



University of Wales Trinity Saint David

BAMB L6 T1G1

Module: International Financial Management

Module Code: LCBB6002

Assignment 1

**Prepared for:**

Dr. Taye Timothy Osadiya

Dr. Hossein Shokri

**Prepared by:**

Student: Reneta Ivanova

Stud. Number: 1906323

## Table of Contents

|                                                         |    |
|---------------------------------------------------------|----|
| Introduction .....                                      | 2  |
| Dividend distribution policy of Coca-cola company.....  | 3  |
| Efficient market hypothesis theory of Coca-Cola .....   | 5  |
| Methods of project appraisal of Coca-cola company. .... | 7  |
| Conclusion.....                                         | 9  |
| References .....                                        | 10 |

## Introduction

In the age of globalisation, international and multinational business organisations are available in our business market. These types of organisations run their business function in the international borderless market. International financial management is also known as international finance which is concerned with the financial management in the global market. International financial management deals with financing, investing and paying dividends to the stockholder in the field of the global market (Madura, 2020). Dividend policy is one of the important functions of internal finance which reflex the organisational performance. Coca-cola is a multinational soft-drink manufacturing company that runs its business in more than 200 countries. The essay aims to identify the dividend policy of the Coca-Cola company, discuss the market hypothesis theory that Coca-Cola use and evaluation of method project appraisal of the MNC.

## Dividend distribution policy of Coca-cola company.

International financial management has three important functions in which the dividend policy-making decision is one of the important decisions which creates the organisation's face value to the investors and stakeholders. Four types of dividend policy can be seen in international finance. These are Regular dividend policy, stable dividend policy, irregular dividend policy and no dividend policy. A regular dividend policy means an organisation pays the same dividend amount to its stockholders whether the organisation make a profit or loss (Dewasiri, et al., 2019). A stable dividend policy refers to that an organisation fixed a rate of profit for paying dividends where the amount always fluctuates. An irregular dividend policy means that an organisation pays dividends irregular basis which means they pay according to their profit and loss. According to no dividend policy, an organisation does not pay any dividend to its stockholders.

| Declared   | Ex-Dividend | Record     | Payable    | Amount            | Type                  |
|------------|-------------|------------|------------|-------------------|-----------------------|
| 09/11/2021 | 18/11/2021  | 19/11/2021 | 06/12/2021 | €1.40<br>\$1.62   | Euro<br>U.S. Currency |
| 25/10/2020 | 16/11/2020  | 17/11/2020 | 01/12/2020 | €0.85<br>\$1.00   | Euro<br>U.S. Currency |
| 24/10/2019 | 18/11/2019  | 19/11/2019 | 3/12/2019  | €0.620<br>\$0.690 | Euro<br>U.S. Currency |
| 30/04/2019 | 23/05/2019  | 24/05/2019 | 06/06/2019 | €0.620<br>\$0.690 | Euro<br>U.S. Currency |
| 25/10/2018 | 08/11/2018  | 09/11/2018 | 20/11/2018 | €0.280<br>\$0.320 | Euro<br>U.S. Currency |
| 09/08/2018 | 21/08/2018  | 22/08/2018 | 06/09/2018 | €0.260<br>\$0.300 | Euro<br>U.S. Currency |
| 26/04/2018 | 11/05/2018  | 14/05/2018 | 29/05/2018 | €0.260<br>\$0.310 | Euro<br>U.S. Currency |
| 15/02/2018 | 26/02/2018  | 27/02/2018 | 15/03/2018 | €0.260<br>\$0.320 | Euro<br>U.S. Currency |
| 07/11/2017 | 17/11/2017  | 20/11/2017 | 04/12/2017 | €0.210<br>\$0.240 | Euro<br>U.S. Currency |

**Figure 1: Last Nine issued dividends by Coca-Cola (Source: Xu, et al., 2020)**

Coca-cola is a multinational organisation that uses an irregular dividend policy to pay dividends to its customers. The above chart shows its last nine dividend amounts, declaration date, payable date, ex-dividend date and amount in two currencies. From the above discussion, we know that an irregular dividend policy means dividend decisions are depending on the profit and loss of an organisation. The Coca-cola company's financial manager takes dividend decisions after calculating and estimating the net profit after tax and revenue. From the last five dividend pay-out history of this company, we can see this organisation pays dividends in per cent 2.7% to 3.3% to its stakeholders (Elmirzayev and Omonov, 2020). After assessing the dividend pay-out and profit proportion of the Coca-Cola company it is clear that this organisation pays dividends at an irregular rate. The dividend decisions are taken here based on their profit and organisational retained earning requirements. The manager of this organisation firstly assesses the requirement of retained earnings then keep the amount and pays the rest amount proportionally to the stockholders.

## Efficient market hypothesis theory of Coca-Cola

The efficient market hypothesis is an economic and financial investment theory that describes an organisation's financial position through its stock price. The investors can understand the organisation's current financial position and where it will move through the stock price. According to this theory, it is believed that the share price describes the organisation's performance. The theory is divided into three forms which are weak, Semi-strong and strong (Ying, et al., 2019). In the weak form of an efficient market hypothesis, the market price describes all historical data and the price of an organisation's stock price. The movement of the market is unclear here because the rate of the current price cannot be based on the historical price.



**Figure 2: Efficient Market Hypothesis (Source: Rossi and Gunardi, 2018)**

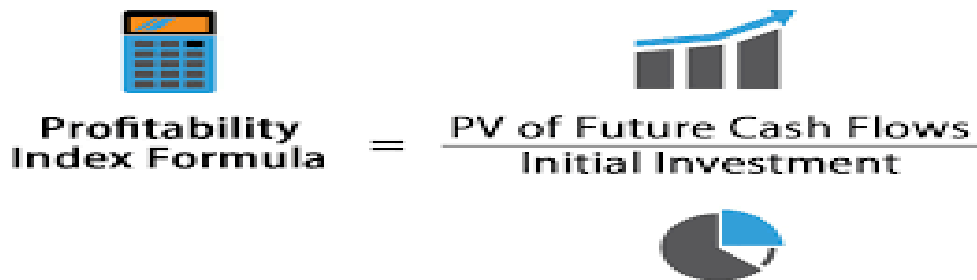
According to the semi-strong market hypothesis, it is treated that the market price is reflected in all publicly available information about the market. Neither technical nor fundamentals analysis can provide benefits for the market price. The strong form of efficient market hypothesis tells that all public and privately available information is reflected in the current market price of an

organisation's stock. In this regard, the market is assumed as perfect. And technical and fundamental analysis cannot benefit the investor, abnormal gain can be possible through accessing insider information regarding the share price of the organisation (Dewasiri, et al., 2019). According to market hypothesis theory, the investors in the global market select, decide and invest the appropriate investment options for them. The organisations use the theories to increase their stock's face value in the current competitive market and provide safety to the investors.

Coca-Cola company is a big organisation, which share's market price describes the all private and public available information. If anyone wants to get abnormal returns from Coca-Cola's share, he has to access the insider information of the organisation. For the share price of Coca-Cola company, it is treated that the market is suitable and stable for investment. So, the organisation follows the strong market hypothesis theory. Here no one can bite the market all time and sometimes they can get abnormal returns occasionally (Xu, et al., 2020). The technical and fundamental analysis would be rendered moot, from any of this no one can be more advantageous than other users. All required information is reflected in the market's current price of shares and stocks.

## Methods of project appraisal of Coca-cola company.

In international financial management, the project appraisal is such tool that analyses the cost and benefits of an organisation. This also describes the project's success, risk and viability through various methods. These methods are Net present value, Payback period method, Internal Rate of Return and Profitability Index (Elmirzayev and Omonov, 2020). The net present value of a project is determined by summarising the costs, cashflows and benefits of a project. The positive value influences acceptance of the project of an organisation. When an organisation invests any amount for a project, it estimates the period in which it can get the invested money as a return. The method is known as the payback method of project appraisal. According to the Internal rate of return method, the organisational manager assumes that the initial present value of a project is Zero. If a project's calculated internal rate of return is more than the predetermined rate of return the management selects the projects. The rate of return is the factor of acceptance and rejection of a project. According to the profitability index method, a ratio is identified between the project's present cash inflow and the present value of the initial costs of the project (Tetiana, et al., 2018). The project is accepted if the profitability index of the project is greater than 1:0.



The diagram illustrates the Profitability Index Formula. On the left, there is a blue calculator icon above the text "Profitability Index Formula". This is followed by an equals sign. To the right of the equals sign is a fraction. The numerator of the fraction is "PV of Future Cash Flows", and the denominator is "Initial Investment". Above the numerator is a bar chart with three bars of increasing height and an upward-pointing arrow. Below the denominator is a pie chart with a single slice highlighted in blue.

$$\text{Profitability Index Formula} = \frac{\text{PV of Future Cash Flows}}{\text{Initial Investment}}$$

**Figure 3: Profitability Index (Source: TRESNAWATI, 2018)**

Coca-cola uses the profitability index method for assessing the prospects of a project. The benefits and costs are calculated through the profitability index ratio. Which is expressed as the ratio between the present value of a project's cash inflow and the present value of cash outflow of the project. The main benefit of the profitability index method is it considers all cash flow to estimate

the project's acceptability. But the IRR method influence to acceptance of the wrong projects for the mutually exclusive projects which is not worth full for the shareholders. The profitability index method justifies the present value of future cash flows with the present cost (Leković, 2018). That means the present value of costs and revenue are compared which is the aim of a project appraisal method. This method increases the profitability as well as the stakeholder's wealth of this organisation.

## Conclusion

International business refers to performing business operations in the global market or borderless market. Where financial management is an important key to the success of an organisation. Global Financial management means these activities are performed by a financial manager to manage the financial activities in the global market (Shapiro and Hanouna, 2019). The Coca-Cola Company is a multinational organisation that produces various types of cold drinks for more than 200 countries in the world. The financial management of this organisation performs the dividend policy in an irregular way which means the dividend rate and amount are determined after calculating the profit. No predetermined rate or amount is followed here. According to the market hypothesis theory, the Coca-cola company uses a strong form of market hypothesis theory. That means the price of shares reflects the private and public available information in the market. No one can bid on the market all-time (Madura, 2020). The essay also describes the methods of project appraisal of the organisation which describes the cost and benefit analysis perfectly.

## References

- Dewasiri, N.J., Koralalage, W.B.Y., Azeez, A.A., Jayarathne, P.G.S.A., Kuruppuarachchi, D. and Weerasinghe, V.A., 2019. Determinants of dividend policy: evidence from an emerging and developing market. *Managerial Finance*.
- Elmirzayev, S. and Omonov, S., 2020. DIVIDEND POLICY ANALYSIS IN DEVELOPED COUNTRIES AND DIVIDEND ARISTOCRATS. *International Finance and Accounting*, 2020(2), p.22.
- Leković, M., 2018. Evidence for and against the validity of efficient market hypothesis. *Economic themes*, 56(3), pp.369-387.
- Madura, J., 2020. *International financial management*. Cengage Learning.
- Rossi, M. and Gunardi, A., 2018. Efficient market hypothesis and stock market anomalies: Empirical evidence in four European countries. *Journal of Applied Business Research (JABR)*, 34(1), pp.183-192.
- Shapiro, A.C. and Hanouna, P., 2019. *Multinational financial management*. John Wiley & Sons.
- Tetiana, H., Karpenko, L.M., Olesia, F.V., Yu, S.I. and Svetlana, D., 2018. Innovative methods of performance evaluation of energy efficiency projects. *Academy of Strategic Management Journal*, 17(2), pp.1-11.
- TRESNAWATI, L., 2018. *PRODUCTIVITY ANALYSIS AND MEASUREMENT USING AMERICAN PRODUCTIVITY CENTER APPROACH at PT. COCA-COLA AMATIL BALINUSA* (Doctoral dissertation, UAJY).
- Xu, Z., Shen, S., Zhai, Z. and Song, X., 2020. Stock & Potential Evaluation: the Coca-Cola Company. *Frontiers*, 1(11).

Ying, Q., Yousaf, T., Ain, Q.U., Akhtar, Y. and Rasheed, M.S., 2019. Stock investment and excess returns: a critical review in the light of the efficient market hypothesis. *Journal of Risk and Financial Management*, 12(2), p.97.