Financial Analysis Of British Airways Essay, Research Paper

British Airways Financial Analysis

The following pages comprise of a financial analysis of British Airways for the financial year ending March 31, 1999.

British Airways is a well-established company and has enjoyed high profits for the majority of its existence. However, the most recent accounts that have been published tell a different story of how the year has been.

British Airways produced a pre-tax profit of ?225 million. This is ?355 million less than in 1998 which illustrates the decline in demand for British Airways services. Although this decline in profits of 61% seems unacceptable it was caused by a variety of abnormal expenses. For example the company spent ?35 million on computer systems to ensure that they are “year 2000 compliant”. British Airways also entered the low cost air travel market during the year with the launch of “Go”, which is running at a loss as it tries to establish itself in a highly competitive business environment.

Lower fuel prices and the strength of the Pound benefited British Airways, and as a result the company stocked up on 45% of its fuel requirement for the next financial year. This also contributed to the fall in profits for the year.

Operating Profit Fell from ?504 million in 1998 to ?442 million in 1999. The return on capital employed or primary ratio was just 17.06%. This is a great deal smaller than the 1998 figure of 61.2%. These figures both show that the business is achieving a return higher than that which could be achieved in a non-risk investment such as a high interest no access bank account which would only give a return of 7 to 9%.

British Airways has a working capital of 5.1, which shows that it has high solvency. Overall, although the firm has incurred a loss of ?355 million in the financial year it is still a healthy business that shows promise of high profits in future years. This is due to a variety of things such as investment into other market segments, such as ‘Go’. The company is well managed, this is shown by the anticipation of fuel prices rising again and so stocking up on reserves to benefit form the low price and the strength of the Pound. British Airways board of director’s decision to propose a Dividend of 17.9 pence per share also reflects my views, which is higher than the 1998 dividend of 16.6 pence per share even though the firms profits were down.