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Financial analysis & decision making

Executive Summary:

Decision making with respect to stock investment is a very complicated process as the process of decision making mainly depends upon two factors; one is the psychological factor or bias of the investor and another is the analysis of the financial performance of the shortlisted organizations that has been chosen for investment. The psychological factor mainly describes the notion of the investor with respect to his risk taking capabilities. One thing should be noted that if the investor is looking for higher return on stock then he must have a higher level of risk appetite because the higher return is always related with higher risk(Levy, 2015). There are different models that can be applied for describing the risk return trade off and if the investor is trying to choose particular level of return on the basis of the calculated risk then these models can be applied. In the present case scenario following psychological factor it can be seen that the investor is having a low risk appetite and looking for moderate rate of return, but the return must be a secured one. As a part of the decision making process in the current scenario the investor has gathered relevant information and has identified the preferred industry segment where he wants to invest and also have narrowed down to the two companies and will choose one of the alternative company for stock investment in order to fulfil his purpose of earning secured return(Fahlenbrach, 2009). However he is looking for the expert advice from the financial investor for choosing the right alternative where by investing he will be able to earn maximum return along with the minimization of the associated risk

Table of Contents

Introduction:	3
Implication of Ratio Analysis In Financial Decision Making	4
a)	4
Financial analysis of the companies	4
Description of the current financial position and comparisons (2017)	4
Analysis of historical financial position & comparison (2015, 2016)	10
b)	14
Portfolio development suggestion to the investor as per his risk attitude	14
Aspects of results from ratio analysis to be considered	14
Conclusion & Guidelines of Portfolio development	15
Risk attitude of the investor	15
Portfolio Investment suggestions:	16
Reference:	18
Appendix:	21

Introduction:

World Wealth Management is an asset management company that is in the business of delivering valuable advice to their HNI(High Net Worth) clients so that they can allocate their money in the most appropriate way in the underlying assets that will form the portfolio. In other words the experts of the World Wealth Management deliver valuable advice regarding portfolio management to their clients.MR Tim Farrow is one of the HNIs of the company who is looking for some advice for portfolio investment and the investment will be done in the stocks of the chosen companies in such a way so that he will be able to earn secured return and he is also trying to make the investment in such a way so that the market volatility risk associated with the stock investment should be minimised as much as possible. Mr. Farrow has already chosen the two positive alternatives for making the investment and the chosen alternative companies are William Hill Plc & Paddy Power Betfair Plc.

The organization William Hill Plc is one of the world leaders in the betting and gaming industry and also one of the most trusted brands of the Uk betting and gaming industry. The company is the holder of the 28% market share of the industry and the largest land-based bookmaker of UK (as per 2017 data) as the organization is running around 2,342 licensed betting shops in UK. The organization is employing around 160000 employees across the globe and earned a revenue of 1711 million pound in 2017(William Hill Plc, 2018).

The organization Paddy Power Belfair Plc is developed with the merger between the Paddy Power and Belfair. The organization is among one of the global leaders in the segment of the international sports betting and gaming operator and a part of the FTSE 100 index of the London Stock Exchange. The organization employs around 7000 employees and earned an annual revenue of 1745 million GBP in 2017(Paddypowerbetfair.com, 2018).

Thus both the organizations are promising from the point of view of the financial investments and it is difficult for MR. Farrow to choose one of the organizations and MR Farrow is looking expert help from the financial advisor of World Wealth Management for choosing one of the alternatives for stock investment. The financial advisor of World Wealth Management has

decided to apply the tool of ratio analysis for analysing the financial performance of the two companies for the three accounting periods so that a comparative & comprehensive picture can be drawn in front of the client so that the client can be convinced to choose one of the alternative companies for portfolio stock investment(Clemen and Reilly, 2013).

Implication of Ratio Analysis In Financial Decision Making

The tool of Ratio analysis is an essential tool for understanding the financial statements and to identify the trend of financial performance over time with respect to the business. These quantitative tools are often used to identify the positive or the negative performance trends with respect to the business when the ratios are calculated over several successive accounting periods. The trend of performance of a business help an investor to assess the average level of efficiency of the business in generation of wealth which indicates the potential capability of the business to generate return over the investment that has been invested by the share holders of the company. The ratio analysis is also capable to draw a comparative picture of financial performance for a chosen organization where the comparison has been done with respect to another company of the same industry or with the industry benchmark .Because of these advantages the ratio analysis is viewed as the most, useful tool for the purpose of investment decision making and financial planning.

a)

Financial analysis of the companies

Description of the current financial position and comparisons (2017)

Ratios related to profit generation:

In order to assess the relative potential between the two companies a discussion has been held regarding the profit generation capacity of the two companies with respect to the different profitability ratios which are “Gross Profit Margin”, “Net Profit Margin”, “ROA or Return On Asset” and the “ROE or Return On Equity”

Gross Profit Margin:

The gross profit margin with respect to an organization defines the proportion of sales revenue earned by the organization in a particular accounting period has been converted in to gross profit in that accounting period. So higher will be the ratio grater will be the capacity of the organization in converting the revenue in to gross profit and grater will be the efficiency of the company to minimise the direct cost associated with the sales that has generated the revenue(Gibson, 2011).

Now looking at the gross profit ratios of 2017 it can be seen that the gross profit margin of both the companies are almost same as the ratio is 76% for William hill plc and 77% for Paddy Power Betfair PLC. The ratios describes that so far as efficiency with respect to generation of gross profit is concerned, both the companies are equally capable.

Net Profit Margin:

The Net Profit Margin ratio describes the proportion of the sales revenue that has been converted in the net profit. The higher ratio indicates the higher capability of the company in generation of net profit and retained earnings that can be used by the company for paying dividend. Besides, a higher ratio also indicates that the EPS [Earnings per share] with respect to the company will also be quiet high(Biddle *et al.*,2009) .

The net profit margin of William hill plc is 14% and that of Paddy Power Betfair PLC is ,of 12% .Therefore the net profit margin ratio indicates that the William hill plc is slightly more capable than Paddy Power Betfair PLC with respect to generation of surplus earnings as described by the ratios of 2017.

ROA or Return On Asset:

The ROA or “Return On Asset” ratio describes the percentage of the money value of the asset that has been converted in to net profit or the profit after tax. A higher ratio indicates higher efficiency with respect to the organization as the organization has managed to convert a higher percentage of the money value of the asset in to net profit after making the payment for all the necessary investments.

The ROA ratio of 2017 describes that William hill plc has managed to convert 1% of the money value of asset in to net profit where as Paddy Power Betfair PLC has managed to convert 4% of the money value of asset in to net profit. Thus in 2017 Paddy Power Betfair PLC was more efficient with respect to the generation of return over asset compared to William hill plc(Williamhillplc.com, 2017)..

ROE or Return on Equity:

The ROE or Return on Equity ratio describes the percentage of the monetary value of the investment made by the share holder has been converted in to net profit. A higher ratio for an organization indicates that the organization has a comparatively better efficiency (than the other players of the industry) in converting the investment of the shareholders in to the surplus earnings and thus to generate higher returns on the investments made in the stocks of the company(Higgins, 2012).

In 2017 William hill plc converted 22% of the total money value of the investments made in the stocks of the company, where as Paddy Power Betfair PLC converted 5% of the money value of the equity investments in the net profit. Thus in 2017 William hill plc was more capable in generating higher return over the equity investments of the company.

Ratios related to investors consideration:

Price-Earnings ratio (P/E):

The Price-Earnings ratio (P/E) is the ratio between the price per share and earnings per share (EPS) and defines that how much the new investors are ready to pay for buying the shares of a company after considering the earnings per share of the company. So higher will be the ratio

grater will be the market prospect of the stocks of the organization as the investors will be ready to make higher payment for buying the stocks of the company on the basis of the existing EPS of the company(Costello *et al.*,2011).

The P/E ratio of 2017 describes that the investors were ready to pay 1178 pound for buying each share on the basis of the existing EPS consideration in case of William hill plc. On the other hand the investors were ready to pay only 28 pound for buying each share on the basis of the existing EPS consideration in case of Paddy Power Betfair PLC. This clearly indicates that in 2017 the stock investors clearly proffered the stocks of William hill plc as more valuable than that of Paddy Power Betfair PLC.

Price-to-Sales Ratio (P/S):

The Price-to-Sales Ratio with respect to the organization defines that how much the investors are ready to pay for each stock for 1 unit of the sales revenue earnings. Higher will be the ratio, grater will be the price or cost that the investors are ready to invest for earning 1 unit of sales. The higher ratio also indicates that the investors expect that this company has got a higher capability to make sales and to generate return over investment and that is why it is worthwhile to pay a higher price for buying the shares of that company.

The P/S ratio of 2017 describes that in case of William hill plc investors are ready to pay 57 pound per share against 1 pound sales generation for each share, where as in case of Paddy Power Betfair PLC investors are ready to pay only 3 pound per share against 1 pound sales generation. This indicates that the investors of the market clearly prefer the stocks of the William hill plc for investing and paying a high price per share as they think that William hill plc has better efficiency in sales generation as well as return on investment.

Dividend Yield Ratio:

The dividend yield ratio describes the proportion of the earnings per share that is distributed as dividend among the holders of the common stock. So higher will be the ratio grater will be the proportion of the earnings that is attributed to the common stock holders of the company. A higher ratio from the perspective of the company describes that the company has higher tendency

to distribute higher proportion of the net earnings as dividend among the share holders in comparison to the other companies. Generally the companies that want to deliver secured return to the investors of the common stock distribute a higher proportion of income as dividend. That is why the stock investors who are looking for secured return often prefer to invest in the stocks of those companies that have registered a higher dividend paying trend(Wu,2010).

After considering the 2017 data, it can be seen that in this year the organization William hill plc has distributed only 46% of the earnings to the holders of the common stock where as in the same accounting period the Paddy Power Betfair PLC has distributed only 77% of the earnings to the holders of the common stock of that organization. Therefore on the basis of the 2017 data it can be seen that Paddy Power Betfair PLC is more inclined towards the distribution of the higher proportion of the net income among the share holders as secured return.

Dividend Payout Ratio:

The study of the dividend payout ratio describes on an average the fraction of the net surplus income the company is distributing among the holder's of the common stock and the proportion of the income that is set aside for the purpose of the reinvestment for enhancing the market capitalization value of that organization. The reason behind the enhancement of the market capitalization value of a company is to enhance the market prospect of the stocks of the company so that the investors think that the company as well as stocks will be able to generate higher return for them in near future and such kind of thinking will make the investors to pay a higher price for the stocks of the company (Brown, 2012). Thus the companies that are inclined to offer growth stocks where the prices of the stocks quickly appreciate and depreciate with the market volatility often follow the trend of distributing a lower proportion of the retained income as dividend. On the other hand the companies that offer dividend stocks where the stock holders get regular secured income in the form of dividend payment are more inclined towards distributing the higher proportion of the net income as dividend to the share holders.

In 2017 the organization William hill plc has distributed 46% as dividend and kept rest of the proportion of the net income for the purpose of reinvestment. In the same accounting period the

Paddy Power Betfair PLC has distributed 78% as dividend and kept rest of the proportion of the net income for the purpose of reinvestment.

Ratios related to Organizational efficiency:

When the operations of the large organizations are concerned it is often seen that a substantial portion of the total transaction are done in credit. The cash generation efficiency of an organization determines the capability of that organization to maintain a strong liquidity position and to pay cash dividend to the shareholders of the company. The cash generation capacity of a company increases with the increase in the expansion of the cash generation cycle of the company which is the difference between the debtor days[number of days needed for collecting the cash against credit sales] & the creditor days[number of days for which the credit payment can wait(Reilly and Brown,2011).A comparatively lengthier cash generation cycle indicates that the organization is holding the liquid cash (collected from the trade debtors) for a longer period before it is flowing out from the organization as creditors payment and therefore the capability of the organization is to stay solvent is higher

In 2017 for the William hill plc the debtor days, creditor days and the cash generation cycle are 16 days, 385 days and 369 days respectively. For the same accounting period the debtor days, creditor days and the cash generation cycle of Paddy Power Betfair PLC are 10 days, 301 days and 291 days respectively. So in terms of the cash generation cycle the Paddy Power Belfair PLC is slightly less efficient compared to William hill plc

Ratios related to Liquidity:

The liquidity ratios defines the holding of the most liquid assets that can be used by the organization for repayment of the liabilities that are payable with in a period of less than one year. Higher will be the ratios grater will be the efficiency of the company to meet the current liabilities without affecting the business operations [that involves payment in cash] such as dividend payment, making necessary expenditures etc(Chandra, 2017).

In 2017 the current and quick ratios of William hill plc are 0.08, which indicates that most of the current assets of the company are in the form of quick asset. On the other hand in the same

accounting period the current and quick ratios of Paddy Power Betfair Plc are 2.9 and 2.38 respectively. This indicates that the liquidity position of Paddy Power Betfair PLC was much stronger than William hill plc in 2017 as the current asset holding of Paddy Power Betfair PLC was more than twice the current liability holding of the organization.

Ratios Related to Capital Structure:

Under the capital structure ratio the analysis had been made regarding the debt to equity ratio as the ratio describes the fraction of the total capital employed are made of debt and the fraction of the total capital employed made of equity. A high ratio indicates that a greater portion of the capital employed is made of debt in comparison to equity and therefore the organization is a highly levered company and the burden of debt is quite high for the company which is not very good news for the stock investors(Damodaran,2016). Because a company with higher debt burden will use a substantial portion of the earnings for servicing the debt and therefore much lesser amount of earnings will be left for the share holders which will be reflected in the form of earnings per share and cash dividend payments.

In 2017 the debt-to-equity ratio of William hill plc was 1.2 and that of Paddy Power Betfair Plc was 0.121 which indicates that the debt burden of William hill plc was much higher than Betfair Plc. The proportion of debt in the total capital employed is higher than the proportion of equity capital out of the total capital employed by Paddy Power Betfair Plc.

Analysis of historical financial position & comparison (2015, 2016)

The gross profit ratios of 2015 it can be seen that the gross profit margin of both the companies are almost same as the ratio is 76% for William hill plc and also 76% for Paddy Power Betfair PLC. The ratios describes that so far as efficiency with respect to generation of gross profit is concerned, both the companies are equally capable

The gross profit ratios of 2016 it can be seen that the gross profit margins of both the companies were almost same as the ratio was 76% for William hill plc and was 77% for Paddy Power Betfair PLC. The ratios describes that so far as efficiency with respect to generation of gross profit is concerned, both the companies are equally capable.(Fridson, and Alvarez, 2011)

The net profit margin of William hill plc was 12% and that of Paddy Power Betfair PLC was of 14% .Therefore the net profit margin ratio indicates that the William hill plc was slightly less capable than Paddy Power Betfair PLC with respect to generation of surplus earnings as described by the ratios of 2015(Paddypowerbetfair.com, 2017).

The net profit margin of William hill plc was 10% and that of Paddy Power Betfair PLC was of 0% .Therefore the net profit margin ratio indicates that the William hill plc was more capable than Paddy Power Betfair PLC with respect to generation of surplus earnings as described by the ratios of 2016

The ROA ratio of 2015 describes that William hill plc has managed to convert 8% of the money value of asset in to net profit where as Paddy Power Betfair PLC has managed to convert 26% of the money value of asset in to net profit. Thus in 2015 Paddy Power Betfair PLC was more efficient with respect to the generation of return over asset compared to William hill plc.

The ROA ratio of 2016 describes that William hill plc has managed to convert 7% of the money value of asset in to net profit where as Paddy Power Betfair PLC has managed to convert 0% of the money value of asset in to net profit. Thus in 2015 Paddy Power Betfair PLC was less efficient with respect to the generation of return over asset compared to William hill plc.

The ROE ratio of 2015 describes that in 2015 William hill plc converted 15% of the total money value of the investments made in the stocks of the company, where as Paddy Power Betfair PLC converted 213% of the money value of the equity investments in the net profit. Thus in 2015 Paddy Power Betfair PLC has shown a much higher capability with respect to generation of return over equity investment compared to William hill plc

The ROE ratio of 2016 describes that in 2016 William hill plc converted 13% of the total money value of the investments made in the stocks of the company, where as Paddy Power Betfair PLC delivered net loss to the equity investors of the company as in this year the company suffered a net loss. Thus in 2016 William hill plc were moderately capable to deliver return over equity investment, where as Paddy Power Betfair PLC failed to generate any return on equity investment in this year.

The P/E ratio of 2015 describes that the investors were ready to pay 1374 pound for buying each share on the basis of the existing EPS consideration in case of William hill plc. On the other hand the investors were ready to pay only 311 pound for buying each share on the basis of the EPS consideration of that year in case of Paddy Power Betfair PLC. This clearly indicates that in 2016 the stock investors clearly proffered the stocks of William hill plc as more valuable than that of Paddy Power Betfair PLC .

The P/E ratio of 2016 describes that the investors were ready to pay 1499 pound for buying each share on the basis of the existing EPS consideration in case of William hill plc. On the other hand the investors were ready to pay only 217 pound for buying each share on the basis of the EPS consideration of that year in case of Paddy Power Betfair PLC. This clearly indicates that in 2016 the stock investors clearly proffered the stocks of William hill plc as more valuable than that of Paddy Power Betfair PLC(De Franc *et al.*,2011) .

The P/S ratio of 2015 describes that in case of William hill plc investors are ready to pay 164 pound per share against 1 pound sales generation for each share, where as in case of Paddy Power Betfair PLC investors are ready to pay only 42 pound per share against 1 pound sales generation. This indicates that the investors of the market clearly prefer the stocks of the William hill plc for investing and paying a high price per share as they think that William hill plc has better efficiency in sales generation.

The P/S ratio of 2016 describes that in case of William hill plc investors are ready to pay 153 pound per share against 1 pound sales generation for each share, where as in case of Paddy Power Betfair PLC investors are ready to pay only 0.8 pound per share against 1 pound sales generation. This indicates that the investors of the market clearly prefer the stocks of the William hill plc for investing and paying a high price per share as they think that William hill plc has better efficiency in sales generation as well as return on investment (Ballesterio *et al.*,2012).

The 2015 data shows that in this year the organization William hill plc has distributed 50% of the earnings to the holders of the common stock where as in the same accounting period the Paddy Power Betfair PLC has not distributed any dividend to the holders of the common stock of that organization. Therefore on the basis of the 2015 data the stock investors who are looking for secured income from the payment of the dividend, it can be seen that for that particular year the organization William hill plc will be the better choice for them.

After considering the 2016 data, it can be seen that in this year the organization William hill plc has distributed only 59% of the earnings to the holders of the common stock where as in the same accounting period the Paddy Power Betfair PLC has distributed only 52% of the earnings to the holders of the common stock of that organization. Therefore on the basis of the 2016 data it can be seen that William hill plc is slightly more inclined towards the distribution of the higher proportion of the net income with respect to the corresponding earnings per share (Bodie, 2009).

In 2015 the organization William hill plc has distributed 57% as dividend and kept rest of the proportion of the net income for the purpose of reinvestment. In the same accounting period the Paddy Power Betfair PLC has distributed 81% as dividend and kept rest of the proportion of the net income for the purpose of reinvestment.

In 2016 the organization William hill plc has distributed 66% as dividend and kept rest of the proportion of the net income for the purpose of reinvestment. In the same accounting period the Paddy Power Betfair PLC distributed net loss as in this accounting period the company earned net loss.

In 2015 for the William hill plc the debtor days, creditor days and the cash generation cycle are 13 days, 315 days and 302 days respectively. For the same accounting period the debtor days, creditor days and the cash generation cycle of Paddy Power Betfair PLC are 10 days, 351 days and 341 days respectively. So in terms of the cash generation cycle the Paddy Power Betfair PLC is slightly more efficient compared to William hill plc

In 2016 for the William hill plc the debtor days, creditor days and the cash generation cycle are 17 days, 354 days and 337 days respectively. For the same accounting period the debtor days,

creditor days and the cash generation cycle of Paddy Power Betfair PLC are 13 days, 338 days and 324 days respectively. So in terms of the cash generation cycle there is little difference between Paddy Power Betfair PLC and William hill plc in terms of efficiency.

In 2015 the current and quick ratios of William hill plc were 0.52 and 0.45, which indicates that most of the current assets of the company are in the form of quick asset. On the other hand in the same accounting period the current and quick ratios of Paddy Power Betfair PLC are 0.82 and 0.53 respectively. Thus in 2015 the quick asset holding or the near cash holding was higher in case of Paddy Power Betfair PLC which describes the comparative stronger liquidity position of Betfair PLC.

In 2016 the current and quick ratios of William hill plc were 0.71 and 0.70, which indicates that most of the current assets of the company are in the form of quick asset. On the other hand in the same accounting period the current and quick ratios of Paddy Power Betfair PLC are 0.99 and 0.82 respectively. Thus in terms of both the ratios the Paddy Power Betfair PLC is holding the stronger liquidity position as whole for this accounting period.

In 2015 the debt-to-equity ratio of William hill plc was .93 and that of Paddy Power Betfair Plc was 7.05 which indicates that the debt burden of William hill plc was much lesser than Betfair Plc in that accounting period.

In 2016 the debt-to-equity ratio of William hill plc was .99 and that of Paddy Power Betfair Plc was 0.16 which indicates that the debt burden of William hill plc was much higher than Betfair Plc in that accounting period.

b)

Portfolio development suggestion to the investor as per his risk attitude

Aspects of results from ratio analysis to be considered

Thus looking at the profitability ratios it can be seen that there is not much difference in the efficiency between the two chosen organizations with respect to gross profit generation and net profit generation. Except 2016, the organization Paddy Power Betfair PLC has demonstrated better efficiency with respect to the conversion of the money value of the asset in the net profit compared to William hill plc. Except 2015 in all other accounting periods under study the William hill plc has demonstrated a better efficiency in generating higher returns over equity investment (Goyal *et al.*, 2016).

The study of the P/E ratios for the three accounting periods [2015-2017] reveals the fact that the market investors have always considered to pay a higher price for purchasing the stocks of the William hill plc over and above the stocks of the Paddy Power Betfair PLC on the basis of the EPS considerations of the respective years.

Considering the P/S ratios of all the accounting periods [2015-2017] it can be seen that the investors are always preferring the payment of a higher price for 1 unit of sales generation for the stocks of William hill plc over and above the stocks of Paddy Power Betfair PLC as the investors think that the William hill plc has better capability in generating sales compared to Paddy Power Betfair PLC.

Considering the dividend-yield ratios of the three accounting periods (2015-2017) with respect to both the companies it can be seen that the organization William hill plc has reduced the dividend paying trend on the basis of EPS consideration gradually from 2015 onwards and the Paddy Power Betfair PLC has enhanced the dividend paying trend on the basis of the EPS consideration over years moving from 2015 onwards.

The dividend payout ratio also reflects that from 2015 onwards the organization William hill plc has distributed smaller and smaller proportion of net income as dividend. But except 2016 [as in this accounting period the business faced net loss] the organization Paddy Power Betfair PLC has distributed higher and higher proportion of income as dividend. Thus the revelations describes that on an average Paddy Power Betfair PLC has a higher tendency in comparison to the William hill plc to distribute a larger proportion of the net income as dividend.

The study of the debtor days and the creditor days and the cash generation cycle for the three accounting periods with respect to both the organizations reveal the fact that average length of the cash generation cycle of William hill plc is around 336 days (nearly 1 year) and that of Paddy Power Betfair PLC is around 319 days, which indicates that William hill plc is little more efficient in cash generation out of financial transactions.

The studies of the liquidity ratios for the three accounting periods[2015-2017] reveal the fact that on an average the Paddy Power Betfair PLC has held a comparatively stronger liquidity position and the liquidity position has improved over years starting from 2015 onwards

The study of the debt-equity ratio for the three accounting period reveals that except 2015, the proportion of debt in the total capital employed was at a much lower level in case of Paddy Power Betfair PLC compared to William hill plc.

Conclusion & Guidelines of Portfolio development

Risk attitude of the investor

As defined earlier, in the current scenario the HNI investor is a risk-averse investor who is looking for some companies where investments will help him to earn secured return. An investor can earn two ways by investing in the stocks of the company. One way of earnings is from the appreciation of the prices of stock and another way of earnings is the receipts of the cash dividend from the stock issuing company. Generally the investors who are focused to make

quick and high earnings mainly consider the way of earnings that can be generated from the appreciation in the price of stock. These kinds of investors are the risk lover investors who generally invest in growth stocks which are having a strong market prospect as reflected by the strong P/E & P/S ratios (Elton *et al.*,2009). The risk factor associated with such stocks is that, these stocks are highly sensitive to the market volatility and the price of such stocks increases and also decreases very quickly with the changing market condition. In other words the price of the growth stocks can increase and also decrease very quickly and at the event of price decrease the investor has to face a huge loss. On the other hand the payment of the cash dividend to the holders of the stock out of the retained earnings generates a secured way of income for the investors. Generally it is seen that the stocks of the companies that have a lesser propensity of frequent increase and decrease (and the same time less sensitive to the market volatility) often offer cash dividends to the common stock holders of the company and these stocks are described as the dividend paying stocks(Panousi and Papanikolaou,2012). The companies with higher dividend payout ratios and dividend-yield ratios generally offer dividend stocks. However dividend payment out of retained earnings is the discretion of the company. In any year the company may take the decision of not paying any dividend to the stock holders of the company and however non payment of dividend does not lead to any kind of capital loss that happens in case of the depreciation of the prices of growth stock.

Portfolio Investment suggestions:

From the above discussion it is clear that MR. Tim Farrow the HNI client who is looking for minimization of risk while investing in the stocks of the companies should go for the organization Paddy Power Betfair PLC as the analysis of the three accounting periods revealed that this organization has a better orientation towards the payment of the cash dividends which is the most secured form of return that can be earned from stock investment. On the other hand a stock of the William hill plc has a stronger P/E & P/S ratio which indicates that the stocks of this company are expected to increase and decrease at a faster rate than that of Paddy Power Betfair PLC. So the natures of the stocks that are offered by Paddy Power Betfair PLC are the dividend stocks and that of William hill plc are of growth stock(Avadhani, 2009).

If Mr Tim Farrow is focused on maximum minimization of the risk associated with market volatility then he should invest all the money for buying the stocks of Paddy Power Betfair PLC, but in this case he will completely lose the opportunity of making money from the appreciation of the price of stocks of the William hill plc whose market prospect is good enough.

So if Mr Tim Farrow wants to act like a moderates risk taker then he can invest a minimal proportion (any proportion from 10% to 40%) of the investment in the stocks of the William hill plc as per his risk taking capability so that he can also enjoy the positive aspect of then market volatility.

More over the organization William hill plc also pay dividends to the holders of the common stock of that company, but the analysis of the ratios has reflected a lower tendency or propensity of dividend payment with respect to that company (Levišauskait, 2010).

Thus the ultimate suggestion for portfolio investment for the risk-averse HNI investor is that out of total investment 60% to 90% investment will be in the stocks of Paddy Power Betfair PLC and 10% to 40% investment will be in the stocks of William hill plc for developing a secured return earning portfolio.

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Appendix:

Ratios related to profit generation:

	William hill plc	Paddy Power Betfair PLC
	Profitability Ratios	
	Gross Profit margin[Gross Profit/Sales]	
2015	76%	76%
2016	76%	77%
2017	76%	77%

	William hill plc	Paddy Power Betfair PLC
	Profitability Ratios	
	Net Profit margin [Net Profit/Sales]	
2015	12%	14%
2016	10%	9%
2017	14%	12%

	William hill plc	Paddy Power Betfair PLC
	Pro fitability Ratios	
	ROA[PAT/Total Asset]	
2015	8%	26%
2016	7%	0%
2017	1%	4%

	William hill plc	Paddy Power Betfair PLC
	Profitability Ratios	
	ROE[PA Tor net icode/Share holders equity]	
2015	16%	213%
2016	13%	(-0.00132)
2017	22%	5%

Ratios related to investors consideration:

	William hill plc	Paddy Power Betfair PLC
	Investors Ratio	
	P/E [Price per share/EPS]	
2015	1374	311
2016	1499	217
2017	1178	28

	William hill plc	Paddy Power Betfair PLC
	Investors Ratio	
	Price-to-Sales Ratio[Price per Share / Annual Sales Per Share]	
2015	164	42
2016	153.8	0.8
2017	57.3	3.4

	William hill plc	Paddy Power Betfair PLC
	Investors Ratio	
	Dividend yield[dividend per share / Earnings per share](£)	
2015	0.50	0.00
2016	0.59	0.52
2017	0.46	0.77

	William hill plc	Paddy Power Betfair PLC
	Investors Ratio	
	Dividend pay-out ratio[Dividend/net income or profit]	
2015	57%	81%
2016	66%	-3 140%
2017	46%	78%

Ratios related to Organizational efficiency:

	William hill plc	Paddy Power Betfair PLC
	Efficiency Ratios	
	Debtor days[(Trade debtots/sales)*365]	
2015	13	10
2016	17	13
2017	16	10

	William hill plc	Paddy Power Betfair PLC
	Efficiency Ratios	
	Creditor days([Accounts payable/cost of sales]*365)	
2015	315	351
2016	354	338
2017	385	301

	William hill plc	Paddy Power Betfair PLC
	Efficiency Ratios	
	Creditor days([Accounts payable/cost of sales]*365)	
2015	315	351
2016	354	338
2017	385	301

Ratios related to Liquidity:

	William hill plc	Paddy Power Betfair PLC
	Liquidity Ratio	
	Current Ratio[current asset/Current Liability]	
2015	0.52	0.82
2016	0.71	0.99
2017	0.08	2.9

	William hill plc	Paddy Power Betfair PLC
	Liquidity Ratio	
	Quick Ratio[Quick asset(current asset-asessts that can not be readily converted in to cash)/Current Liability]	
2015	0.45	0.53
2016	0.70	0.82
2017	0.08	2.38

Ratios Related to Capital Structure:

	William hill plc	Paddy Power Betfair PLC
	Capital structure ratios	
	Debt-to-Equity Ratio = Total Liabilities / Total Shareholder Equity	
2015	est	7.049
2016	0.993	0.156
2017	1.223	0.121