Available online at www.sciencedirect.com

ScienceDirect

Procedia Economics and Finance 30 (2015) 797 – 807

Procedia Economics and Finance

www.elsevier.com/locate/procedia

3rd Economics & Finance Conference, Rome, Italy, April 14-17, 2015 and 4th Economics & Finance Conference, London, UK, August 25-28, 2015

Study on the profitability of Romanian companies listed on Bucharest stock exchange

Iulia Oana Belcic Stefan

University of Craiova, Str. Renasterii, Nr. 57, Craiova, Romania

Abstract

Whether it is analyzed from a classical or modern perspective, corporate profitability evolution represents a benchmark for current and potential capital providers of companies. This study performs a comparative analysis of the evolution of profitability of Romanian companies listed on Bucharest Stock Exchange in a period fully affected by the manifestation of the global financial crisis, i.e. 2009-2013. Thus, there were selected 35 companies listed on BSE, which are representative for eight sectors of the Romanian economy, of the total 10 existing in the national capital market, i.e. Mining and quarrying, Manufacturing, Electricity, gas, and air conditioning supply, Constructions, Wholesale and retail trade, Transportation, Storage, Professional, scientific and technical activities. Thus, half of the sectors to which the analyzed companies belong to have not seen a dramatic drop in profitability in the period studied. However, a visible manifestation of the financial crisis took place in 2011 in the sectors of Electricity, gas, steam and air conditioning supply, Professional, scientific and technical activities and Constructions. By contrast to the first two of these, in the constructions sector, profitability evolves in increasingly negative over the next two years of analysis. At the same time, the sector that has consistently registered significant values of all profitability ratios, marking the most favorable evolution, is that of transportation.

Peer-review under responsibility of IISES-International Institute for Social and Economics Sciences.
Keywords: Profitability; Bucharest Stock Exchange; listed companies; financial crisis

1. Introduction

Economic activity, no matter the area of activity it takes place in, can be characterized depending on outputs, its effects and the fulfilment of targeted objectives. Profitability analysis of a company calls for information from the published financial statements, which, despite the differences between financial and accounting principles and practices, often provides clues to the past performance of the company, which may be relevant to the future. Even if profit maximization is no longer necessarily the essential aim of a company because of failure to take into account

Peer-review under responsibility of IISES-International Institute for Social and Economics Sciences.
doi:10.1016/S2212-5671(15)01329-5

issues such as risk and cost of capital employed, though, as Gitman (2009) also notes, owners, creditors and management pay close attention to boosting profits because of the great importance the market places on earnings.

The purpose of this paper is to empirically investigate the profitability evolution of Romanian companies listed on BSE by analysing the profitability ratios of 35 companies belonging to 8 sectors of activity that are representative for the national economy, during the timeframe 2009-2013. The study contributes to the literature by the large number of selected companies and of the activity sectors they represent as well as by the period taken into consideration, significantly marked by the global financial crisis.

2. Concepts and Methodology

The profitability of a company reflects the efficiency with which the company's capacity (its investments) is used, in order to achieve the results expected by capital providers and has as prerequisite the activity to be carried on in terms of profit. The importance of profitability analysis at enterprise level is recognized in the specialized literature. Thus, as noted by Friedlob and Schleifer (2003, p.69) a company has to be profitable in the long run to be successful. According to Brigham, Gapenski and Ehrhardt (1999, p.111), profitability is the net result of various policies and managerial decisions and profitability ratios represent the net operational result of the combined effects of liquidity, asset management and debt management. In one approach to IFRS interpretations made by Greuning, Scott and Terblanche (2011, p.65) profitability indicators are an indication of how a company's profit margins are associated to sales, average capital and average equity capital.

As we can see, the profitability of a company is best characterized by profitability ratios. Although profitability ratios used in assessing the economic and financial performance of companies are treated in a relatively uniform manner by specialized literature, the method of constructing them is significantly different. Thus, after following the economic and financial literature both Romanian and international, in the present paper are determined and analysed the profitability ratios as follows:

$$Return\ on\ Assets\ (ROA) = \frac{EBIT}{Average\ Total\ Assets} \quad (1)$$

$$Return\ on\ Invested\ Capital (ROIC) = \frac{EBIT(1 - Tax\ Rate)}{Average\ Invested\ Capital} \quad (2)$$

$$Return\ on\ Equity\ (ROE) = \frac{Net\ Income}{Average\ Equity} \quad (3)$$

Using as denominator the average values (at the beginning and end of the year) of invested capital and assets owned by the company is a recommended practice (Bodie, Merton and Cleeton, 2009, p.84) because they represent elements from the balance sheet, which is a "snapshot" at a point in time whereas the numerator is an element of the income statement, which covers a period of time.

$$EBIT\ Margin = \frac{EBIT}{Sales} \quad (4)$$

$$Gross\ Profit\ Margin = \frac{Gross\ Profit}{Sales} \quad (5)$$

$$Net\ Profit\ Margin = \frac{Net\ Income}{Sales} \quad (6)$$

$$Expense\ Coverage\ Ratio = \frac{Net\ Income}{Total\ Expenses} \quad (7)$$

The Expense Coverage Ratio is widely covered in the Romanian specialized literature (Achim and Borlea, 2012; Petcu, 2009; Buse, 2005; Ganea, 2012) as a form of expressing the efficiency of resource consumption at the level of an enterprise.

3. Case study

In order to perform the study, a total of 35 Romanian companies listed on Bucharest Stock Exchange were selected, which emphasize profitability of 8 of the 10 sectors currently represented on the capital market in Romania. The selected companies represent 43.2% of the total number of domestic companies listed on BSE and their capitalization