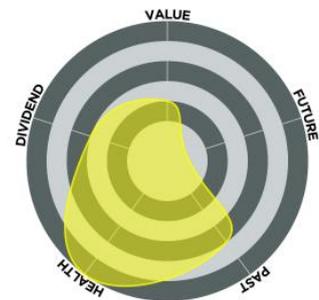


PRESSMN'S INVESTMENT OVERVIEW

Pressman Advertising



Pressman Advertising Limited (NSE:PRESSMN): Why Return On Capital Employed Is Important

▲ Blake Harford 📅 November 14, 2018

I am writing today to help inform people who are new to the stock market and want to begin learning the link between Pressman Advertising Limited ([NSE:PRESSMN](#))'s return fundamentals and stock market performance.

Pressman Advertising stock represents an ownership share in the company. Your equity share is granted in return for the capital provided to the business to operate, and in order for an investment to be successful the business has to create earnings from the funds that make up this capital. Your return is tied to PRESSMN's ability to do this because the amount earned is used to invest in opportunities to grow the business or payout dividends, which are the two sources of return on investment. Thus, to understand how your money can grow by investing in Pressman Advertising, you need to look at what the company returns to owners for the use of their capital, which can be done in many ways but today we will use return on capital employed (ROCE).

Calculating Return On Capital Employed for PRESSMN

You only have a finite amount of capital to invest, so there are only so many companies that you can add to your portfolio. Therefore all else aside, your investment in a certain company represents a vote of confidence that the money used to buy the stock will grow larger than if invested elsewhere. So the business' ability to grow the size of your capital is very important and can be assessed by comparing the return on capital you can get on your investment with a hurdle rate that depends on the other return possibilities you can identify. To determine Pressman Advertising's capital return we will use ROCE, which tells us how much the company makes from the capital employed in their operations (for things like machinery, wages etc). Take a look at the formula box beneath:

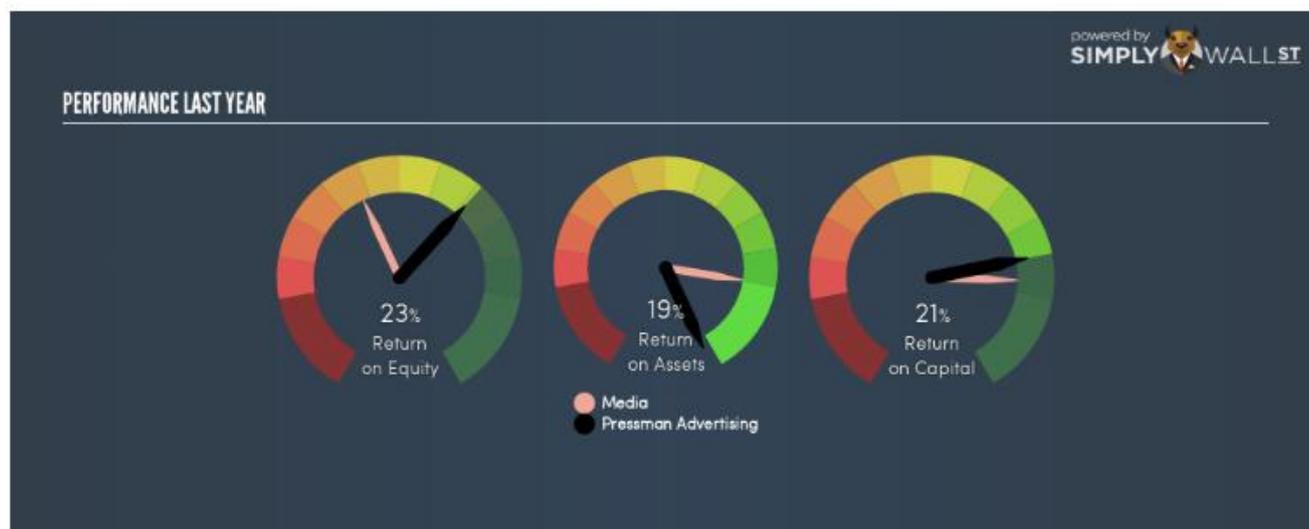
ROCE Calculation for PRESSMN

$$\text{Return on Capital Employed (ROCE)} = \text{Earnings Before Tax (EBT)} \div (\text{Capital Employed})$$

$$\text{Capital Employed} = (\text{Total Assets} - \text{Current Liabilities})$$

$$\therefore \text{ROCE} = \text{₹76m} \div (\text{₹404m} - \text{₹49m}) = 21\%$$

The calculation above shows that PRESSMN's earnings were 21% of capital employed. This makes Pressman Advertising attractively profitable when compared to a robust 15% ROCE yardstick. So if this rate continues in to the future and is able to either provide solid dividends or reinvestment opportunities, your capital will enlarge at a quick rate over time.



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Does this mean I should invest?

Although Pressman Advertising is in a favourable position, you should know that this could change if the company is unable to maintain a strong ROCE above the benchmark, which will depend on the behaviour of the underlying variables (EBT and capital employed). Because of this, it is important to look beyond the final value of PRESSMN's ROCE and understand what is happening to the individual components. Three years ago, PRESSMN's ROCE was 23%, which means the company's capital returns have worsened. Conversely, the movement in the earnings variable shows a jump from £60m to £76m albeit capital employed has improved by a proportionally greater amount as a result of a rise in total assets, indicating that the previous growth in earnings has not been able to improve ROCE because the company now needs to employ more capital to operate the business.

Next Steps

ROCE for PRESSMN investors has declined in the last few years, however, the company still remains an attractive candidate that is capable of producing solid capital returns and a potentially strong return on investment. But don't forget, return on capital employed is a static metric that should be looked at in conjunction with other fundamental indicators like future prospects and valuation. If you don't pay attention to these factors you cannot be sure if the downward path is a signal to run, or just a blip in an otherwise solid return profile. If you're building your portfolio and want to take a deeper look, I've added a few links below that will help you further evaluate PRESSMN or other alternatives.

1. **Future Outlook:** What are well-informed industry analysts predicting for PRESSMN's future growth? Take a look at our [free research report of analyst consensus](#) for PRESSMN's outlook.
2. **Valuation:** What is PRESSMN worth today? Is the stock undervalued, even if its ROCE is factored into its intrinsic value? The [intrinsic value infographic in our free research report](#) helps visualize whether PRESSMN is currently mispriced by the market.
3. **Other High-Performing Stocks:** Are there other stocks that provide better prospects with proven track records? Explore our [free list of these great stocks here](#).

To help readers see past the short term volatility of the financial market, we aim to bring you a long-term focused research analysis purely driven by fundamental data. Note that our analysis does not factor in the latest price-sensitive company announcements.

The author is an independent contributor and at the time of publication had no position in the stocks mentioned. For errors that warrant correction please contact the editor at editorial-team@simplywallst.com.



Blake Harford

Blake has never worked in the financial sector, but has not let that inhibit his passion for the share market. He actually likes the fact that his investing is something he really enjoys doing, and would prefer to not have that crossover with his job in the biomedical sector.

He has over 20 years experience in the market and is also a wicked guitar player!

URL of Research Report

<https://simplywall.st/stocks/in/media/nse-pressmn/pressman-advertising-shares/news/pressman-advertising-limited-nsepressmn-why-return-on-capital-employed-is-important/>