



# ANALYSING COMPANY PERFORMANCE. Example of IHG & MLC Hotels

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## ABSTRACT

Analyzing Company performance requires a rational thinking based on the information given by financial statements, but also information provided by the stock markets which are displayed to the investors who want to invest or the existing ones who want to see how their company is doing comparing to the open market with competitors. So, this study was to evaluate and analyze two companies which were IHG and MLC hotels. Beta to assess risks and Capital Asset Pricing Model/CAPM were used to compare both companies. Findings shows that all companies are performing well in comparison with the hospitality industry except some volatilities of return observed especially for MLC which means MLC is more risky than IHG.

**Key Words:** Analyze, Company, Performance and Hotel

## INTRODUCTION

Analyzing a company's performance consist looking in which manners to measure economic and financial consequences of the decisions made by the company management, applied into operating, financing and investment activities. This analysis is related to the assessment of the company's efficiency in using its available resources and of the extent to which the company profitability met shareholders' expectations as they invest their money having the goals to maximize profit and seeking the growth and expansion of the company. Company's performance evaluation consist of analyzing and interpreting assembled information which at the heart of the financial statements. The evaluation of the performance of the company represents the methods to analyze the profitability of the business and risk levels associated to the business, even if the shareholder and the management of the company are certainly interested in profitability but also more attention has to be paid to the risks for which the business is exposed to (Clipici, E. & Gadoiu, M., 2014).

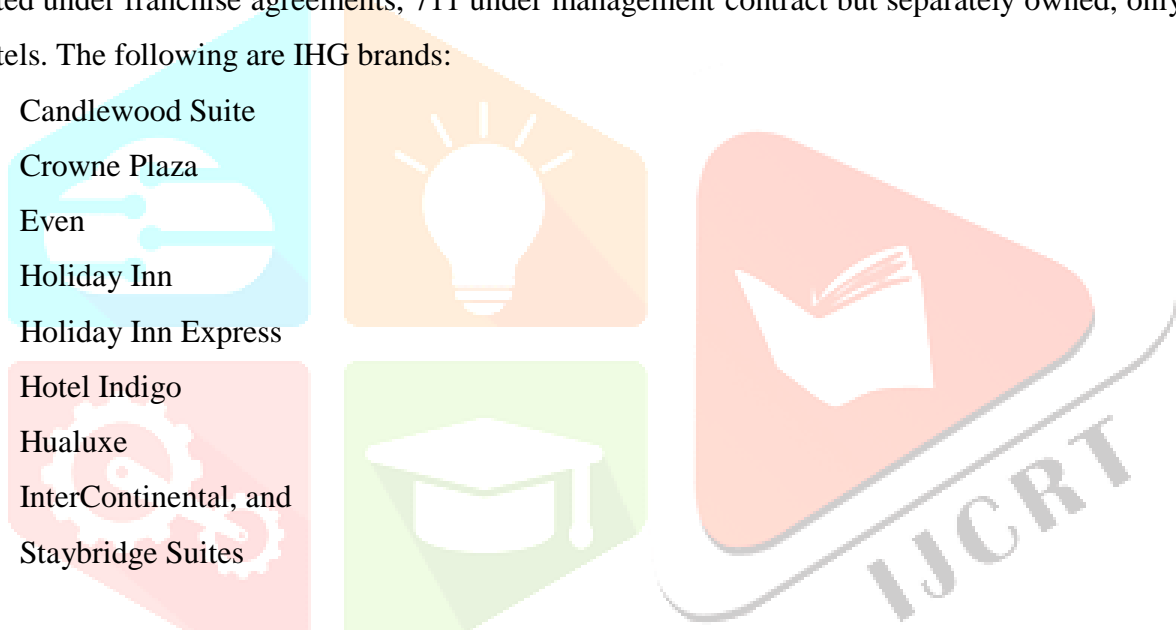
During this discussion two big companies in hotel industry which are InterContinental Hotel Group (IHG.L) and Millennium & Copthorne Hotels (MLC.L) are going to be evaluated and compared using their financial statements as well as their information listed in London Stock Exchange. The FTSE 350 market index is going to be used as benchmark for lodging industry because it includes both companies and it is not influenced by fluctuation of share markets and the conclusion and recommendations are provided at the end of the discussion.

## PRESENTATION OF IHG & MLC

### INTERCONTINENTAL HOTEL GROUP/IHG

Intercontinental Hotel Group/IHG is a multinational hotel company with its head quarter in Denham, United Kingdom which is the largest hotel company around the world in term of rooms measures because it has 687,000 in more than 4,697 hotels across more than 100 countries. Amazingly among 4,697 hotels, 3,977 are operated under franchise agreements, 711 under management contract but separately owned, only IHG owns 10 hotels. The following are IHG brands:

- ✓ Candlewood Suite
- ✓ Crowne Plaza
- ✓ Even
- ✓ Holiday Inn
- ✓ Holiday Inn Express
- ✓ Hotel Indigo
- ✓ Hualuxe
- ✓ InterContinental, and
- ✓ Staybridge Suites



Global hotel and room count		Hotels		Rooms	
At 31 December	2013	Change over 2012	2013	Change over 2012	
<b>Analysed by brand</b>					
InterContinental	178	8	60,103	2,789	
Crowne Plaza	391	(1)	108,891	584	
Holiday Inn <sup>1</sup>	1,216	[31]	224,577	[6,911]	
Holiday Inn Express	2,258	66	214,597	8,966	
Staybridge Suites	196	7	21,518	822	
Candlewood Suites	312	13	29,778	1,103	
Hotel Indigo	55	5	6,199	538	
Other	91	28	21,210	3,000	
<b>Total</b>	<b>4,697</b>	<b>95</b>	<b>686,873</b>	<b>10,891</b>	
<b>Analysed by ownership type</b>					
Franchised	3,977	43	502,187	1,395	
Managed	711	53	180,724	9,726	
Owned and leased	9	(1)	3,962	[230]	
<b>Total</b>	<b>4,697</b>	<b>95</b>	<b>686,873</b>	<b>10,891</b>	

Source: IHG Annual Report, 2013, <http://www.ihgplc.com/index.asp>

This table above shows us that the hotel is expanding its investment from 2012 up to 2013 10,891 new additional guest rooms was acquired from 95 new hotel established, which means there is an increase of 1.6% in hotel guest rooms.

Global total gross revenue	12 months ended 31 December		
	2013 \$bn	2012 \$bn	% change
InterContinental	4.5	4.5	-
Crowne Plaza	4.0	4.0	-
Holiday Inn	6.2	6.3	(1.6)
Holiday Inn Express	5.2	4.8	8.3
Staybridge Suites	0.6	0.6	-
Candlewood Suites	0.6	0.5	20.0
Hotel Indigo	0.2	0.2	-
Other	0.3	0.3	-
<b>Total</b>	<b>21.6</b>	<b>21.2</b>	<b>1.9</b>

**Source:** (IHG Annual Report, 2013)

As the above table shows the gross profit of IHG increased of 1.9% from \$21.2 Billion up to \$21.6 Billion. However this global gross revenue is different from the total revenue published by the IHG on stock market (NYSE) which shows total revenue as follows; 2013: \$1.9 Billion, 2012: \$1.84 Billion and 2011: \$1.77 Billion.

### **IHG.L Strategy**

The company focuses on delivering high-quality growth, which means delivering consistent, sustained growth in cash flows and profits over the longer term. The company does this by staying focused on the Targeted Portfolio and building preferred brands, driven by a deep understanding of guests' needs.

IHG's Winning Model, combined with a Targeted Portfolio underpinned by Disciplined Execution, will drive superior returns for IHG's shareholders.

### **MILLENNIUM & COPTHORNE HOTELS**

Millennium & Copthorne Hotels is owned and managed four brands: Grand Millennium, Millennium, Copthorne and Kingsgate. The hotel and operations are managed on a worldwide basis and operate in seven major areas such as New York, USA, London, Europe and Middle East, Singapore, rest of Asia and Australia. It operates in two segments: Hotel and property operations. In August 2013, it announced that Idea Valley Holdings Company Limited was dissolved and Millennium Hotels London Limited incorporated a wholly owned subsidiary known as Millennium Hotels (West London) Limited. In March 2014, Millennium & Copthorne Hotels PLC, a unit of City Developments Ltd acquired Chelsea Harbor Hotel from Harcourt Developments Ltd. The company owns or operates over 120 hotels in 19 countries around the world. It is headquartered in London and is a constituent of the FTSE 250 Index (<http://www.millenniumhotels.com/corporate/investors/financial-results.html>, 2014).

## MLC.L Strategy

The Group's hotel operating strategy is interlinked with asset management because it controls the yield characteristics on the Group's asset portfolio, through driving revenues and maintaining disciplined control of costs. A high proportion of the Group's operating functions are de-centralized, so that local management can respond quickly to local markets. This factor also enables the Group to maintain a low level of central overhead costs. Managed and franchised hotels form a relatively small part of the Group's business, primarily in strategically significant locations, where the Group wishes to develop and maintain a presence for example to promote cross selling opportunities but does not see an immediate commercial advantage in asset ownership (<http://www.millenniumhotels.com/corporate/investors/financial-results.html>, 2014).

## ASSETS FOR IHG.L & MLC.L

Period Ending	<b>IHG.L ASSETS</b>			
	<b>31 Dec 2013</b>	<b>31 Dec 2012</b>	<b>31 Dec 2011</b>	<b>31 Dec 2010</b>
	<b>Assets</b>			
	<b>Current Assets</b>			
Cash And Cash Equivalents	134,000	195,000	182,000	78,000
Short Term Investments	12,000	6,000	-	-
Net Receivables	370,000	393,000	347,000	337,000
Inventory	4,000	4,000	4,000	4,000
Other Current Assets	229,000	536,000	220,000	-
<b>Total Current Assets</b>	<b>814,000</b>	<b>1,194,000</b>	<b>795,000</b>	<b>466,000</b>
Long Term Investments	321,000	239,000	199,000	178,000
Property Plant and Equipment	-	-	-	-
Goodwill	80,000	93,000	92,000	92,000
Intangible Assets	-	-	-	-
Accumulated Amortization	-	-	-	-
Other Assets	-	-	-	-
Deferred Long Term Asset Charges	108,000	204,000	106,000	79,000
<b>Total Assets</b>	<b>2,953,000</b>	<b>3,263,000</b>	<b>2,968,000</b>	<b>2,776,000</b>

Source: (IHG.L Balance Sheet&annual, 2014)

**MLC.L ASSETS**

Period Ending	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010
<b>Assets</b>				
Current Assets				
Cash And Cash Equivalents	424,000	397,000	332,000	252,000
Short Term Investments	-	-	-	-
Net Receivables	179,000	62,000	67,000	43,000
Inventory	75,000	176,000	152,000	108,000
Other Current Assets	1,000	1,000	1,000	2,000
<b>Total Current Assets</b>	<b>679,000</b>	<b>661,000</b>	<b>574,000</b>	<b>430,000</b>
Long Term Investments	449,000	445,000	427,000	401,000
Property Plant and Equipment	-	-	-	-
Goodwill	-	-	-	-
Intangible Assets	-	-	-	-
Accumulated Amortization	-	-	-	-
Other Assets	-	-	-	-
Deferred Long Term Asset Charges	-	-	-	-
<b>Total Assets</b>	<b>3,355,000</b>	<b>3,403,000</b>	<b>3,321,000</b>	<b>3,185,000</b>

Source: (MLC.L Balance Sheet&annual, 2014)

From the above information from yahoo finance, 31 December 2013 IHG.L has a total of 2,953,000€ and MLC.L has 3,355,000€ in total assets. Both companies registered a decrease comparing to the previous year 2012 where IHG.L had 3,263,000€ and MLC.L had 3,403,000€. Both companies use current and non-current assets, however MLC.L does not show Goodwill on its balance sheet.

**PROFITABILITY**

<b>Financial Highlights for IHG.L &amp; MCL.L</b>		
	<b>IHG.L</b>	<b>MCL.L</b>
<b>Fiscal Year</b>		
Fiscal Year Ends:	31-Dec	31-Dec
Most Recent Quarter (mrq):	31-Dec-13	31-Mar-14
<b>Profitability</b>		
Profit Margin (ttm):	19.55%	21.49%
Operating Margin (ttm):	34.68%	22.89%
<b>Management Effectiveness</b>		
Return on Assets (ttm):	13.27%	3.99%
Return on Equity (ttm):	307.82%	8.93%
<b>Income Statement</b>		
Revenue (ttm):	1.90B	1.04B
Revenue Per Share (ttm):	7.21	3.19
Qtrly Revenue Growth (yoy):	-0.10%	-0.30%
Gross Profit (ttm):	1.12B	587.00M
EBITDA (ttm) <sup>6</sup> :	724.00M	275.70M
Net Income Avl to Common (ttm):	372.00M	222.80M
Diluted EPS (ttm):	1.39	0.69
Qtrly Earnings Growth (yoy):	-81.80%	-46.70%

Source: (Key Statistics, 2014)

From the above information, IHG.L has a high Net income compared to MLC.L as well IHG.L has a high ROA (13.27%) and ROE (307.82%) against ROA (3.99%) and ROE (8.93%) for MLC.L

According to yahoo finance, the PEG (price/earnings to growth ratio) Ratio for 5 years expected is 2.8 for IHG.L and -2.22 for MLC.L. So, IHG has a higher growth rate than the MLC.L.

**DEPT TO EQUITY MIX**

This is the financial Leverage measurement of a company calculated by dividing its total liabilities by stockholders’ equity. It indicates what proportion of equity and debt the company is using to finance its assets.

From the financial report of both companies especially balance sheet published in their annual reports for the year 2013, I calculate Debt to equity ratios for both companies IHG.L and MLC.L during the year ended 31 December 2013, which are shown in the table below

Company	Debt to Equity
IHG.L	16.01
MLC.L	4.62

This Ratio indicates what proportion of equity and debt the company is using to finance its assets. We can see that IHG.L uses a much higher proportion for this reason than the MLC.L.

**ANALYSIS OF THE PERFORMANCE OF THE COMPANIE’S SHARE**

**Comparisons of share prices for both Companies with a period of 5 years**





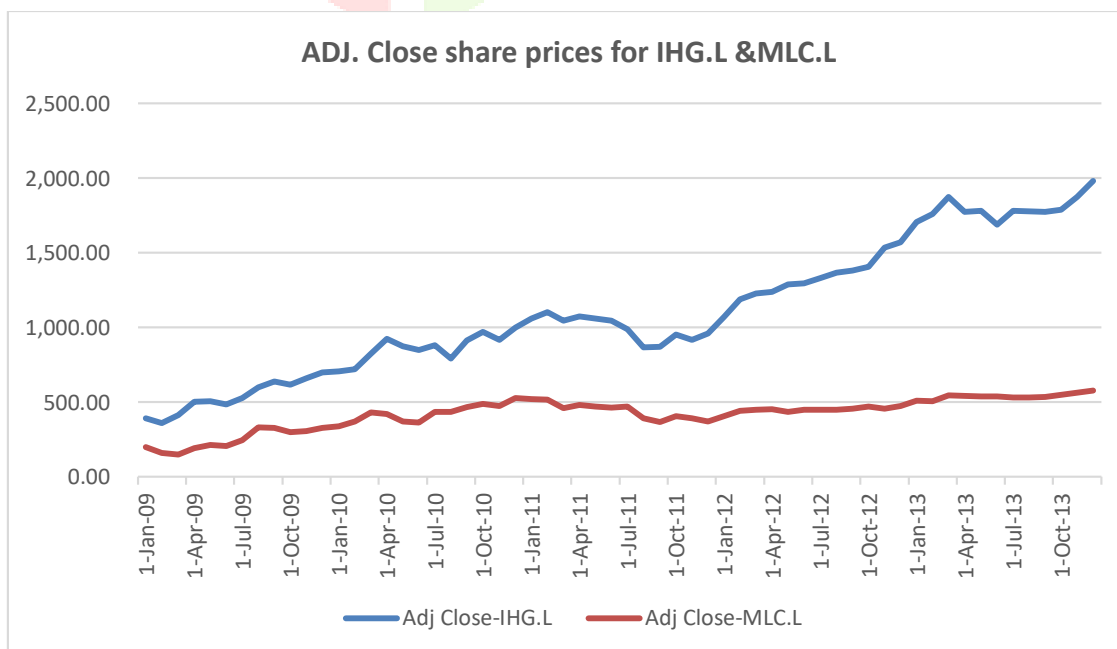
The chart above is showing us that before Jan 2012 MLC.L was performing better than IHG however from Jan 2012 IHG.L take its essence and lead MLC.L until May 2013 even if the difference is not big . IHG.L is showing an increase where MLC.L has a tendency to decrease starting the beginning of 1<sup>st</sup> quarter of year 2014. Both company they are superior to weight index from FTSE, except IHG.L which performed badly in the second quarter of year 2009, since then IHG.L is above the index market price.

### The table of share prices for IHG.L, MLC.L and Market index prices of lodging industry in FTSE-350 and their respective returns

IHG.L			MLC.L		The Market PRICE/ FTSE-350		
Date	Adj Close*	Return IHG.L	Adj Close*	Return MLC.L	Date	Adj Close	Return FTSE-350
2-Dec-13	1,983.51	5.7804%	579.34	2.5635%	2-Dec-13	3674.32	1.7104%
1-Nov-13	1,875.12	4.7331%	564.86	2.7224%	1-Nov-13	3612.53	-1.0380%
1-Oct-13	1,790.38	0.8324%	549.89	2.6125%	1-Oct-13	3650.42	4.1174%
2-Sep-13	1,775.60	-0.0552%	535.89	0.7255%	2-Sep-13	3506.06	0.9388%
1-Aug-13	1,776.58	-0.3025%	532.03	0.1959%	1-Aug-13	3473.45	-2.9315%
1-Jul-13	1,781.97	5.4757%	530.99	-1.6047%	1-Jul-13	3578.35	6.7049%
3-Jun-13	1,689.46	-5.1914%	539.65	0.1782%	3-Jun-13	3353.5	-5.3408%
1-May-13	1,781.97	0.4742%	538.69	-0.9725%	1-May-13	3542.71	2.4482%
2-Apr-13	1,773.56	-5.4313%	543.98	-0.6157%	1-Apr-13	3458.05	0.2734%
1-Mar-13	1,875.42	6.4999%	547.35	7.6613%	1-Mar-13	3448.62	0.9136%
1-Feb-13	1,760.96	3.1249%	508.40	-0.5516%	1-Feb-13	3417.4	1.8605%
2-Jan-13	1,707.60	8.7290%	511.22	7.7228%	1-Jan-13	3354.98	6.2718%
3-Dec-12	1,570.51	2.3380%	474.57	3.8038%	3-Dec-12	3156.98	0.8372%
1-Nov-12	1,534.63	9.0192%	457.18	-3.1850%	1-Nov-12	3130.77	1.3713%
1-Oct-12	1,407.67	1.8670%	472.22	3.4481%	1-Oct-12	3088.42	0.8411%
3-Sep-12	1,381.87	0.9349%	456.48	1.1456%	3-Sep-12	3062.66	0.8376%
1-Aug-12	1,369.07	2.7044%	451.31	0.7568%	1-Aug-12	3037.22	1.4958%
2-Jul-12	1,333.02	2.7360%	447.92	-0.0536%	2-Jul-12	2992.46	1.2451%
1-Jun-12	1,297.52	0.5900%	448.16	2.8173%	1-Jun-12	2955.66	4.5456%
1-May-12	1,289.91	4.0216%	435.88	-4.0905%	1-May-12	2827.15	-7.3014%
2-Apr-12	1,240.04	0.9640%	454.47	1.0922%	2-Apr-12	3049.83	-0.6023%
1-Mar-12	1,228.20	3.2821%	449.56	1.4167%	1-Mar-12	3068.31	-1.4160%
1-Feb-12	1,189.17	10.9911%	443.28	8.7350%	1-Feb-12	3112.38	3.7322%
3-Jan-12	1,071.41	11.6680%	407.67	9.4710%	2-Jan-12	3000.4	2.5455%
1-Dec-11	959.46	4.6109%	372.40	-5.4630%	1-Dec-11	2925.92	0.7975%
1-Nov-11	917.17	-3.7425%	393.92	-3.5621%	1-Nov-11	2902.77	-0.8109%
3-Oct-11	952.83	9.3247%	408.47	10.9852%	3-Oct-11	2926.5	7.9240%
1-Sep-11	871.56	0.4784%	368.04	-6.4630%	1-Sep-11	2711.63	-5.1689%
1-Aug-11	867.41	-12.4120%	393.47	-16.5015%	1-Aug-11	2859.43	-7.4552%
1-Jul-11	990.33	-5.2552%	471.23	1.6721%	1-Jul-11	3089.78	-2.3316%
1-Jun-11	1,045.26	-1.5448%	463.48	-1.3579%	1-Jun-11	3163.54	-0.7806%
3-May-11	1,061.66	-1.2198%	469.86	-2.4600%	2-May-11	3188.43	-1.0886%
1-Apr-11	1,074.77	2.5818%	481.71	4.4471%	1-Apr-11	3223.52	2.8482%
1-Mar-11	1,047.72	-4.9351%	461.20	-10.8465%	1-Mar-11	3134.25	-1.2688%
1-Feb-11	1,102.11	4.0305%	517.31	-0.4311%	1-Feb-11	3174.53	2.1127%
4-Jan-11	1,059.41	5.7929%	519.55	-1.9476%	3-Jan-11	3108.85	-0.6443%

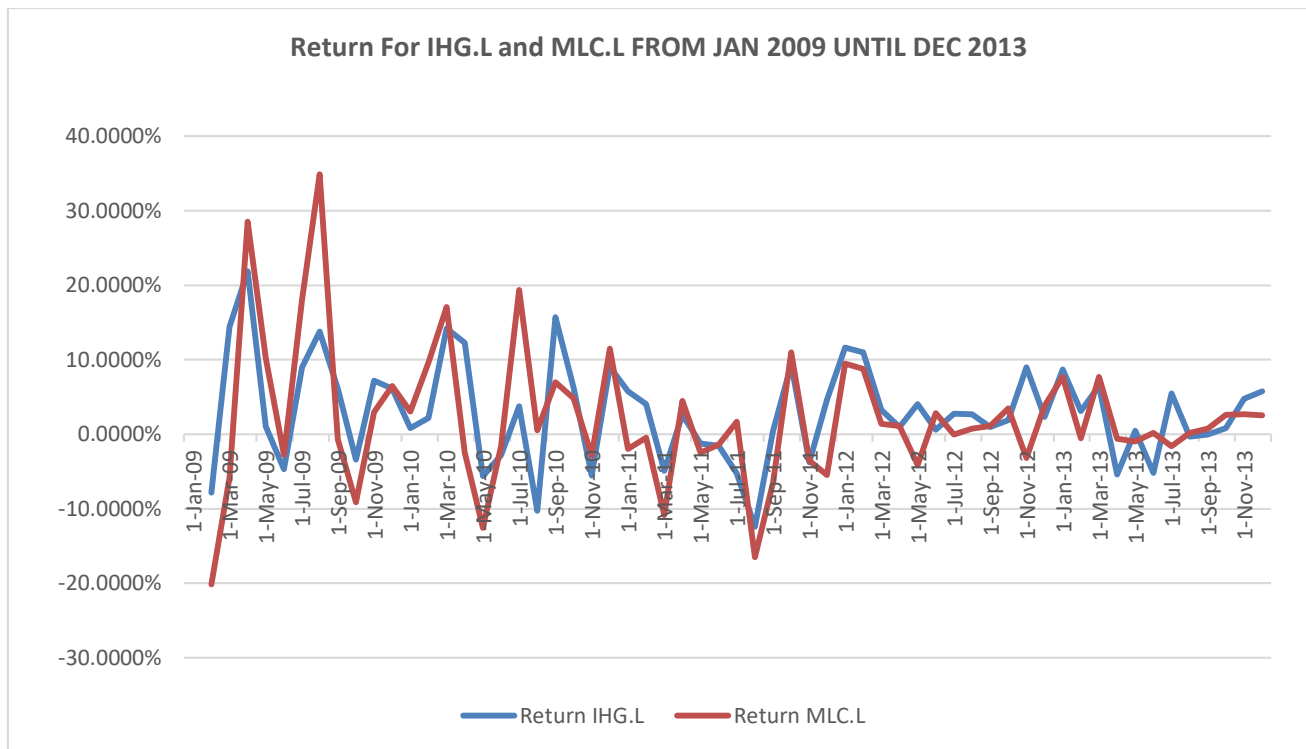
1-Dec-10	1,001.40	9.0351%	529.87	11.5211%	1-Dec-10	3129.01	7.0138%
1-Nov-10	918.42	-5.5512%	475.13	-2.8443%	1-Nov-10	2923.93	-2.5357%
1-Oct-10	972.40	6.2500%	489.04	4.8070%	1-Oct-10	3000	2.3688%
1-Sep-10	915.20	15.6826%	466.61	6.9961%	1-Sep-10	2930.58	6.3207%
2-Aug-10	791.13	-10.2641%	436.10	0.5279%	2-Aug-10	2756.36	-0.7068%
1-Jul-10	881.62	3.7627%	433.81	19.3491%	1-Jul-10	2775.98	6.8428%
1-Jun-10	849.65	-2.8338%	363.48	-1.6026%	1-Jun-10	2598.19	-4.9212%
4-May-10	874.43	-5.6078%	369.40	-12.5536%	3-May-10	2732.67	-6.6300%
1-Apr-10	926.38	12.3062%	422.43	-2.4997%	1-Apr-10	2926.71	-1.7028%
1-Mar-10	824.87	14.2274%	433.26	17.0372%	1-Mar-10	2977.41	6.3995%
1-Feb-10	722.13	2.1660%	370.19	9.6210%	1-Feb-10	2798.33	2.9483%
4-Jan-10	706.82	0.8389%	337.70	3.0327%	1-Jan-10	2718.19	-3.7376%
1-Dec-09	700.94	6.1210%	327.76	6.4986%	1-Dec-09	2823.73	4.2887%
2-Nov-09	660.51	7.1961%	307.76	2.9952%	2-Nov-09	2707.61	2.5894%
1-Oct-09	616.17	-3.3838%	298.81	-9.1376%	1-Oct-09	2639.27	-1.8716%
1-Sep-09	637.75	6.1395%	328.86	-0.7005%	1-Sep-09	2689.61	4.4740%
3-Aug-09	600.86	13.8014%	331.18	34.8892%	3-Aug-09	2574.43	6.9697%
1-Jul-09	527.99	8.9875%	245.52	18.0555%	1-Jul-09	2406.69	8.3846%
1-Jun-09	484.45	-4.6677%	207.97	-2.7723%	1-Jun-09	2220.51	-3.6145%
1-May-09	508.17	1.0057%	213.90	10.1782%	1-May-09	2303.78	3.6749%
1-Apr-09	503.11	21.8450%	194.14	28.4930%	1-Apr-09	2222.12	9.2080%
2-Mar-09	412.91	14.3953%	151.09	-5.8219%	2-Mar-09	2034.76	2.8202%
2-Feb-09	360.95	-7.8575%	160.43	-20.1483%	2-Feb-09	1978.95	-7.2370%
2-Jan-09	391.73		200.91		1-Jan-09	2133.34	
<b>Total</b>	66,224.83	177.0900%	25,296.98	129.9875%		177,963.94	59.5401%
<b>Average</b>	1103.747167	3.0825%	421.6163	2.5023%		296606.5667%	1.1130%
<b>SD</b>	441.1822201	0.066564653	106.1541852	0.091193549		394.4279774	0.040934941

The above table is showing us that the IHG.L has small Standards deviation in term of return and MLC.L has a high Standards deviation this means that the MLC.L has more risk than IHG.L even if it has lower average return.





The adjusted closing prices of both companies was declined in the beginning of the year 2009 and until March when they started increasing, IHG.L increase is high degree than MLC.L which has increasing slowly. This can be due to the fluctuation of prices for one part to another.



There is an up and down fluctuations for both companies (IGH.L and MLC.L) in term of returns, in July 2011 we had worse situation for both companies when they went beyond -13% returns.

**COMPUTE THE IMPLIED RETURN FOR EACH COMPANY**

Useful formulas to calculate the value of a share of stock as the present value of all expected future dividend

$$P_0 = \frac{D_1}{(1+k)} + \frac{D_2}{(1+k)^2} + \frac{D_3}{(1+k)^3} + \frac{D_4}{(1+k)^4} + \frac{D_5}{(1+k)^5}$$

$$P_0 = \frac{D_1}{(k-g)} = \frac{D_0(1+g)}{(k-g)}$$

- $k = \frac{D_1}{P_0} + g$

**IHG.L**

First of all we have to calculate **g**: Growth rate, and **k**: estimate Required Rate of Return or Discount rate

Year	Dividends	Yearly Growth Rate
Dec-13	42.80	12.04%
Dec-12	38.20	20.13%
Dec-11	31.80	19.10%
Dec-10	26.70	-2.91%
Dec-09	27.50	
<b>Total</b>		<b>48.36%</b>

Arithmetic Average Growth Rate/g = 48.36%/5= **9.67%**

$$k = \frac{27.50}{1,983.51} + 9.67$$

$$k = 1.39\% + 9.67\%$$

$$k = 11.06\%$$

The estimated Required Rate of Return/Discount rate for IHG.L is **11.06%**

$$P_0 = \frac{D_1}{(k-g)} = \frac{D_0(1+g)}{(k-g)}$$

$$P_0 = \frac{27.50(1 + 9.67\%)}{(11.06\% - 9.67\%)}$$

$$P_0 = 2,169.73$$

The implied return for IHG.L is **£2,169.73**

### MLC.L

Year	Dividends	Yearly Growth Rate
Dec-13	13.59	8.72%
Dec-12	12.50	25.00%
Dec-11	10.00	60.00%
Dec-10	6.25	0.00%
Dec-09	6.25	
<b>Total</b>		<b>93.72%</b>

Arithmetic Average Growth Rate/  $g = 93.72\%/5 = 18.74\%$

$$k = \frac{6.25}{579.34} + 18.74$$

$$k = 1.08\% + 18.74\%$$

$$k = 19.82\%$$

The estimated Required Rate of Return/ Discount rate for MLC.L is **19.82%**

$$P_0 = \frac{D_1}{(k-g)} = \frac{D_0(1+g)}{(k-g)}$$

$$P_0 = \frac{6.25(1 + 18.74\%)}{(19.82\% - 18.74\%)}$$

$$P_0 = 687.15$$

The implied return for MLC.L is **£687.15**

### COMPARISON OF THE RISK PREMIUM OF IHG & MLC

To calculate the risk premium the following formula is useful

$$R_p = E(R_i) - R_f$$

Already we have expected return for each company, so we have to estimate the risk free, as two companies are listed in UK, especially in London Stock Exchanges they have to comply with government policy regarding bonds rate. A rate of 0.70% is set for a 2 years government Bond and a rate of 0.50% is set for an official bank rate (UK Bank of England, 2014).

So now we can set our risk free at 0.50%

$$R_{p, IHG.L} = 11.06\% - 0.50\% = 10.56\%$$

$$R_{p, MLC.L} = 19.82\% - 0.50\% = 19.32\%$$

### COMPUTATION OF THE COMPANIES' BETA

To calculate beta using data from section two, we can use this formula  $E(R_i) = R_f + [E(R_M) - R_f] * \beta_i$  so or excel formula. So excel formula which is COVARIANCE.P (C3:C61,I3:I61)/VAR.P(I3:I61) for IHG.L gave me Beta equals to **1.1593533138822100%** and for MLC.L in excel formula: COVARIANCE.P(E3:E61,I3:I61)/VAR.P(I3:I61) is giving us Beta equal to **1.690083440753500%**

Reuter Published beta for IHG.L AND MLC.L as flows: 1.02 for IHGL and 1.48 for MLC.L (Reuters Finance, 2014).

Company	Beta Published by Reuters	Beta Calculated
IHG.L	1.020	1.159
MLC.L	1.480	1.690

As Beta is a measure of the risk arising from exposure to general market movements, the company MLC.L has high Beta than IHG.L, which means it has high risk than IHG.L.

### COMPUTATION OF THE EXPECTED RETURN FOR IHG.L &MLC.L

Using the Capital Asset Pricing Model/CAPM, the following formula is used:

$$E(R_i) = R_f + [E(R_M) - R_f] * \beta_i$$

To obtain the  $R_m$  we have prices for FTSE-350 for 5 years, so the easy way to calculate it is  $(3674.32 - 2133.34) / 2133.34 = 72.22\%$

$$E(R_{IHG.L}) = 0.50\% + (72.22\% - 0.50\%) * 1.159 = 82.623\%$$

$$E(R_{MLC.L}) = 0.50\% + (72.22\% - 0.50\%) * 1.690 = 116.2068\%$$

The computed expected result using CAPM is much higher than what we calculated using DDM

### BUILDING OF THE MINIMUM VARIANCE PORTFOLIO AND COMPUTATION OF THE PERFORMANCE OF THE PORTFOLIO

The following formula is used to calculate Minimum Variance

$$X_a = \frac{\sigma_b^2 - \sigma_a \sigma_b \rho_{a,b}}{\sigma_a^2 + \sigma_b^2 - 2\sigma_a \sigma_b \rho_{a,b}}$$

$$X_b = (1 - X_a)$$

$$X_a = \text{IHG.L}$$

$$X_b = \text{MLC.L}$$

So correlation IHG.L and MLC.L equal to 0.66026871

SD for IHG.L is 0.066564653 and SD for MCL.L 0.091193549

$$X_{IHG.L} = 0.91064$$

$$X_{MLC.L} = 1 - 0.91064 = 0.08936$$

Expected return of the portfolio:

	Average Return	Weight (W)
<b>IHG.L</b>	3.0825%	0.03001526
<b>MLC.L</b>	2.5023%	0.02203177

$$\begin{aligned}
 \text{Expected Return} &= \text{AVR}_{\text{IHGL.L}} * \text{W}_{\text{IHGL.L}} + \text{AVR}_{\text{MLC.L}} * \text{W}_{\text{MLC.L}} \\
 &= (3.0825\% * 0.03001526) + (2.5023\% * 0.02203177) \\
 &= 9.2522\% + 5.5130\% \\
 &= \mathbf{14.7652\%}
 \end{aligned}$$

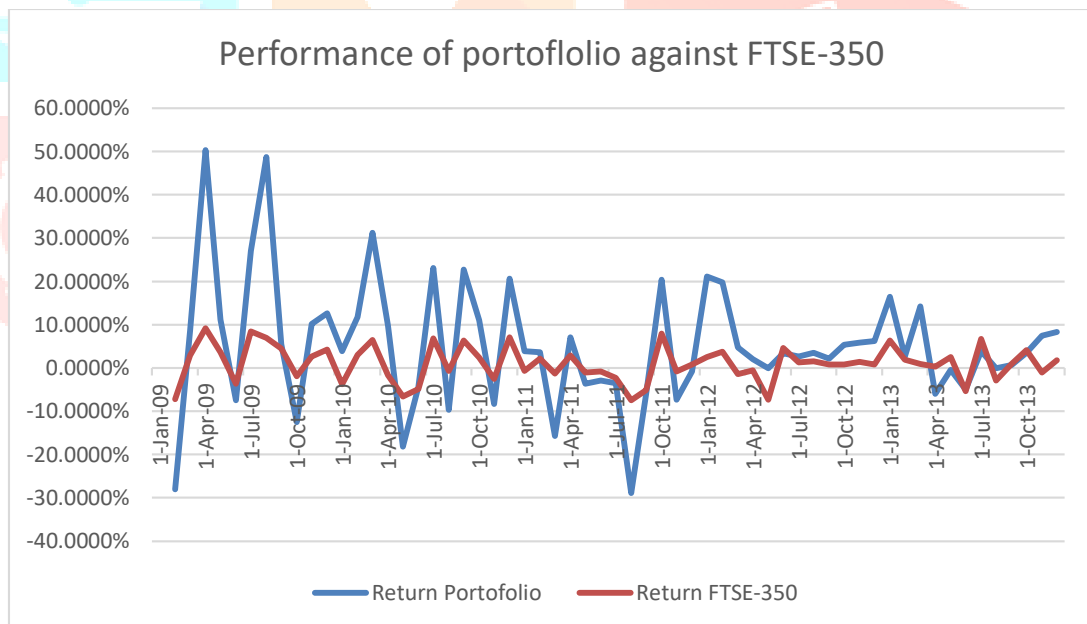
**ESTIMATION OF THE PORTFOLIO'S BETA (RISK)**

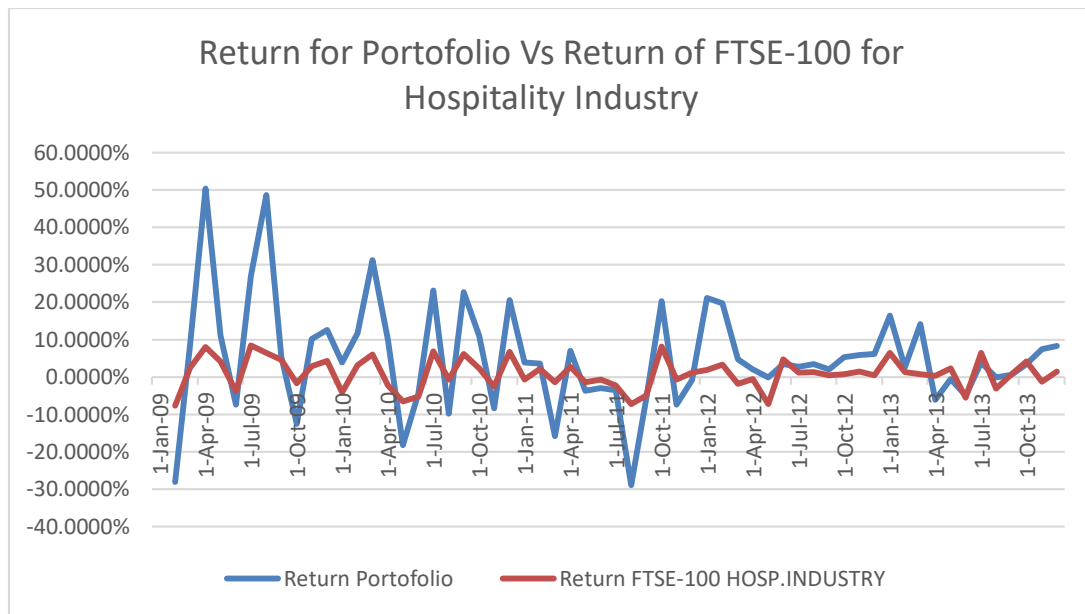
The formula to estimate Beta is as follows,

$$\beta_i = \rho_{(R_i, R_M)} * \sigma_i / \sigma_M$$

COMPANY	$\rho_{(R_i, R_{\text{FTSE-350}})}$	SD	BETA OF PORTOFOLIO
IHGL.L	0.71296187	0.066564653	<b>1.159</b>
MLC.L	0.7586443	0.091193549	<b>1.690</b>
FTSE-350/Market		0.040934941	
<b>Total Beta of Portfolio</b>			<b>2.849</b>

**COMPARISON OF THE PERFORMANCE OF THE PORTFOLIO WITH THE MAIN INDEX**





AS the above two diagram shows the portfolio of IGH.L and MLC.L is fluctuating a lots, whereas the market price are moving quietly, most of time portfolio's performance is good except October 2010, March 2011 and July 2011 (huge fall)

## CONCLUSION

To analysis the performance of the company requires a rational thinking throughout the information given by financial statements but also information provided by the stocks markets are very crucial as are displayed to the investors who want to invest or the existing ones who want to see how their company is doing comparing to the open market with competitors. The discussion was evaluating and analyzing two companies which was IHG.L and MLC.L, in general all companies are performing well in comparison with the hospitality industry except some volatilities of return observed especially for MLC.L which means MLC.L is more risky than IHG.L.

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