ANZ New Zealand Securities Limited, n.d.

Educational Articles

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Net Tangible Assets per share (NTA/share)

NTA (net tangible assets) is described as the total assets of a company, excluding intangible assets (such as goodwill, trademarks and patents) minus total liabilities. The NTA/share value is used to determine, in theory, the money that each shareholder would receive if the company was forced into liquidation and all of the assets were sold at that point in time.

Formula: NTA = total assets - total liabilities - intangible assets

Formula: NTA/share = net tangible assets ÷ number of shares on issue

This article will assist you in calculating, understanding and using a "Net Tangible Assets per share" (NTA/share) figure in your company analysis. NTA/share is relevant because it helps you judge whether a share price is over or under valued.

How it helps you

When you put your investment plan together, ask yourself questions about the companies you want to invest in, based on your chosen investment strategy.

- Is this a fair price for the shares (maybe the company is undervalued or overvalued)?
- What is my worst case scenario in this investment?
- What are my triggers for selling out?

The NTA/share is a useful ratio for your investment strategy as it can help you to answer these questions.

An NTA/share figure may indicate:

- Whether the share price accurately reflects the net assets held by the company
- The amount of money (per share) that you may get back if the company was liquidated
- The time you might exit the investment

Where to find it

Finding NTA/share on the ANZ Securities website is easy. You can obtain an NTA/share figure in the "Detailed" Quick Quote menu, as demonstrated below*. This data is taken from the reported data in the financial statements of the company.

Security Detailed

Security code or Company name: NZ ▾ View: Detailed ▾ Go >>

TEL.NZX - Telecom Corporation of New Zealand Limited Ord Shares	
Total Issue:	1,824,150,788
Market Capitalisation:	$4,432,686,415 (@243)
Earnings/Share:	12.86 cents
Price/Earnings Ratio:	18.9
NTA/Share:	18.49 cents
Dividend/Share:	NZD 16 cents
Dividend Yield:	6.58%
1-Week Range (Low - High):	237.5 - 247.5
4-Week Range:	231 - 247.5
26-Week Range:	219.5 - 247.5
52-Week Range:	216 - 274

*The figures reflected in the example above are correct as at March 11th 2009.

Important points to note

Please be aware that NTA/share should not be used to compare companies in different industries (e.g. mining versus ports) as they provide different products/services.

NTA/share is useful but should not be used exclusively, even when looking at two similar companies, as it does not take into account intangible assets. Even though they are excluded from the formula above, intangible assets can still add value to share prices as intangible assets can have a positive effect on profit levels, which in turn may also affect the NTA/share figure.

For example, a company with a high level of "goodwill" (a better brand reputation) amongst its customers may have a higher share price and NTA/share than its rival, simply due to the fact that customers trust the brand of the first company more than they trust the brand of the second. In this fictional scenario, customers may be more likley to purchase good/services from the first company as opposed to the second company and this may lead to higher profit and share price levels, and a subsequently higher NTA/share figure, for the first company.

Case studies

1. NTA/share - "Undervalued Buy & Hold Strategy"

Some investors choose to ignore short-term downward cycles in the market that can cause anxiety and stress. In fact rather than selling, they may see a drop in the market as a buying opportunity, accumulating good securities at cheaper prices.

One way of identifying potentially cheaper stocks is to identify where the NTA/share is greater than the share price. This means that the share price is significantly lower than the book value of the shares and the shares can be considered undervalued (considered a "bargain").

Company ABC	**Company DEF**
Share price: $0.60	Share price: $3.50
NTA/share: $2.20	NTA/share: $0.40

The NTA/share value for fictional company "ABC" shares is nearly 4 times the amount of the share price, indicating that the shares are undervalued. This may lead some investors to the conclusion that because the net assets held by "ABC" are greater than the share price, it carries the resources to strengthen its position within the market over time, thereby increasing its share price. Buying at a "cheaper" price before other investors realise the potential of the company could be an advantage.

2. NTA/share - worst case scenario

In the current economic climate where weaker companies are succumbing to mounting debt, the NTA/share value is a useful tool to envisage the worst case scenario that some investors are forced to experience - how much money will they receive if the company goes under? A company with a high NTA/share may be able to, theoretically, provide better recuperation on the value of an investor's shares. Whereas a company with a low NTA/share may, theoretically, provide significantly less recuperation on the value of an investor's shares.

Company ABC	**Company DEF**
Share price: $0.60	Share price: $3.50
NTA/share: $2.20	NTA/share: $0.40

Using the same (fictional) companies as examples again, if "ABC" was liquidated it could, theoretically, provide more than a 100% recuperation on the cost of an investor's shares, based on the current share price. Whereas "DEF" investors would, theoretically, only receive $0.40 worth of their $3.50 shares.

Note: in the event of a company liquidation shareholders are paid out last. Shareholders, as owners of the business, rank behind secured and unsecured creditors when proceeds from realised assets are distributed to creditors in the event of a liquidation. This means that an NTA/share figure should only be viewed as an approximation of the amount a shareholder might recuperate on their investment.

3. NTA/share - your exit strategy

A wise investor makes decisions on why they might sell at the start of their investment and does not allow fluctuations of the market to make decisions for them.

A reduction in the NTA/share value may be one sell trigger the investor looks at, as it indicates that the share price is higher than the book value of the shares. This means either the book value has deteriorated and liabilities are increasing, or more shares are on issue. Either way the shares are overvalued (considered "too expensive").

Alternatively, investors may be of the opinion that when a stock price increases rapidly and ends up exceeding the NTA/share figure, a pullback may occur - "what goes up must come down". This may be a good time to realise some or all of the profit from your shareholding.

Being able to recognise that a company has a (possible) downfall in its future and subsequently taking measures to reduce a holding in that company, is the mark of a smart investor who is sticking to their investment plan and knows when to say when.

Part 5: Earnings Per Share

Part 3: Dividend Yields

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