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Investment Portfolios

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Company's Overview

ITV is a commercial basis to meet nevertheless as a "public service broadcaster" and has quasi-public law obligations concerning the scope, quality and balance of news and information programs. By the end of the 1990s had been here two media companies enforced: Granada and Carlton controlled 11 of the 15 ITV licenses. Granada was founded in 1934 to take over a chain of movie theaters. A year later the IPO, and into the 70's, when movie palaces from bingo chips were, the company was one of the nation's largest movie theater operators. Coinciding with the introduction of ITV rose Granada 1954, with a license for the north of England into television: Granada Television broadcasts today from Manchester, invented the soap opera ("Coronation Street" has been running for over 40 years) and was one of the most profitable TV companies in Britain. Carlton began in the printing industry and changed the mid-1980s in the film and TV production (post production, special effects).

The history of ITV is the story of the consolidation of the private British television market. 1954/55, the "Independent Television" was introduced as an alternative to ad-funded public service BBC, divided into 15 regional licenses that had form as the German ARD television a joint program with local windows. In April 2002, shortly before the renamed ITV Digital project off - the two companies had put together about half a billion pounds in the sand. Over a possible merger of Carlton and Granada had always negotiated in parallel with as little success - they would hardly have met the then applicable antitrust rules (Pamela, 2012). But in May 2002, the British government presented a significantly liberalized media law: So far, a TV company could combine a maximum of 15% of all line items in the Free TV section on herself. By implication, this meant that the mastery of the ITV network by a major media company was taboo. But this rule has now been tilted just like the division of Greater London in two ITV licenses for the day

or the weekend. The path to unified ITV was released in October, was the six-billion-pound merger of Granada and Carlton perfect. However, it was because of the antitrust trials just under half years until ITV plc shares for the first time on 2 February 2004 were traded on the London Stock Exchange (Frank, 2012).

Major shareholdings

- 16.9% of the Scottish Media Group (ITV licenses for Scottish TV and Grampian TV)
- 40% of Independent Television News (ITN), provides news for ITV, Channel 4 and Five
- 50% of Screen Vision: Cinema advertising in continental Europe and the U.S.
- 25% of Mammoth Screen Limited: Distribution integrates, Granada International)
- 51% of Jaffe / Braunstein Entertainment LLC (American television production company, incorporated in Granada Entertainment USA)
- 100% of Silverback Production (independent Scandinavian production company, since 2008)
- 25% to Crackit Productions (independent British production company, since 2008)
- 25% of Carbon Media (independent British production company, since 2009)

Strengths of ITV plc and WPP plc

Both the companies are operating in Media industry of UK. ITV Company has variety of broadcasting channels such as ITV1, ITV2, CITV, and the company's website itv.com are also showing online demanded videos. The TV channels of ITV offers content over various platforms such as digital satellite, Cable and Free views. The company has launched ITV player which is delivering ITV programs and clips to worldwide users of Internet. The Media segment

of ITV is also operating largest digital multiplex licenses in UK. The Studios of ITV is also selling the programs and shows to other UK and International channels which includes entertainments, dramas, comedy shows and factual information. The ITV has set its Headquarters in London (Eugene, 2011). The company is also licensing and merchandising the Businesses along with the supply of entertainment DVD's.

WPP plc is offering communications services in the International market. The Investment Management and Media segment of the company is engaged in the creation and planning of branding and marketing campaigns, along with the production and design of promotion of different mediums such as cable, television, radio, Internet, newspapers and magazines. This Business segment of WPP has potential and expertise in consumer insight, business science & media and communications planning. The Consumer segment of WPP provides studies on strategic marketing, brand positioning, customer satisfaction, sales forecasting and advertising research. The Public affairs and relations department of the company gives advice to the clients, which communicate with Business communities, consumers and governments (Michael, 2011).

WPP benefited primarily from the continued strong growth in so-called emerging markets. In addition, they have been able to acquire numerous new orders. In the core markets of North America and Western Europe, sales growth in the face of difficult economic conditions and the impact of the debt crisis in Europe has weakened in the first quarter, as expected. The total revenue in the third quarter with nearly 2.46 billion British pounds (GBP) rose 9.0 percent year on year. At constant exchange rates, sales increased by 8.5 per cent were achieved, while for foreign exchange and acquisitions, adjusted to achieve a sales increase of 4.7 percent (Charles, 2010). Significant contribution to the strong sales performance was above all the markets in the Asia / Pacific region, Latin America, Africa and the Middle East and Europe. For the current

fourth quarter WPP expects a further improvement in operating profit margin, which will be higher than in the first half of the improvement achieved by 0.7 basis points. Shares of WPP are gaining 1.40 percent in London to 686.50 pence.

The Following Financial data for year ending 2011 is used from both companies to calculate the Profitability ratios:

	ITV Plc (£'M)	WPP Plc (£'M)
Revenue	2140	10021.8
Operating Profits	404	1192.2
Net Profit	248	916.5
Basic EPS	6.4p	67.6p
Property, Plant & Equipment	1439	728.3
Current Assets	1482	11288.7
Current Liabilities	754	11797.3
Non Current Liabilities	1358	6003.3
Total Equity	809	6894.3

The consolidated revenue of ITV was 2140 £M in the year ended 2011 and for WPP plc was 10,021.8 £M. The Revenue of WPP plc was 4.68 times greater than ITV plc. This shows that WPP plc is greater in size and has more Business than ITV plc. The Operating Profit achieved by ITV plc was 18.79% and for WPP plc was 11.9%. This indicates that ITV plc has better control on operating expenses as compared to WPP plc. This ratio will also have significance on the debt

investors as higher operating profit will secure the interest payments on Debt investment and then securing returns for Equity holders.

Net Profit Margin for ITV is 11.59% and 9.14% for WPP plc. The difference between the Operating margin and net margin for ITV plc is higher as compared to WPP plc. It indicates that ITV plc has higher level of Interest payments than WPP plc. In terms of Equity Investment, the Return on Equity needs to be evaluated for both companies. The ROE for ITV plc is 30.65% and for WPP plc it is 13.3%. The ROE indicates the return achieved over the Equity Investment. The ROE for ITV plc is 30.65% and for WPP plc it is 13.3%. In terms of Profitability, ITV Plc is a suitable choice of Investment for Timothee. The EPS is also one of the other measures to evaluate the Equity Investment. The EPS of ITV plc is 0.714 pence as compared to 0.06 pence for WPP plc. The EPS for next year 2012 is expected to be 0.724 Pence for ITV plc and 0.085 for WPP plc. The Asset Turnover indicates how far the Assets are utilized in generating the Revenues. Asset Turnover ratio for ITV plc is 1.48 times and 13.76 times for WPP plc. This indicates that WPP plc has better performance in Asset utilization.

Liquidity Analysis

The Current Liquidity position of ITV plc shows that in the Year ended 2011, it generated Net cash inflow of 357 £M from operating activities and there was a total movement of £58 Net Cash outflow and the balance of cash & cash equivalents for the year ended 2011 was 801 £M. The Cash flow position of WPP shows that it achieved Net Cash inflow of 655.2 £M and there was a net cash outflow of 251.7 £M for the Year. The Cash & cash equivalents balance at the end of year was 1428.2 £M. The liquidity position of both companies is suitable and ITV plc has repaid 331 £M of Bank and other loans. The current ratio indicates how many liquid assets the company

has to repay £1 current liability. The average current ratio is 2:1. The current ratio for ITV plc is 1.96 times which achieves the average rate and current ratio for WPP plc is 0.96:1. The liquidity position of WPP plc shows that in future company might not have surplus liquid assets to repay the current liabilities. In future it might have to arrange for medium term finance.

Timothee will also have to consider the Gearing position of both companies. Timothee is a conservative investor and he will have to choose a company with a low Risk profile. The company with a high Gearing indicates High Risk and one having with Low gearing ratio indicates low Risk. The Gearing ratio for ITV plc is 62.66% and for WPP plc it is 46.54%. The Gearing ratios for both the companies are suitable for Investment Purpose. If ITV plc raises further debt finance in the future then it will increase the Risk for Equity Investors and their Returns will become volatile.

Financial Ratios Formulas

Operating Margin = Operating Profit/Sales Revenue

Net profit Margin = Net Profit / Sales Revenue

EPS = Earnings after Interest, Tax & Preference dividend/Weighted Average number of ordinary shares

Asset Turnover = Revenue/ Fixed Assets

Current Ratio = Current Assets/ Current Liabilities

Gearing Ratio = Debt/ Debt + Equity

	ITV plc	WPP plc
Operating Margin	18.79%	11.9%
Net profit Margin	11.59%	9.14%
ROE	30.65%	13.3%
Asset Turnover	1.48 Times	13.76 Times
Current Ratio	1.96:1	0.96:1
Gearing Ratio	62.66%	46.54%

Profitability Analysis

The Further Data on WPP will also be used for Investment Purpose.

	ITV plc	WPP Plc
Current P/E ratio (2011)	11.75	15.86
Estimated P/E ratio (2012)	11.588	11.29
EPS (2011)	0.714	0.06
Estimated EPS (2012)	0.724	0.085
Market Capitalisation (£'M)	10,601.8	3,754.97
Shares outstanding (M)	1263.62	3,911.43
Cash Dividend £	8.8	0.8
Last Dividend	10-10-2012	10-31-2012
Dividend Growth (5 yrs)	16.81%	-8.68%
Dividend Yield	1.048	0.833

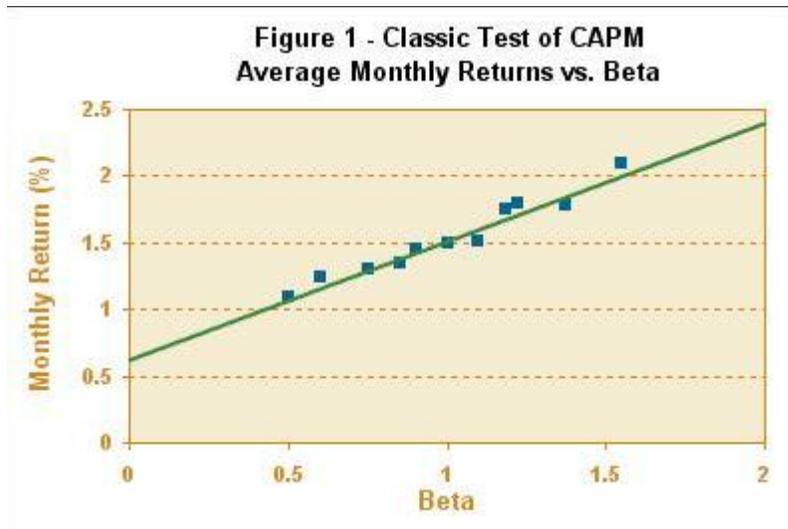
The existing Market capitalisation of ITV plc is 10601.8 £M and 3,754.97 £M for WPP plc. The outstanding shares for ITV are 1263.62 M and 3911.43 M for WPP plc. This gives a market price of £8.39/share for ITV plc and £0.96/share for WPP plc. In terms of share Price, ITV is performing well as compared to WPP plc. This shows that ITV plc is an attractive choice and the Investment also depends on the nature whether it is fixed or short term. If Timothee is aiming for short term gain in the form of Investment to be sold in near future, then ITV plc will be an attractive choice. If Timothee has the intention to hold the investment for Long term and seek for capital gains then WPP plc is a suitable choice. ITV plc has paid cash dividends of 8.8£/share and WPP plc has paid 0.8£/share. The market price of ITV is 11 times greater than WPP plc and the dividend was 10 times greater. The Dividend Yield of ITV plc is 1.048 and for WPP plc it is 0.833. This indicates that ITV plc is paying better returns over the Investment made by equity holders. The future growth of dividends is the major factor to consider by Timothee while making Investment decision. The future dividends are forecasted to grow by 16.81% and WPP plc is indicating a negative dividend growth of 8.68% for next 5 years. This shows that if Timothee invest in WPP plc, then it will receive no returns in the next 5 years, whereas ITV plc will provide sufficient returns that will retain the confidence of Timothee.

2) Security Market Lines

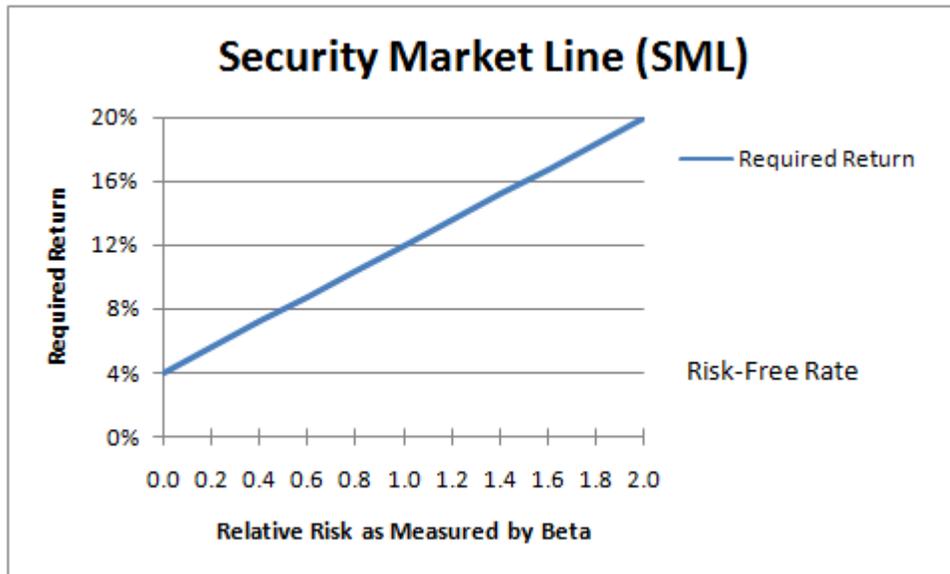
The X intercept of the Security market line represents the Beta of the company. The Y intercept of the graph represents the risk free rate of interest and the slope of graph reflects the risk premium from the market. While applying SML in the Portfolio Management it represents the opportunity cost of investment. The stocks below this line are considered as overvalued because of specific degree of Risk they are generating lower return. The stocks above this line are termed as undervalued because of specific Beta Risk they are generating higher return (Friederike, 2011).

$$\text{SML} : E(R_i) = R_f + \beta_i[E(R_M) - R_f]$$

ITV plc:



WPP Plc:



After evaluating the Security Market lines of both companies, it can be concluded that Timothee should invest a higher proportion of Investment in WPP plc.

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