

Overview of the graphs

The following graphs/metrics illustrate the overall performance of the Crown companies. These metrics were chosen as a means to provide a complete picture of an entity's performance, covering profitability, efficiency, benchmarking and gearing. This is not an exhaustive list of financial performance metrics, nor are they the only metrics that could be used to provide a similar summary; rather they offer one illustrative overview.

While the graphs independently illustrate various aspects of performance, they can and should be considered together to support the analysis and conclusions drawn. For example, return on equity is the appropriate measure for how much profit a company generates with the money shareholders have invested, however it ignores the impact of leveraging. Therefore, it would be appropriate to consider this in conjunction with the return on capital employed results, which shows the extent that debt has on financial returns. Further, looking at gearing indicates whether the debt levels are appropriate.

For this analysis, the following groupings of Crown companies have been used. The 'size' is based on revenue per SOE and CRI.

State Owned Enterprises				Crown Entity Companies	Crown Research Institutes	
Gentailers	Large	Medium	Small		Large	Medium
Meridian	NZ Post	Kordia	QV	Lotteries	AgResearch	ESR
Genesis	Transpower	AsureQuality	ACP	TVNZ	Plant & Food Research	GNS
Mighty River Power	Solid Energy	Landcorp	LML	Radio NZ	NIWA	IRL
		Airways	MetService	Public Trust		Scion
						Landcare Resarch

Explanation of the metrics

Revenue Index

The revenue index graph illustrates the growth in total revenue that has been recorded in the last six years.

Indexes illustrate the magnitude of changes over time. 2002/03 has been chosen as the index's base year.

Note: Gentailers' revenue is distorted somewhat because all gentailers capture revenue from both wholesale and retail businesses. An energy margin table for the last two years will be disclosed separately.

Capital employed Index

Capital employed = Fixed assets plus current assets minus current liabilities

Capital employed is the value of the assets that contribute to a company's ability to generate revenue.

Indexes illustrate the magnitude of changes over time. 2002/03 has been chosen as the index's base year.

Operating margin

Operating margin = EBITDAF/total revenue

Operating margin illustrates how much a company makes (before interest and taxes) on each dollar of revenue. This is a good measure of operating efficiency, as a margin that is increasing over time would show that the gentailers are earning more out of each dollar of revenue.

Return on capital employed (ROCE)

ROCE = EBIT/capital employed

Return on capital employed indicates the efficiency and profitability of the company's investments. Whereas ROE focuses on the returns on equity, ROCE focuses on the use of equity and debt as invested in assets.

ROCE depends on the value of assets and is impacted by the age of the assets, lifespan and the last revaluation.

Gearing

Gearing = net debt / (net debt plus equity)

Gearing illustrates how much of a company's operations are funded by debt. While optimal gearing (and therefore debt levels) is company and industry specific, the Crown expects a gearing level in line with an indicative credit rating of BBB (flat) (note that gearing is just one measure of a credit rating).

Note: total SOE gearing has been adjusted for Kiwibank's assets and liabilities because this would distort the results too much.

Return on equity (ROE)

ROE = NPAT/ average equity

ROE measures a company's profitability by showing how much profit a company generates using money shareholders have invested.

Because ROE excludes the company's debt, ROE should exceed ROCE.

Dividend payout ratio

Dividend payout ratio = dividends declared / NPAT

The dividend payout ratio shows how much of a company's earnings are paid out as dividends. This is calculated as a percentage of NPAT.