

PROJECT WORK

Cash Flow Management
In
Swatt Security Ltd

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TABLE OF CONTENTS

CERTIFICATE	Page - 3
ACKNOWLEDGEMENT	Page - 4
CHAPTER 1 INTRODUCTION	Page - 5
CHAPTER 2 OBJECTIVE AND SCOPE	Page - 8
CHAPTER 3 THEORETICAL FRAMEWORK	Page - 9
CHAPTER 4 METHODOLOGY	Page - 32
CHAPTER 5 DATA COLLECTED	Page - 33
CHAPTER 6 DATA ANALYSIS	Page - 47
CHAPTER 7 FINDING	Page - 55
CHAPTER 8 RECOMMENDATION	Page - 57
CHAPTER 9 CONCLUSIONS	Page - 58
BIBLIOGRAPHY	Page - 60

CHAPTER 1

INTRODUCTION

Cash flow is the life blood of all businesses and is the primary indicator of business health. It is generally acknowledged as the single most pressing concern of most small and medium-sized enterprises (SMEs), although even finance directors of the largest organizations emphasize the importance of cash, and cash flow modeling is a fundamental part of any private equity buy-out. In a credit crunch environment, where access to liquidity is restricted, cash management becomes critical to survival.

In its simplest form, cash flow is the movement of money in and out of your business. It is not profit and loss, although trading clearly has an effect on cash flow. The effect of cash flow is real, immediate and, if mismanaged, totally unforgiving. Cash needs to be monitored, protected, controlled and put to work.

Cash flow is the movement of cash into or out of a business, project, or financial product. It is usually measured during a specified, finite period of time. Measurement of cash flow can be used.

About Company

SWATT Security Ltd is privately owned by the Buzabo Family. Over the years, the company has provided a well managed and efficient service to its clients dealing primarily in armed, manned, guarding and tactical response and it enjoys a reputation for commitment to providing professional security and investigation services.

Striving to maintain exceptional service to our valuable clients, introducing new and innovative ideas and providing contingency plans and solutions to keep us at the forefront of fighting crime. We invest heavily in the training of our personnel both formal and informal, in customer care and more aggressive security operations.

Addressing security needs in Uganda, we offer an integrated solution from consultation and evaluation, through the supply, support and implementation of services and equipment, as well as the ongoing management thereof. With an unwavering commitment to service excellence and over 6 years experience in the security sector, SWATT Security Ltd contributes significantly to the success and growth of its clients.

Aware of the fact that every client's security requirements are unique, SWATT Security Ltd leverages on their ability to accurately profile your needs and make a solution to meet your requirements. By utilizing our understanding of your particular profile, SWATT Security Ltd is able to select the appropriate solutions for you. All of our services can be tailor-made to meet your security needs

Statement of the Problem:

Cash flow is the life blood of all businesses and is the primary indicator of business health. It is generally acknowledged as the single most pressing concern of maximum company, although even finance directors of the largest organizations emphasize the importance of cash, and cash flow modeling is a fundamental part of any private equity buy-out. In a credit crunch environment, where access to liquidity is restricted, cash management becomes critical to survival.

Why is the particular topic chosen?

The purpose of the thesis is to analysis of cash flow management. I believe that this topic can be utilized as a reference in the study of my course as well as job profile.

What contribution would the project make and to whom?

This would focus deeply in providing effective strategic solution for cash flow management for successfully business.

CHAPTER 2

OBJECTIVE AND SCOPE

Objective:

- To determine a project's rate of return or value. The time of cash flows into and out of projects are used as inputs in financial models such as internal rate of return, and net present value.
- To determine problems with a business's liquidity.
- Cash flow can be used to evaluate the 'quality' of Income generated by accrual accounting.

Scope:

Scope of cash flow management is to report the results of operations using financial and non-financial measures; its purpose is to help the organization to reach its key strategic objectives.

CHAPTER 3

THEORETICAL FRAMEWORK

Good cash management has a double benefit i.e. avoid the debilitating downside of cash crises; and it can grant commercial edge in all transactions. For example, companies able to aggressively manage their inventory may require less working capital and be able to extend more competitive credit terms than their rivals.

Working capital

Working Capital reflects the amount of cash tied up in the business' trading assets.

It is usually calculated as: stock (including finished goods, work in progress and raw materials) + trade debtors - trade creditors. It is made up of three components:

1. Days sales outstanding ("DSO" or "debtor days') is an expression of the amount of cash, which has tied up in unpaid invoices from customers. Most businesses offer credit in order to help customers manage their own cash



CHAPTER 4

METHODOLOGY

Two of the studied Discounted Cash Flow models were collected from an online database that provides subscribers with access to equity research from some of the leading investment banks. The additional DCF models were gathered from the individual Analyst that covers the Swatt Security Ltd stock at different investment banks.

There were two conditions from the Analysts in order to share their DCF models. The first condition was complete anonymity both regarding the name of the Analyst and the investment bank he or she works for. The second condition was a promise from the authors that the DCF models would not be displayed in any form or passed on to any other part.

In the interest of the reader and given the magnitude of the models certain limitations regarding the empirical study have been made. Given the purpose of this project report, we have chosen to empirically study the aspects that according to theory are considered most important.

CHAPTER 5

DATA COLLECTED

According to theory there are three crucial features that determine the quality of how historical information should be used in a DCF model.

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- The number of years of historical information included should be sufficient to determine historical performance and possible business trends.
- The extensiveness of historical information should at a minimum include income statements and balance sheets.
- The historical information should be analyzed through calculating financial ratios.

How each model takes these features into account is presented in the table below (Table 1).

CHAPTER 6

DATA ANALYSIS

The basis of the DCF model is to collect and analyze relevant historical accounting information in order to evaluate historical performance. A solid understanding of the past performance will enable reasonable forecasts of future performance. Thus, the number of years, the quantity and quality of historical information included and to what extent the historical information is being analyzed are three essential key components that can be used to determine the quality of historical information used in any DCF model.

Number of years of historical information: More years in a model inevitably require more information input, but a longer time frame also provides a more extensive understanding of past performance and potential business trends. Therefore, through including a sufficient number of historical years the predictability of future performance should increase.

The empirical finding on the number of historical years that was presented in the models was therefore surprising. One would expect that as many years as possible would be included in all of the studied models. However, the number of years included in the

CHAPTER 7

FINDING

One should notice that all models except one derived a fair value higher than the market value at the time of valuation. Thus even though the models varied to a large extent, with regards to the assumptions that was made, they all reached a similar recommendation. Thus there seems to be a clear market consensus regarding the fair value of the stock. The reason for this may be that the market does not realize the full potential of SWATT SECURITY LTD according to the Analysts. A more reasonable explanation may be that the Analysts prefer to make recommendations that correspond to consensus and collectively be incorrect rather than potentially being correct individually.

If it is truly the case that the Analyst is afraid of being unique then it is also in his interest to construct a model that derives a fair value similar to the market consensus. If the assumptions that derive the value of the market consensus cannot be explained through the theoretical analysis of historical performance the

assumptions in the model will appear arbitrarily chosen. Hence, this can also explain the difficulty to analyse the models, why they include hard coded assumptions and why they lack an overall connection to theory.

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CHAPTER 8

RECOMMENDATION

The theoretical recommendations regarding the calculation of the terminal value are the following:

- The model must be constructed in a manner so that true steady state can be determined.
- The company must be in true steady state for a continuing value formula to be applied, i.e. the free cash flows in steady state must grow at a constant rate consistent with the assumed terminal growth rate.
- The terminal growth rate in steady state must be less than or equal to that of the economy.

CHAPTER 9

CONCLUSIONS

The purpose of this thesis was to compare the practical use of the DCF model with the theoretical view. The difference between the theoretical recommendations and the empirical findings regarding the selected aspects in this study were found significant. If the theoretical recommendations are used as determinants of quality then it is also concluded that the vast majority of the models were of poor quality. Additionally, there were significant errors in some of the models. It is also likely that errors exist in these models regarding other aspects that were not included in this study.

The empirical study included approximately 50% of the DCF models that are used in practice to determine the fair value of SWATT SECURITY LTD. Furthermore, the investment banks that provided us with these models are dominant in the market. Therefore, the practical importance of these models in order to determine the aggregated recommendation regarding the SWATT SECURITY LTD stock is significantly great. Given the poor quality of these models this could imply that the overall recommendations regarding the SWATT SECURITY LTD stock are theoretical incorrect and thus the SWATT SECURITY LTD stock is trading at an incorrect value. This conclusion is probable according to the authors. However checking this conclusion might be, the value of

the stock is a function of supply and demand in the market and not a theoretical correct value. If thereby the majority of the market assumes a theoretical incorrect value it will become the prevalent stock market value.

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