined as the term which refers to a company having enough liquid assets and the company can turn them into cash whenever it wants so that it can cover short-term dues (Wallstreetprep, 2023). It is calculated with the help of the formula that is given below.

"QR = (Cash + Marketable securities + Accounts receivable)/Current liabilities"

2.3 Profitability ratio (PR)

The profitability ratio is defined as the metrics of finance in which a firm's potential to generate profit from its total revenue and its total assets (Wallstreetprep, 2023). The profitability ratio is further divided into different parts which include the Gross Profit Ratio and the Net Profit Ratio.

"PR= Profit Metric/Revenue"

2.3.1 Gross profit ratio (GPR)

GPR is defined as the difference between the total revenue that has been fetched, and the total cost divided by total revenue (Wallstreetprep, 2023). The higher value of the gross profit ratio is seen as good and the company is successful in fetching profit. If the gross profit market is lower than it can be said that the company is not successful in the market.

"GPR= Gross profit/ Revenue"

2.3.2 Net profit ratio (NPR)

NPR is defined as the financial metrics which generally calculate the profitability of a company excluding tax on the revenue that has been generated (Wallstreetprep, 2023). In case a firm has a higher net profit ratio this signifies that it can generate higher profits.

"NPR= Net income/Revenue"

3. Methodology

Methods that have been used for carrying out this research study are secondary quantitative data and descriptive analysis. The secondary data have been taken from the statistics websites of the Australian government and Statista for finding the market cap. The data analysis has been carried out with the descriptive analysis through MS-Excel. A total of 10 MNCs have been chosen that are operating in the Australian market and for its financial analysis its financial ratios have been calculated.

4. Results

4.1 Financial Analysis

Finance is one of the major parts in the decision making process where all financial values have an impact on the short term and long term investment process. Investment decision is based on the company's performance where financial tools provide a clear view to the investors or shareholders about company's financial performance. However, in this paper financial analysis has been done based on the ten companies' details. While for better understanding of the ten firms' financial condition ratio analysis has been chosen is a most effective financial tool in terms of decision making. In this paper three ratios have been calculated such as, Profitability, Liquidity and Solvency ratio. In the below ratio analysis of ten companies has been discussed based on the results.

4.1.1 Profitability Ratio

Company	Profitability Ratio	
	GPR	NPR
BHP Group Limited	0.704312764	0.240091421
Commonwealth Bank of Australia	1.015529898	0.372201114
Fortescue Ltd	0.635935638	0.285935638
Macquarie Group Limited	1	0.790179933
Telstra Group Limited	0.619450034	0.09170579
Woolworths Group	0.26714779	0.025165645

Limited		
CSL Limited	0.509184758	0.166540155
Woodside Energy Group Ltd	0.462698299	0.118622267
Coles Group Limited	0.258108342	0.027122496
Atlassian Corporation	0.82069921	-0.137711347

Table 1: Profitability Ratio of top ten companies
(Source: Ms-Excel)

The above table reflected the profitability ratio calculation of the ten companies based on the 2023 data. This ratio is one of the most integral parts in the ratio calculation which reflects the capability of firms to earn profitability from sales or income (Husain and Sunardi, 2020). The above PR has been brought out based on the GPR and NPR. While the gross profit ratio which displays the ability of an organization to gain profit from the sales value (Nariswari and Nugraha, 2020). Considering that, the above calculation of GPR has been brought out by Gross Profit / Sales. The above result of gross profit ratio shows that Macquarie and Commonwealth bank have gained a good value of GPR based on the sales. However, the data also reflected the other eight companies' GPR. GPR of BHP was 0.704312764, Fortescue was 0.635935638, Telstra was 0.619450034, Woolworths was 0.26714779, CSL was 0.509184758, Woodside was 0.462698299, Coles Group was 0.258108342 and Atlassian Corporation was 0.82069921.

The above value of ten companies shows that Commonwealth Bank of Australia is in good condition in terms of gross profit ratio. On the other hand, under the profitability ratio net profit ratio has been also calculated. Net profit ratio reflected capability of organization to gain net profit from sales value (Anton et al. 2023). In the net sale calculation process various expenses are included which is deducted from the sales value where which company has the huge amount of expenses those companies are getting lower value of net profit or either faces loss. Fewer expenses also provide a good outcome to the organization and also provide good net profit value. However, the above NPR calculated from using the formula of ["Net Profit" / "Total Revenue"]. The above result of net profit ratio shows that among the ten companies none of them are able to score above one. Considering that, below one score in net profit ratio is reflected in the poor performance of the company which impacts on the net profit.

Apart from that, as per the net profit ratio calculation Macquarie the company has been scored highest value among the ten companies. The result of net profit for ten companies was, BHP 0.240091421, Commonwealth Bank was 0.372201114, Fortescue Ltd was 0.285935638, Macquarie was 0.790179933, Telstra was 0.09170579, Woolworths was 0.025165645, CSL was 0.166540155, Woodside was 0.118622267, Coles was 0.027122496 and Atlassian Corporation was -0.137711347. This outcome from the net profit ratio shows that after the Macquarie Company Commonwealth Bank is performed well to get net profit from the sales value. On the other hand, Atlassian Corporation is facing loss and for that net profit ratio of the company comes with the negative value. Considering this profitability ratio it reflected that Commonwealth and Macquarie, these two companies are in the better financial condition as per the profitability ratio result.

4.1.2 Liquidity Ratio

Liquidity of any companies is important to receive from any financial crisis. A good liquidity in the organization creates financial flexibility for the company and also helps companies to create a financial strength in the organization. However, in this paper the liquidity ratio has been calculated which reflects the ability of companies to reply to any type of financial obligation (Markonah *et al.* 2020). The liquidity ratio based on the CR and QR has been discussed in the below,

Company	Liquidity Ratio	
	Current Ratio	Quick Ratio
BHP Group Limited	1.22622486	0.65415113
Commonwealth Bank of Australia	1.557421137	0.0847645
Fortescue Ltd	2.466558573	1.73773814

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Macquarie Group Limited	1.964571417	0.90973431
Telstra Group Limited	0.667162109	0.09235038
Woolworths Group Limited	0.53634528	0.09549049
CSL Limited	2.009331597	0.3359375
Woodside Energy Group Ltd	1.027298274	0.39120835
Coles Group Limited	0.585518102	0.09316479
Atlassian Corporation	1.349564754	1.04190196

Table 2: Liquidity Ratio (LR) of top ten companies
(Source: Ms-Excel)

Two items are reflected in the above LR for ten companies as per the financial data. Liquidity of companies in this calculation has been measured through the current and quick ratio. However, the current ratio has been brought up by using axiom in the bracket [“Current Assets” / “Current Liabilities”]. CR reflects the ability of companies to repay all types of short term obligations in a particular financial year. The above current ratio calculation of the ten companies has been displayed in the above based on the formula. However, the current ratio of ten companies such as, BHP was 1.22622486, Commonwealth was 1.557421137, Fortescue was 2.466558573, Macquarie was 1.964571417, Telstra was 0.667162109, Woolworths was 0.53634528, CSL was 2.009331597, Woodside was 1.027298274, Coles was 0.585518102 and Atlassian was 1.349564754. Considering this result, the data shows that Fortescue, the company, has a good value of assets which helps the company to cover current liability in the organization.

On the other hand, Woolworths, the company has scored below one which reflects that the company has not sufficient value of assets which helps the company to cover all the liabilities. Apart from that, quick ratio has been also calculated under the liquidity ratio calculation. The calculation quick ratio has been based on the formula of [Liquid Assets/Current Liabilities]. This ratio reflects the power of liquid assets of a firm to repay its short term obligation (Fachri et al. 2021). As per the financial term liquid asset is indicating cash and cash equivalent which reflects liquidity of any particular company. Considering that, the result of quick ratio of ten companies was BHP was 0.654151132, Commonwealth was 0.084764501, Fortescue was 1.737738143, Macquarie was 0.909734312, Telstra was 0.092350377, Woolworths was 0.095490493, CSL was 0.3359375, Woodside was 0.39120835, Coles was 0.093164794 and Atlassian was 1.041901962. The result of the quick ratio reflected Fortescue , the company having the highest value in the quick ratio which reflected that the company has a sufficient amount of liquid assets which helps the company to mitigate any risk which is associated with the liability.

On the other hand, CSL, the company, has the lowest value of quick ratio which indicates that the company does not have a sufficient number of liquid assets. The company might face challenges in near future to repay any type of short term obligation. As per the liquidity ratio, Fortescue the company has a good amount of assets which create financial flexibility in the organization. The company has the better financial stability based on the assets value among the ten companies.

4.1.3 Solvency Ratio

Debt is one of the major factors in the organization which creates trouble for companies and also increased risk for organization. A company's performance and financial stability is dependent on the debt amount and also efficiency of the strategy to face any type of financial obligation. However, in this paper solvency ratio has been calculated for the ten companies where all the data are based on the 2023 data.

Company	Solvency Ratio	
	Debt-Equity Ratio	**Leverage Ratio**
BHP Group Limited	0.518987342	0.220591139
Commonwealth Bank of Australia	1.698152778	0.097591482

Fortescue Ltd	0.251709378	0.160464951
Macquarie Group Limited	7.385824159	0.631334564
Telstra Group Limited	0.649899396	0.222367807
Woolworths Group Limited	0.511906615	0.097747266
CSL Limited	0.605853288	0.263950985
Woodside Energy Group Ltd	0.18890084	0.117375047
Coles Group Limited	0.333134684	0.061119615
Atlassian Corporation	1.958779358	0.312253959

Table 3: Solvency Ratio (SR) of top ten companies
(Source: Ms-Excel)

SR of the 10 companies have been done and shown up in the figure above with DER and LR rations. DER reflects the strength of the equity of firms to mitigate the entire debt amount (Kurniawan, 2021). Higher debt to equity ratio reflects a poor condition of the company, in this ratio a lower result displays a better financial condition of the organization. Considering that, the result of this ratio show that, BHP was 0.518987342, Commonwealth was 1.698152778, Fortescue was 0.251709378, Macquarie was 7.385824159, Telstra was 0.649899396, Woolworths was 0.511906615, CSL was 0.605853288, Woodside was 0.18890084, Coles was 0.333134684 and Atlassian was 1.958779358. The result of Debt to Equity Ratio shows that Woodside the company has the lowest value of debt which is a good sign for the company. The debt amount of the company can be covered with the equity value. On the other hand, Atlassian companies have a higher value in respect to the debt amount.

Other than this, LR is also a significant part in the solvency ratio calculation. The calculation of leverage ratio is based on the formula of [“Total Debt”/”Total Assets”]. The LR reflected that companies’ ability to cover the entire debt amount through the assets value. However, the lower result of the leverage ratio reflects good financial terms of a firm based on the debt and assets value. Considering that, as per the result of the leverage ratio Woodside the company has good condition and the company is also able to fulfill the entire debt amount through the assets value.

4.2 Descriptive Statistics

4.2.1 Mean Value

Mean Value	0.629306673	0.197985311	1.33899961	0.5436442	1.410314784	0.218479682

Table 4: Calculation of Mean Value
(Source: Self-calculated using MS-Excel)

The mean value of “gross profit ratio” is 0.629306673, and means value of “net profit ratio” is 0.197985311. The mean value of current ratio is 1.33899961 and means value of the quick ratio is 0.543644156. The mean value of “debt-equity ratio” is 1.410314784. The mean value of leverage ratio is 0.218479682.

4.2.2 Median Value

Median Value	0.627692836	0.142581211	1.28789481	0.3635729	0.562420315	0.190528045

Table 5: Calculation of Median Value
(Source: Self-calculated using MS-Excel)

The median value of “gross profit ratio” is 0.627692836. The median value of “net profit ratio” is 0.142581211. The median value of current and quick ratio is 1.287894807 and 0.363572925 respectively. The median value of “debt-equity ratio” and leverage ratio on the other hand is 0.562420315 and 0.190528045.

4.2.3 Standard Deviation

Standard Deviation	0.266690607	0.254053672	0.66107015	0.5482035	2.183572597	0.166289675

Table 6: Calculation of Standard Deviation
(Source: Self-calculated using MS-Excel)

The standard deviation (SD) was also calculated on the financial data of the selected 10 companies. According to financial calculations, the SD of "gross profit ratio" and "net profit ratio" are 0.266690607 and 0.254053672 respectively. The SD of current and quick ratio on the other hand is 0.661070152 and 0.54820351. The SD of "debt-equity ratio" and leverage ratio are 2.183572597 and 0.166289675.

4.2.4 Variance

Variance	0.064011492	0.058088941	0.39331237	0.2704744	4.291190358	0.02488703

Table 7: Calculation of Variance
(Source: Self-calculated using MS-Excel)

The variance was also calculated on profitability, liquidity and solvency ratio. According to the financial analysis, the variance in "gross profit ratio" and "net profit ratio" are 0.064011492 and 0.058088941. The variance of current and quick ratio is 0.393312371 and 0.270474379. The variance of "debt-equity ratio" and leverage ratio on the other hand are 4.291190358 and 0.02488703 respectively.

4.2.5 Geometric mean

Geometric mean	0.572109113	0.142975999	1.18372099	0.3157865	0.726051704	0.175695399

Table 8: Calculation of Geometric Mean
(Source: Ms-Excel)

The above table reflected geometric mean based on different ratio calculation. However, the result shows that 0.572109113, 0.142975999, 1.18372099, 0.3157865, 0.726051704 and 0.175695399.

5. Discussion

In the above has been discussed about the Australian MNC company's financial condition through the ratio analysis. The above result reflected that among the ten companies Commonwealth Bank has gained huge gross profit from the sales. As per the net profit ratio, in 2023 top ten MNC company in Australia are not able to achieve good amount of net profit from the sales which is reflected in the result. However, net profit ratio show that Macquarie, the company has successfully gained good amount of net profit form sales as compared to the other companies. CR shown up that Fortescue Company has the good amount of current asset in the business which helps the organization repaying the current liability of the firm. Liquid asset is an essential part for companies where cash is the major part. The calculation of Quick ratio shows that Fortescue Company has the highest value of liquid asset as compared to the other nine MNC companies. However, as per the result of liquidity ratio Fortescue have the highest current and liquid assets value which helps the company to cover all the liabilities.

On the other hand, debt equity ratio result shows that Atlassian the company has the good value of shareholder equity which helps the company to repay the entire debt amount. As per the leverage ratio assets is one of the main factor to cover total debt amount. In this calculation Macquarie the company has the good amount of total asset respective of the company debt amount. Assets value of the company is sufficient to repay the entire debt amount in particular financial year. Statistical analysis has been calculated based on the mean, median, SD, Variance and Geometric mean calculation. The result of mean value shows that average value of every ratio for ten MNC companies. The mean and median of profitability ratio of all the companies was above the half mark which means that most of them are generative higher profitability. The standard deviation and variance of profitability ratio depicts that most of the company's data are less one fifth and below than zero mark. Statistical analysis of the profitability ratio has shown that Australian MNCs are performing well and they have potential to grow further.

6. Conclusion

Australia is a country which is seen as the land of opportunities in terms of business and industry development. Almost all the top MNCs of the world operate in Australia which shows the country's financial extensions. This research article has tried to analyse the financial performance of MNCs in Australia and for that purpose, their financial ratios have been calculated. A total of 10 MNCs from Australia have been calculated and the data of their market cap, profitability ratio, liquidity ratio and leverage ratio have been calculated with the help of Excel sheet analysis.

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