

ASX Schools Sharemarket Game

Student Lesson: RESEARCHING A COMPANY

Researching a company

Taking a look at all of the companies in the Game, one of your first questions might be, where do I start? How do I decide which companies to buy? That's what this lesson is all about. First, we will take a look at what an index is and the different types of industries (sectors) that companies belong to. Then you will discover what you can do to learn more about a company and whether it might be a good investment.

ASX INDICES

If you listen to the news, you may have heard the term the All Ords, the All Ordinaries or the ASX 200.

What are they?

They are share price indices.

A share price index measures the performance of a group of companies over a period of time.

For example, the All Ordinaries (All Ords) includes the 500 largest companies listed on the ASX.

What does the ASX 200 measure?

The 200 largest companies listed on the ASX. These are measured on the basis of market capitalisation. (Market capitalisation is the total number of shares on issue multiplied by the market price).

Don't think that the biggest companies are always the ones that cost the most because some companies issue more shares than others. Those companies with the highest market capitalisation are included in the count.

Most of the companies in the Game are from the S&P/ASX 200.



Who runs the index?

You will often see these indices with S&P at the front, for example, S&P/ASX 200. The Standard & Poor's Index Services runs the index business previously controlled by ASX (excluding the All Ordinaries), these include the S&P/ASX 20, 50, 100, 200, 300.

INDUSTRY SECTORS

Alongside the indices, the Australian market is also divided into various industry groupings or sectors. The index manager, Standard & Poor's, uses a Global Industry Classification Structure when putting these together... or GICS for short.

If you know about sectors, it can help you when it comes to deciding which shares to buy. Often companies in the same sector will move in a similar direction because they are affected by the same things. This can mean that if you invest in only one sector, and it does badly, your investments are really going to suffer. But if you invest across a few sectors and the others are performing OK, you won't be so badly affected. So choose companies from a few different sectors to help reduce your risk.

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Investigate: Industry sectors

To find out more about the ASX 200 GICS industry sectors complete the table below:

- 1) What is the ASX code for each sector?
- 2) In the description column write down an explanation of the sector and the types of industries that are included in the sector.
- 3) Add 3 companies in each sector that are in the Game.

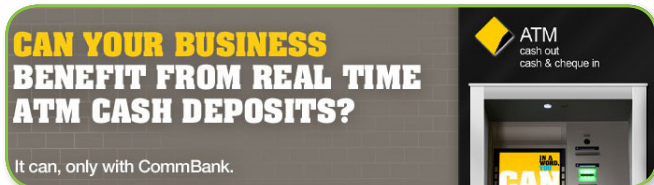
For additional help go to: <http://www.asx.com.au/products/sector-indices.htm>

| ASX Code | Sector | Description / sub-sectors | Companies in Sector |
|----------|------------------------|---------------------------|---------------------|
| | Energy | | |
| | Materials | | |
| | Financials | | |
| | Health care | | |
| | Industrials | | |
| | Consumer discretionary | | |
| | Consumer staples | | |
| | Information technology | | |
| | Telecom | | |
| | Utilities | | |

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What to buy?



To choose which companies to buy in the Game, you will need to find out more about each company:

- **the story** – what the company does and where it is heading;
- **the numbers** – how the company is going financially; plus its
- **performance in the sharemarket** – is it gaining in price or decreasing? This will give you an idea as to whether or not the company is a good investment.

This is often called fundamental analysis and is all about looking at various factors that might affect a company's earnings and growth. So let's take a look at finding out more about a company.

(Image source: Coca-Cola Amatil website, Commonwealth Bank website, The Reject Shop website)

THE COMPANY'S STORY

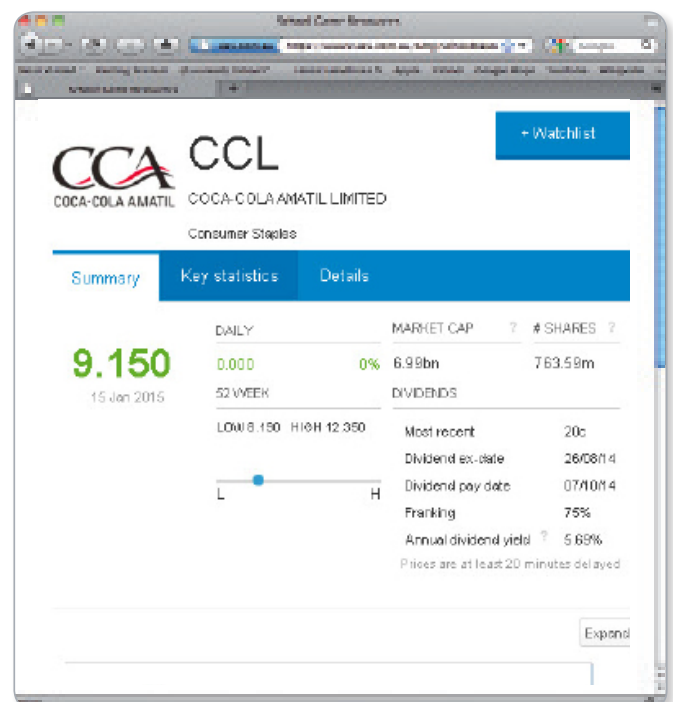
To get the story – the best place to go is the ASX research page: <http://www.asx.com.au/prices/company-information.htm>

Add the company code that you want to research. This will take you to that company's information page on the ASX.

Here you will find a price history chart, company announcements plus there is often a link to the company's own web page. Their website will give you further information including an introduction to the company, its brands, history and financial reports.

To discover more of the story you could look for:

- What sector is the company in?
- What does the company do?
- What does it sell?
- How long has it been in business?
- Who are its customers?
- Who are its competitors?
- Have they made any important announcements recently?



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The numbers

To find out more about the numbers – every year a company puts out an annual report. Now this can be a little overwhelming; however, you will often find that the company will have a media release or presentation that gives you an overview of their financials, which makes it a little easier.

Some questions you can ask are:

1) **Is the company growing?** (Look in profits section)

Have the company's earnings increased?

Has the company been able to grow their profits?

Have they made any future forecasts?

2) **Have costs been rising or falling?** (Look in expenses)

If they have gone up, is there something unusual that has happened, for example, a takeover of another company.

Costs might go up as a company grows. However, it is better if the profits are growing also.

3) **Does it have a lot of debt?** (Look for borrowings and interest bearing liabilities.)

Has the debt been rising significantly over the years? Debt is not necessarily bad if the company is growing fast and needs to borrow to expand but you need to find out why they have so much debt.

4) **Are they paying dividends to shareholders?** (Look in dividends)

A dividend is where a company gives part of its profit to shareholders – usually expressed as a number of cents per share.

| Balance Sheet for the year ended 30 June 2016 | | |
|---|---------|---------|
| ASSETS | | |
| Cash and cash equivalents | 2015 \$ | 2016 \$ |
| Receivables | 345,363 | 130,069 |
| Inventories | 100,062 | 236,000 |
| Total current assets | 207,700 | 300,110 |
| Property, plant and equipment | 653,125 | 666,179 |
| Total Non-current assets | 150,008 | 181,475 |
| Total assets | 803,133 | 847,654 |
| LIABILITIES | | |
| Payables | 189,436 | 279,521 |
| Employee entitlements | 57,983 | 108,270 |
| Current tax liability | 13,289 | 2,624 |
| Interest bearing liabilities | 20,554 | 25,442 |
| Total current liabilities | 280,262 | 423,857 |
| Employee entitlements | 65,824 | 51,857 |
| Payables | 396,574 | 336,918 |
| Interest bearing liabilities | 18,123 | 23,166 |
| Total non-current liabilities | 480,521 | 411,941 |
| Total liabilities | 760,783 | 835,798 |
| Net assets | 42,350 | 11,856 |
| EQUITIES | | |
| Contributed equity | 10,050 | 10,050 |
| Retained earnings | 32,300 | 1,806 |
| Total equity | 42,350 | 11,856 |



To summarise, you are looking for companies that are growing. Companies that are not holding a lot of debt and if they are, then question why. Also check whether a regular dividend is being paid to shareholders.

The managing director's report will give you a good overview of the company. You can find this on the ASX Company Announcements page: <http://www.asx.com.au/asx/statistics/announcements.do> or on the company's web page.

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Performance: What do the charts say?

When reviewing a company's performance it is also helpful to take a look at the company chart (see bottom of the company research page). This will show you how well the company's share price is trending.

What is a trend?

A trend shows the direction that the price is moving, this will be either up, down or sideways.



An uptrend is when you get a higher high and a higher low, in other words the line is moving upwards.



A downtrend is when you have lower lows and lower highs, so the line is moving downwards.



A sideways trend means prices are trading in a range and not moving out of that range, in other words it's neither going up or down significantly.

One of your main aims in investing is to buy shares and then sell at a higher price. So to make a profit you want the share price to be trending up. This means you will be looking for companies that have the possibility of increasing in value.

Of course, an uptrend does not guarantee that it will continue to go up. Sometimes the uptrend stops and sometimes shares that have fallen, bounce back. However, a steady uptrend is often a good sign.

When looking at a trend, you should also be aware of the time period – if you look at a chart covering 3 month period you may see that the trend is up. However, if you look at the trend over a year you might find that the overall trend is down. As the Game is only short term, it may help to use the 3 month charts to see the short term trend.



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Investigate: Analysing a company

Choose a company from the Game that you are interested in. Find out more about the story, numbers and performance of this company. See if you can discover the following:

The story:

1) What sector is the company in?

2) What does the company do?

3) What does it sell?

4) How long has it been in business?

5) Who are its customers and who are its competitors?

6) Have there been any interesting announcements lately that might be good or bad for this company?

The numbers:

7) Is the company growing?

8) Are their expenses increasing more than their profits – have they said why?

9) Has the debt increased or decreased?

(Continued over)

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Investigate: (CONTINUED)

10) Are dividends paid regularly?

Share price performance

11) How has the share price for this company been trending – in what direction?

Look at a 1 year chart and a 3 month chart for this company – is the trend the same?

12) Do you think the trend could go higher / lower? Why?

13) Would you buy this company? Why / why not?

