MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

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INVESTMENT CRITERIA

ANALYSE THE CASH FLOW

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THERE are so many factors that are considered by minority shareholders when investing. Each investor will have his or her own list of "what to look for" or "what conditions must be satisfied" before a stock can pass muster and meet the investor's criteria.

There are many software tools that churn out a huge volume of data, statistics and information with the noble intention of aiding the investor make the decision. Sometimes it is just information overload. A bit like not being able to see the forest for the trees.

Cash flow

Cash is a fact; profits are an opinion. As such, the power of cash should never be underestimated. As cliched as it may sound, cash is king compared to profits.

A reported profit may not be permanent. One period's profit may be impaired in a subsequent period by the making of an impairment or a provision or completely be erased by a write-off — the earlier reported profit is no more there.

Cash is just cold cash. The only way its value can be diminished is through inflation or the vagaries of the exchange rates. So, it is perfectly understandable why investors tend to place a greater emphasis on cash compared to profit.

One statement in the audited financial statements that would inevitably find its way into the investment criteria of an investor is the cash flow statement.

Cash flow statements have three components: cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.

Cash flow from operating activities indicates the amount of money a company brings in from its regular business activities, such as manufacturing and selling of goods or providing a service to customers.

It is the "business as usual" money. This indicates whether the business that you are doing is bringing in cash or not. Some risk-averse investors have this as a must-have criterion — the company must bring in net cash from its operations. Otherwise, what is the point, they reckon.

Cash flow from investing activities reports how much cash has been generated or spent from various investment-related activities in a specific period. Investing activities include purchases of physical assets, investments in securities or the sale of securities or assets. Negative cash flow is generally frowned upon as indicative of a company's poor performance.

However, negative cash flow from investing activities might be due to significant amounts of cash being invested to ensure the long-term health and sustainability of the company.

This includes investing in research and development and state-of-the-art plant and machinery. Nowadays, it is all about the Internet of Things and artificial intelligence and robotics, to name but a few of the emerging trends. So negative cash flow from investing activities may not necessarily be a bad thing. It may be indicative of future-proofing the business.

Cash flow from financing activities is the section of a company's cash flow statement which shows the net flows of cash used to fund the company.

Financing activities include transactions involving debt, equity and dividends. Cash flow from financing activities provides investors with an insight into a company's financial strength and how well a company's capital structure is managed. Each of the three categories would produce a net cash inflow (positive cash flow) or net cash outflow (negative cash flow) for the period under review.

Their total will produce the net cash inflow or a net cash outflow on an overall basis. That is, overall, is cash coming into the company or going out of the company.

The better investment software modules out there would indicate the cash flow statements for the last five years. And some of these software modules are available free of charge from some brokers if you are their customer.

Much useful information can be gained by analysing the five-year cash flows. Just because there is a blip in one or two years of the last five years may not necessarily spell gloom and doom.

All three categories of the cash flow statement have their own story to tell. They point out different aspects of the business to the investor, although many swear that the cash flow from operating activities tells more and is a must to consider before pressing the "buy" button.

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