

University of Wales Trinity St David

International Financial Management

Module code: LCBB6002

Assessment 1

Student name: Luminita Capmoale

Student ID: 2030541

Lecture name: Dr. Taye Timothy Osadiya

Table of contents

Introduction.....	3
A complete analysis of Tesco's dividend distribution policy	3
Efficient market hypothesis theory in the context of Tesco corporation	5
Analysis of Tesco's methods of appraising projects	6
Conclusion	8
References:.....	9

Introduction

In this analysis, Tesco was chosen as a company. The analysis is based on a multinational corporation that has been selected for this examination.

An evaluation of critical analysis and how crucial it is for the organization to understand its internal financial management system is also going to be discussed. The conversation is broken down into three chapters. The examination and assessment of the dividend distribution policy of the selected multinational firm will be covered in the first. The critical analysis of critical analysis and the efficiency of the market hypothesis theory during the analysis at the chosen firm will also need to be explored in the second. The last section will also cover a critical analysis and assessment of the project appraisal method used by the chosen organization.

A complete analysis of Tesco's dividend distribution policy

The dividends are the sums paid out of the company's profits, primarily to each applicant who had been concealing a payment on the day in question. The company's policy based on dividends and the price per share based on the shareholders' holding of shares on a necessary date are frequently other factors that affect dividend distributions. The dividend-based policy and the per-share payment are based on the total number of shares owned as of the recording date. The dividend has also been paid in cash or will be used to buy Tesco PLC shares (Tescopl, 2023).

Tesco PLC primarily engages in retail banking and retail shopping. Most of the UK and many other countries are where the corporation does business. According to the latest available statistics, Tesco paid out 0.15 USD in dividends per share over the previous year. The correlation between the

dividend yield and the stock's most recent price, which is 3.49 USD, is around 4.15%. Tesco's dividend yield was determined using the formula as follows: $0.15 \text{ USD} / 3.49 \text{ USD} * 100 = 4.15\%$.

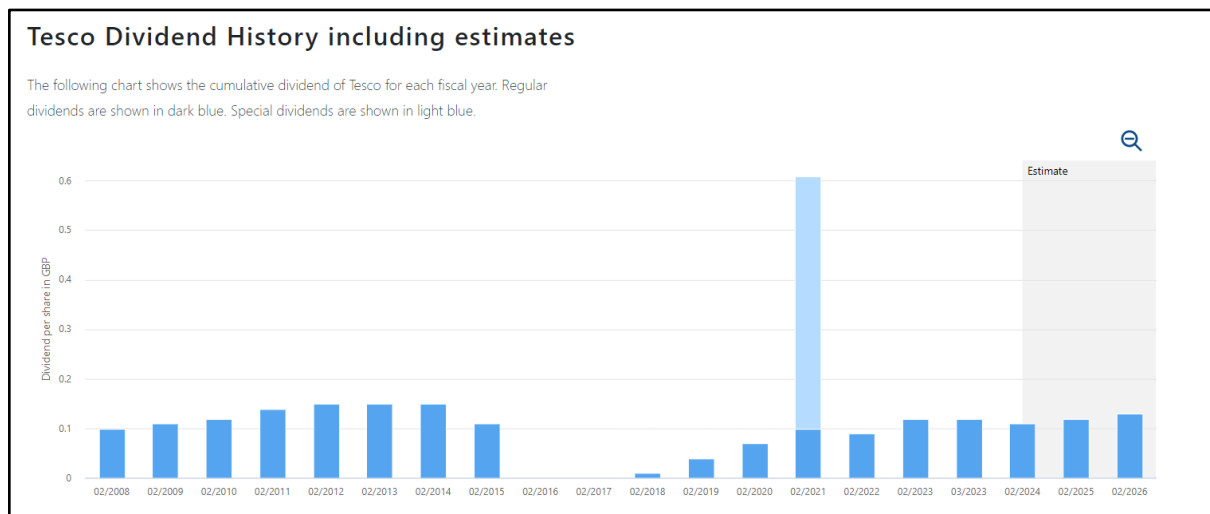


Figure 1: History of a dividend of Tesco

(Source: Tesco plc, 2023)

The payout ratio is mostly based on the 31.6% free cash flow. Based on adjusted earnings, that is.

Tesco allocated 54.5% of its profits to its stockholders. The data show that the minimum value, was -0.12, and the highest value, was 1.0, which are both reliable. These numbers showed an unreliable dividend payout in the past. Even yet, the analyst had expected a decrease of -8.33% in the dividend section for the current year. According to the study that follows, the high dividend yield of 4.15% might be one of the key points of negotiation (dividend stocks, 2023). Tesco's business is not raising its dividend. Tesco has decreased its annual transactional process by -2.79% during the past 10 years. Payment has grown by 29.75% during the past five years. By visualizing figure 1, it can be identified that Tesco has defense preparations in place, including the payment of a 315-million-pound dividend to stockholders when the grocery giant benefits from a holiday rate of 249 million. One of the largest retailers in the UK - Tesco,

announced an increase in operational earnings of 4% to 1.2 billion pounds over the six months ending on August 29. (Wood, 2020)

Efficient market hypothesis theory in the context of Tesco corporation

The term "efficient market theory" also refers to the efficient market hypothesis. This is a proposed hypothesis on the share price that will be represented in each necessary piece of information and strengthen its consistency. The EMH is a financial theory that applies to investors in the same way as the theory of random walks does. The random walk theory provides the foundation for this procedure. The critical validity of efficient markets is part of the assumption process. The opinions of each information source are crucial to understanding stock prices, which are publicly visible and openly available (corporate finance institute, 2023). The shareholders of the company adhere to the outcomes of their confidence in the specifics of the market. The flawed assumption is that the price will not accurately represent the availability in the open market. The **weak inn** that have no bearing on the forthcoming prices that will be named with the new facts are also used to predict **weak items**. Tesco has been developing the capacity to improve the pandemic's expansion. This change in growth is having an impact on online sales. During the Pandemic Tesco's business has grown at a piece of 10.5%. On the other hand, expansion raises the employability rate to 16 000. (inbes, 2022)

The **semi-strong inn** some of the statements in a weaker in that contained the necessary assumption that every new piece of publicly available information will be immediately priced up. Following this methodology, part of the excess returns will not be made via fundamental analysis or technical analysis. As an illustration, the corporation Tesco is changing the candidate's behaviour throughout the pandemic. (Tesco SWOT study, 2023)

In the efficient market, **stronger inn** follows believers that each of the information which can be private, or public is mostly incorporated in the recent prices of the security. In this analysis been getting any chances for having any excess return.

Analysis of Tesco's methods of appraising projects

In the project, the basic goal of the appraisal is to assess whether a project is viable and what kind of proposal it may make. These procedures have been evaluating the project's suitability while taking factors like funding availability and the current state of the economy into account. A good project increases shareholder wealth while paying the debt. Discounting cash flows using the time value of money is the key analytical technique in the assessment process. The candidates mostly favour obtaining part of the company's revenues as soon as possible and paying costs as late as they can. Costs and profits can happen in several diverse ways. Profits and losses are projected into the estimation, which is subsequently reduced and put up against the company's initial capital investment. Tesco corporation uses three methods for project appraisal: NPV, the payback period, and IRR. (Theintactone, 2019)

Profits and losses are projected into the estimation, which is subsequently reduced and put up against the company's initial capital investment.

Years	Cash Flow	Net Cash Flow	Cumulative Cash Flow	Discount Rate @ 6 %	Discounted Cash Flows
Year 0	(10024363)	-10024363	-	-	
Year 1	3460363	-6564000	3460363	0.9434	3264493
Year 2	3954271	-2609729	7414634	0.89	3519287
Year 3	3952674	1342945	11367308	0.8396	3318741
Year 4	3223001	4565946	14590309	0.7921	2552919
TOTAL			14590309		12655440

Figure 2: NPV of Tesco

(Source: Oak spring university, 2023)

The **payback period** is defined as the total number of years needed to make up the initial investment. Now that a building or any other type of financial commitment has been made to pay for the expense. This method is employed by Tesco to provide better investment representation. Because it is so much simpler to assess, Tesco has been utilizing this method because of the procedure's relative simplicity and lack of complexity, the business is better able to evaluate the projects' reliability. Strivastav (2022)

After the breakeven point, there is not any need for the analysis after the payback period has been used. In this analysis, the long-term cash flows are much harder to anticipate. The period it has been taking for recovering the investment capital from the starting phase of the production. This process is used for estimating the payback period. On the other hand, this can be used also as a tool for project screening for the higher risks of the project in preliminary observations. (Payback period, 2023).

In financial analysis, **IRR** has been employed to determine the rate of profitability of investments. The NPV of each cash flow in a discounted cash flow is equal to zero because of the IRR, also known as a rate of discount. The exact formula that the NPV has followed is what the IRR depends on. The IRR procedure is now a lot more transparent and simpler to comprehend. Cash flows and the understanding of the time worth of money are also used in the IRR process (Saylor, 2023). The IRR is used as an investment process of private equity and venture capital. This process entails various cash investments of the company. On the other hand, the latest company concept can also be calling for funding for the beginning of the latest product. Cash flow from the sales of the company is also included in the process. For improving the sales and lowering the expenses it is also used. The investment with the higher IRR is selected as a profit rate and it can also help in comparing and ordering the projects by focusing on the project yield in using many methods from IRR. (Corporate finance institute, 2023).

Conclusion

In this investigation, Tesco was chosen as a company in the analysis. There is a discussion of critical analysis and the significance of the company's corporate financial management system assessment. The discussion has been divided into three distinct stages. The appropriate research and evaluation of the dividend distribution policy for the selected multinational company are covered in the first step. The critical analysis of the efficient market hypothesis theory and how it applies to the operations of the chosen firm are also explored in the second stage to acquire a better understanding of it. A critical analysis and assessment of the chosen company's project appraisal procedure are also included in the last section.

References:

Corporate finance institute (2023) *Corporate Finance Institute*. Available at: <https://corporatefinanceinstitute.com/resources/capital-markets/efficient-markets-hypothesis> (Accessed: 07 August 2023).

Corporate finance institute. (2023) *Corporate Finance Institute*. Available at: <https://corporatefinanceinstitute.com/resources/valuation/internal-rate-return-irr> (Accessed: 07 August 2023).

Dividend stocks (2023) *Dividend Stocks Cash*. Available at: <https://dividendstocks.cash/dividend-profile/Tesco-Dividend#:~:text=Tesco%20pays%20a%20dividend%202,income%20in%20the%20whole%20year> (Accessed: 07 August 2023).

Inbes (2022) *What is the efficient market hypothesis Inbes*. Available at: <https://www.inbes.com/advisor/investing/efficient-market-hypothesis/> (Accessed: 07 August 2023).

Oak spring university (2019) *Net present value (NPV): Tesco Group Food Net Present Value (NPV) case study solution & analysis, net present value*. Oak Spring University.

Available at: <https://oakspringuniversity.com/frontpage/npvcase/13853-tesco-food> (Accessed: 07 August 2023).

ScienceDirect (2023) *Payback Period - an overview*. Available at: <https://www.sciencedirect.com/topics/engineering/payback-period> (Accessed: 12 August 2023).

Saylor 2023 *Internal rate of return: Advantages of the IRR process* (2023) Saylor Academy.

Available

at: <https://learn.saylor.org/mod/book/view.php?id=53748&chapterid=37879>

(Accessed: 07 August 2023).

Strivastav, A. K. (2022). *Payback period advantages and disadvantages*.

Available at: <https://www.wallstreetmojo.com/payback-period-advantages-and-disadvantages/#:~:text=Payback%20period%20advantages%20include%20the,ignores%20the%20time%20value%20of> (Accessed: 07 August 2023).

Tesco plc. (2023) *Dividends*.

Available at: <https://www.tescopl.com/investors/shareholder-centre/dividends/> (Accessed: 07 August 2023).

Tesco SWOT analysis (2023) *Case Study Smarter US*. Available at: <https://www.studysmarter.us/explanations/business-studies/business-case-studies/tesco-swot-analysis/> (Accessed: 07 August 2023).

Wood Z. (2020) 'Tesco defends £315m dividend plan despite business rates holiday' *The Guardian*.

Available at: <https://www.theguardian.com/business/2020/oct/07/tesco-hit-by-533m-covid-costs-but-sales-jump-during-pandemic> (Accessed: 07 August 2023).

The intact one 2019 *Process of project appraisal the intact one*. Available at: <https://theintactone.com/2019/02/18/fm-u2-topic-2-appraisal-method-payback-period-accounting-rate-of-return-net-present-value-npv-profitability-index-pi-internal-rate-of-return-irr/> (Accessed: 12 August 2023).