

BUSINESS DAY

BioScience: the problem isn't rand earnings, it's everything else

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THE one thing that really strikes you going through the BioScience results released last week is the reported half-year earnings figure of 0,000067c a share. It's actually 0,0067c a share. But it still smacks of desperation. Who reports earnings to six decimal places? But then you realise the alternative was to report earnings of nought cents a share. That would be even more startling. There's no dignity in it. Better to report a small loss. Somehow, a loss of half a cent a share sounds more of an achievement than zero profit. Admittedly, "earnings of 0,0067c a share" doesn't exactly roll off the tongue either, but it does have one significant advantage: the potential for a terrific trading update next year.

Companies with minuscule earnings like nothing better than to announce huge percentage increases under paragraph 3.4(b) of the JSE listings requirements when their earnings improve. An increase of 700% from 0,1c to 0,8c sounds a lot better than an increase of 0,7c a share. Never mind that for the rest of us it's irritating, having to go back to last year's figures, with the inevitable disappointment. (That's where they're probably hoping you won't bother.) Be that as it is, if BioScience can raise its interim earnings per share to half a cent by this time next year, it will be able to announce an improvement of 7363%. No small feat! Had they reported earnings of zero cents a share this year, however, even a zillion-percent increase in earnings would still result in zero earnings next year. Therefore the company would have no choice but to report an improvement of 0,4933c a share. Not nearly as cool. Unfortunately, both appear unlikely.

While interim earnings of 0,5c a share might not sound too demanding, BioScience would have to increase interim net profit from R126561 to R9,5m in order to achieve it. The result of having nearly 2-billion shares in issue. Whereas, even a 10-fold increase in profits from this year to next will still only produce earnings of less than 0,1c a share. That brings us to another observation on companies' reporting practices: the way they tend to leave out the tangible net assets value per share figure when it suits them. BioScience, on this occasion, being no exception. The company reported a net asset value of 2,71c a share but chose to ignore the effect of taking out the intangibles. Not surprising. The main thing that separates it from the old Wellco, on the balance sheet at least, is the intangible assets value of R52,1m, presumably for its brands. Without it, BioScience's current liabilities would exceed its total assets by almost R2m. And that, coupled to a negative operating cash flow, could put off some punters.

Twice as easy

ONE of the nice things about being a long-term investor is that you only need to be right once — when you buy. Whereas the rest of us have to right at least twice:

When we buy and when we sell. Anon