FINANCIAL PERFORMANCE ANALYSIS IN LISTED COMPANIES

Diana Andone
Faculty of Economics and Business Administration, Babeş-Bolyai University Cluj, Romania,
andonediana2014@gmail.com

Abstract: *The financial crisis which caused numerous bankruptcies is phenomenon that can repeat itself in the ensuing period. One of the causes that generated the phenomenon was, along with the mortgage-back securities, the insufficient attention devoted to industrial production in general and to profit in particular. The literature in the field points to the fact that companies' managers need to take into account the means of obtaining profit as well as liquidity and leverage. This is why in this paper we focus on the profitability of the oil and gas companies which have been affected by the financial crisis. Profit and loss account comprises two components: the operating and financial flows of an enterprise over a period of time, usually the financial year. We can evidence the results of a company based on the annual reports during the fiscal period such as financial position, performance and cash flow. The paper conducts a comparative analysis of performance between two companies operating in the energy industry, OMV Petrom SA and ROMGAZ SA.*

Keywords: *Assets; Equity; Funds; Earnings; Sales;*

JEL classification: *G32; M41;*

1. Literature Review

In the economic literature, there is a diversity opinions regarding the performance. Thus, Banerjee (Banerjee, 2015: 171-179) said that the profit in general refers to "the difference between the total revenue accruing from the sales of a commodity and the total cost incurred in producing it. On the other hand the terms profitability implies the extent of capacity of earning profit. In an abstract sense, it may be defined as the quality of being profitable". Holz analyzed China's industrial state-owned enterprises (SOEs) and observed that a low-profitability of these enterprises tend have a high liability–asset ratio (Holz, 2002: 1–26).

Another paper aims to "investigate the predictability of Australian industrial stock returns in a Bayesian dynamic forecasting model. When the industry momentum is examined, the results show that a group-rotation strategy can enhance the portfolio performance" (Yao and Alles, 2006: 122–141).

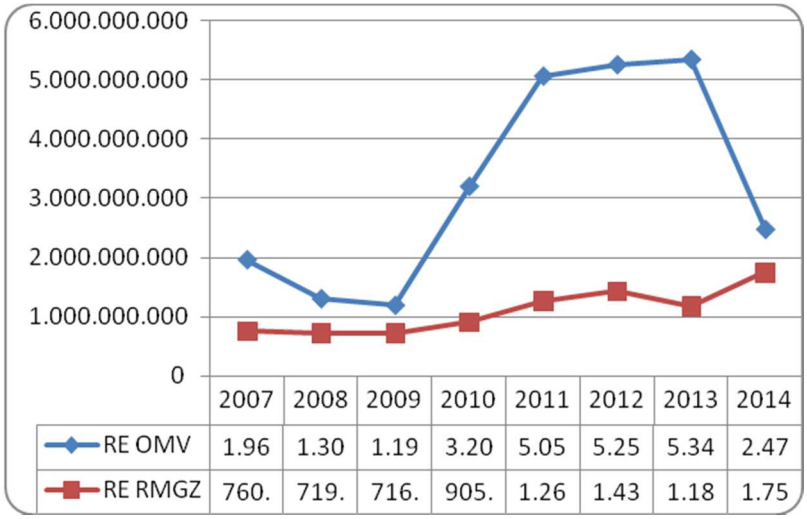
In Finland, the weak profitability, liquidity and solvency of "harvesting contractors and the consequent difficulty in hiring qualified machine operators make networking and enterprise growth a complicated process. Analyzing the year 2007 the authors get that net profit was about 6%, credit share of turnover over 50% and median financial reserve €18,000. High machine depreciation and interest expenses together with low solidity make it difficult for small enterprises to absorb seasonal variations and to cope with recessions. Profitability varies considerably amongst smallest enterprises, which most often are sole-operator enterprises. Moreover, even the median profit of the smallest enterprises tends to be negative, which means that enterprise capital will be consumed and many enterprises are at risk of failure. Larger enterprises are

more likely to be limited liability companies. Their median profit is clearly positive and the profit varies relative little between enterprises" (Mikkola, et al, 2011: 211-229).
Another paper analyses the relation between "working capital management and profitability for small and medium-sized enterprises (SMEs) by controlling for unobservable heterogeneity and possible endogeneity. The results show that there is a non-monotonic (concave) relationship between working capital level and firm profitability, which indicates that SMEs have an optimal working capital level that maximizes their profitability. In addition, a robustness check of our results confirms that firms' profitability decreases as they move away from their optimal level" (Baños-Caballero, et al, 2012: 517-529).
In another model are evaluated "four wintering strategies in the context of the whole farm system and compare them in terms of profitability and the variability of profit under different climate years, and to identify the key drivers of profitability for each strategy" (Beukes, et al, 2011: 541–550).
A group of researchers studies the impact of two reverse logistics business strategies on profitability of the firm through operations management (OM) in the steel industry. The first strategy is production mix efficiency (PME), which is involved in the process of producing goods. The second strategy is product route efficiency (PRE), which engages in the transportation of goods. The authors finding indicates that OM alone does not have a positive impact on profitability but the two strategies have a positive effect on profitability" (Weeks, et al, 2010: 1087-1104).
From other point of view the performance of an enterprise "depends largely on its financial structure that is how much of its activity is financed by equity and how much by debt. The authors tried to see if in the companies in Romania there is a significant link between their performance measured by ROE and ROA and leverage (as a measure of company's exposure and hence as indirect measure of the company's financial structure) and their liquidity" (Csegedi, et al, 2012: 195-198).
Investors are interested by "the company's ability to generate, sustain and increase profit. That is why, profitability can be measured in some different ways, but interdependent. A profitability measurement is based on the link between the company's costs and sales. Earnings are generated especially by the ability of controlling the costs compared to obtained revenues" (Moscviciov, et al, 2010: 122 – 127).
An important tool in performance analysis is "the ratio method which can be used both in trend and static analysis. As accounting ratio is an expression relating two figures or accounts or two sets of account heads or group contain in the financial statements. Ratio is work out to analyze the following aspects of business organization such as: solvency, stability, profitability, etc." (Moscviciov, et al, 2010: 600 – 603). Managerial or financial analysis methods of risk "allow measuring past performance of the company, informing at a small extent on its future. As a response to these practical requirements, the risk of failure diagnosis has undergone a significant development due to the use of statistical methods for analyzing the financial situation from a set of rates" (Bătrâncea, 2011: 393 – 399; Bătrâncea M., Bătrâncea L., 2006: 23).
Modern and efficient management of an entity "must be evaluated using financial performance criteria, covering on one side operational activity and on the other side the actual financial activity conducted over a period of time determined usually by the financial exercise" (Csegedi, et al, 2011: 341-347).

2. Method and Results

The performance analysis undertaken for the two energy companies based on profit and loss, and the dynamic component has a static component and a component based on financial performance rates.

A first dimension of analysis is based on interim results of performance development, namely: the operating result, the financial result, the gross result and net result.

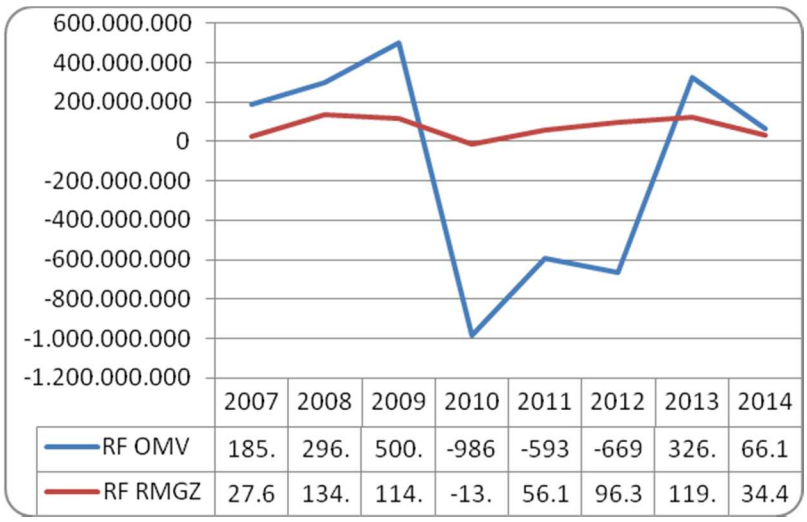


	2007	2008	2009	2010	2011	2012	2013	2014
RE OMV	1.96	1.30	1.19	3.20	5.05	5.25	5.34	2.47
RE RMGZ	760.	719.	716.	905.	1.26	1.43	1.18	1.75

Figure 1 The operational profit evolution at these companies
Source: Own calculus

From the above representation the operating profit shows the same trend during the crisis 2007 - 2008 and a different pattern in rest period. Thus, during post crisis (2010 - 2013) OMV operating profit significantly increased, reaching a peak in 2013, after which, due to lower stock prices of oil, operating profit dramatic drop until 2010. On the other hand, ROMGAZ' operating profit increased steadily 2014, reaching a level comparable to the level recorded operating profit of OMV.

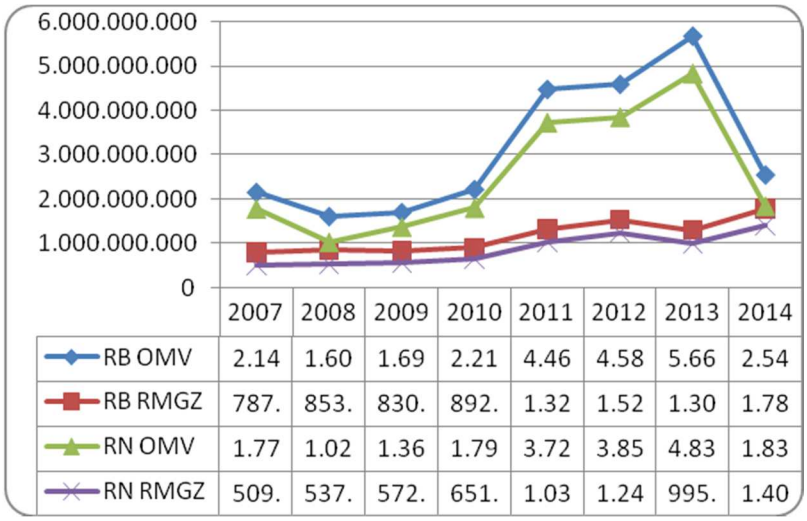
The financial activity from foreign sources was another dimension of performance. In this case the evolution of the companies was different. Thus, because of the level of long-term loans, the financial result of OMV is negative since 2011, although since 2013 there has been an increase of financial profit. Instead, the ROMGAZ financial result has a constant level compared to the level registered positive for OMV, as a result of investments made by the company to identify new sites of operation.



	2007	2008	2009	2010	2011	2012	2013	2014
RF OMV	185.	296.	500.	-986	-593	-669	326.	66.1
RF RMGZ	27.6	134.	114.	-13.	56.1	96.3	119.	34.4

Figure 2 The financial profit evolution
Source: Own calculus

Finally evolution of gross profit on the one hand and net profit on the other hand represent new dimensions of financial analysis.

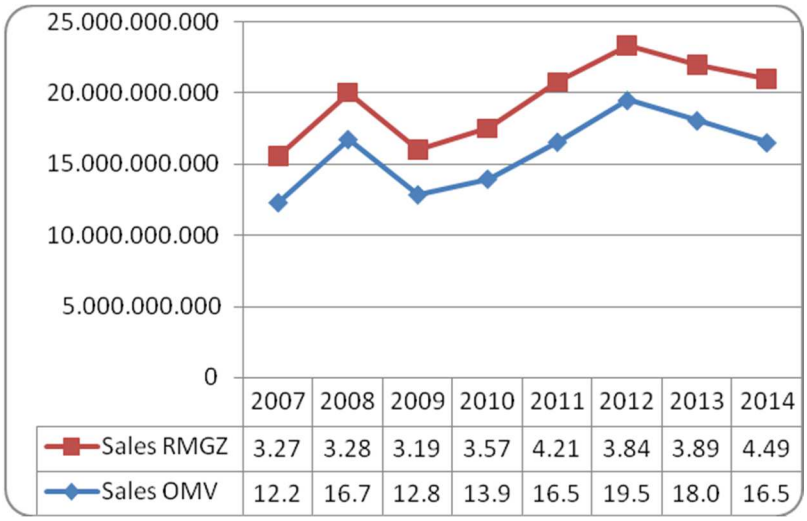


	2007	2008	2009	2010	2011	2012	2013	2014
RB OMV	2.14	1.60	1.69	2.21	4.46	4.58	5.66	2.54
RB RMGZ	787.	853.	830.	892.	1.32	1.52	1.30	1.78
RN OMV	1.77	1.02	1.36	1.79	3.72	3.85	4.83	1.83
RN RMGZ	509.	537.	572.	651.	1.03	1.24	995.	1.40

Figure 3 The gross and net profit evolution
Source: Own calculus

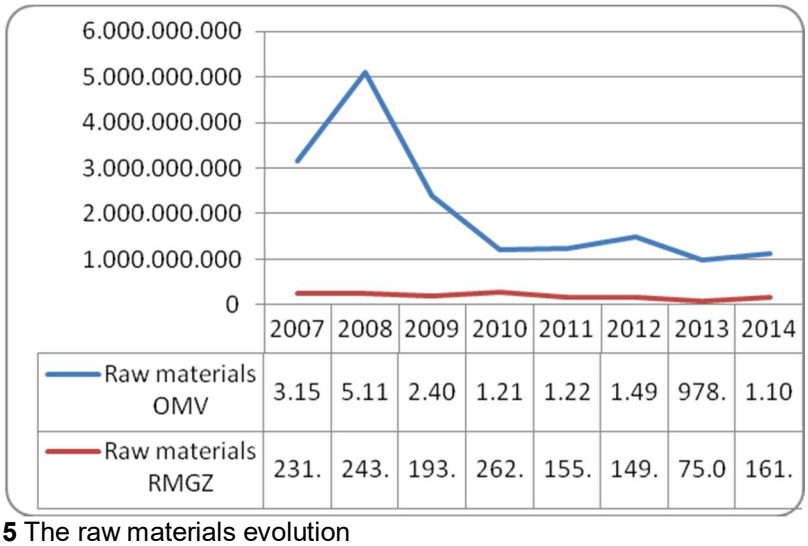
From the chart above we note that both gross profit and net profit have the same trend in operating profit, with a drop between 2007 - 2009 and an increase until 2013, after which the interim results of OMV significantly reduces the due to lower oil prices. However, ROMGAZ has a steady growth since 2010, between the values of the two companies there are nearby in 2014.

To analyze the factors that led to these developments, we followed the evolution of turnover of the two companies.



	2007	2008	2009	2010	2011	2012	2013	2014
Sales RMGZ	3.27	3.28	3.19	3.57	4.21	3.84	3.89	4.49
Sales OMV	12.2	16.7	12.8	13.9	16.5	19.5	18.0	16.5

Figure 4 The sales evolution
Source: Own calculus

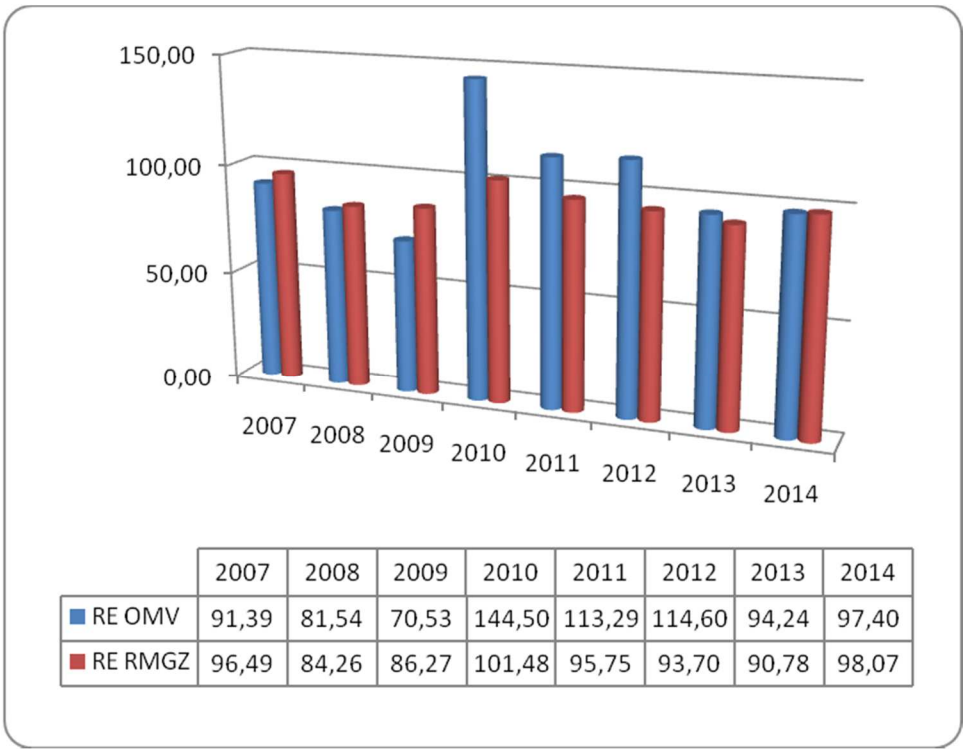


	2007	2008	2009	2010	2011	2012	2013	2014
Raw materials OMV	3.15	5.11	2.40	1.21	1.22	1.49	978.	1.10
Raw materials RMGZ	231.	243.	193.	262.	155.	149.	75.0	161.

Figure 5 The raw materials evolution
Source: Own calculus

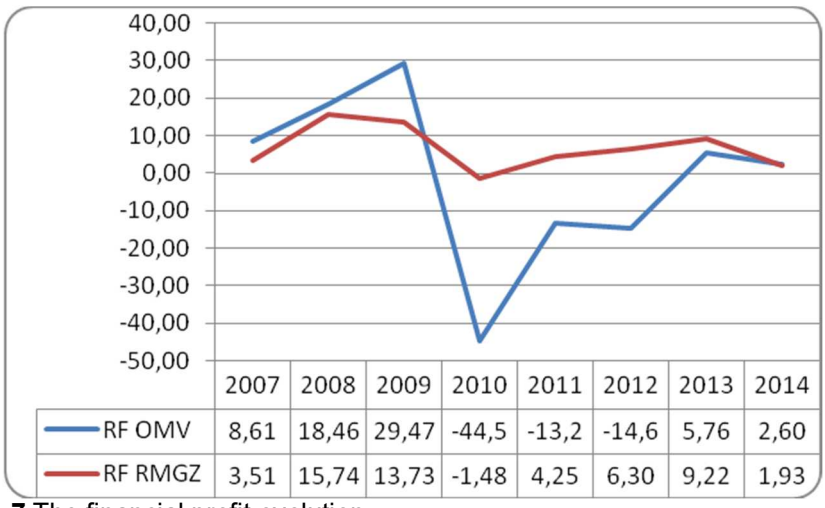
It is therefore apparent that while the price of natural gas remained at the same level worldwide, OMV, dramatically lowering the cost which reached its lowest level in 2014 resulted in a decrease and sales due to reduced sales price pump.

Analyzing the structure of interim results, we find that these are at the following levels.



	2007	2008	2009	2010	2011	2012	2013	2014
RE OMV	91,39	81,54	70,53	144,50	113,29	114,60	94,24	97,40
RE RMGZ	96,49	84,26	86,27	101,48	95,75	93,70	90,78	98,07

Figure 6 The evolution of operational profit structure
Source: Own calculus



	2007	2008	2009	2010	2011	2012	2013	2014
RF OMV	8,61	18,46	29,47	-44,5	-13,2	-14,6	5,76	2,60
RF RMGZ	3,51	15,74	13,73	-1,48	4,25	6,30	9,22	1,93

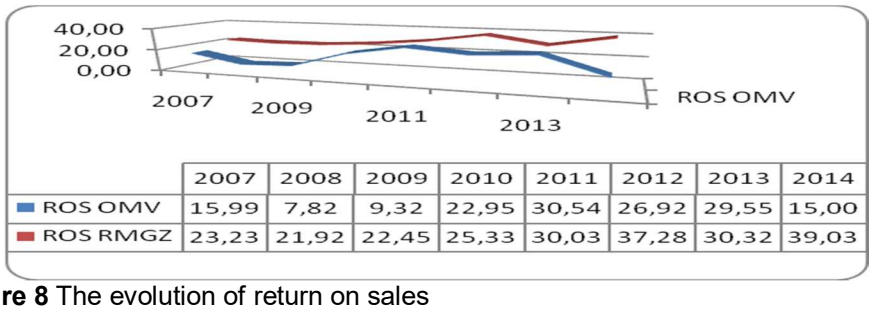
Figure 7 The financial profit evolution
Source: Own calculus

It is therefore apparent that compared to ROMGAZ company OMV losses from financial activities reflected negatively on the efforts carried out during the reporting

period from operating activities. Another component of analyzing the performance of the levels of performance concerns the returns on sales **(ROS)** and shows the capacity of self-financing entities, based on operational profit (RE) and total sales (TS), such:

$$ROS = RE/TS$$

This rate is also called net profit margin who indicates the relative effectiveness of the economic entity, after subtract the operation expenses.

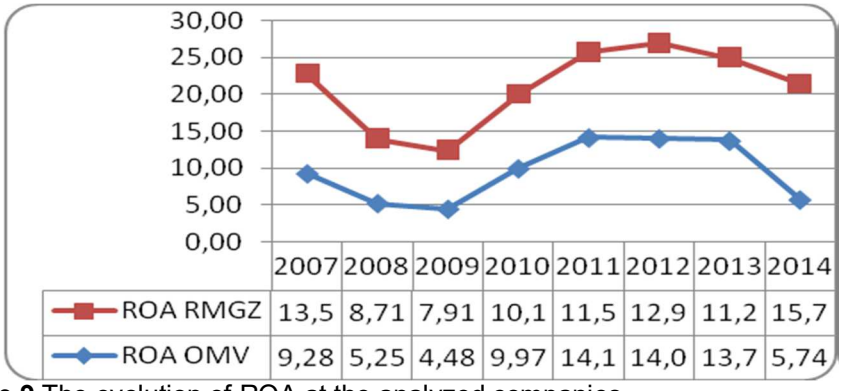


	2007	2008	2009	2010	2011	2012	2013	2014
ROS OMV	15,99	7,82	9,32	22,95	30,54	26,92	29,55	15,00
ROS RMGZ	23,23	21,92	22,45	25,33	30,03	37,28	30,32	39,03

Figure 8 The evolution of return on sales
Source: Own calculus

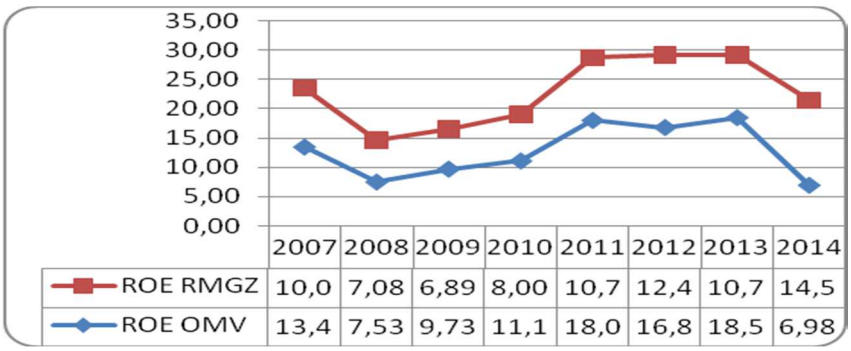
Comparing the company gross margin and net margin we get an indication of uninvolved in production costs and indirect costs such as administrative, financial and marketing.
Another indicator is the Return on Assets – ROA which is determined as relation between net profit (NP) and the value of the company's assets (TA). This ratio measures the return of the entire capital invested in the company:

$$ROA = NP/TA$$



	2007	2008	2009	2010	2011	2012	2013	2014
ROA RMGZ	13,5	8,71	7,91	10,1	11,5	12,9	11,2	15,7
ROA OMV	9,28	5,25	4,48	9,97	14,1	14,0	13,7	5,74

Figure 9 The evolution of ROA at the analyzed companies
Source: Own calculus



	2007	2008	2009	2010	2011	2012	2013	2014
ROE RMGZ	10,0	7,08	6,89	8,00	10,7	12,4	10,7	14,5
ROE OMV	13,4	7,53	9,73	11,1	18,0	16,8	18,5	6,98

Figure 10 The evolution of ROE
Source: Own calculus

In the economic English-American literature, the indicator is called Return on Total Assets-ROA or Return on Investment-ROI). According to some American analysts the indicator is determined as relation between the operating profit and total assets. In this case, the indicator measures the efficiency in using the assets of the company in the operating activity.
The performance refers to the equity performance using the indicator Return on Equity that is determined as a ratio between net profit (NP) and equity (EQ):

$$ROE = NP/EQ$$

In the technical literature the indicator is also called Return on Common Equity ROCE and measures the profitability degree of the investments made by the shareholders both in the operating activity and in the financial one.
It is noted that the rate of return shows a fluctuating trend, followed in 2013, to have an efficient activity. We believe that sales marginally jeopardize the continuation of the operation.

3. Conclusions

Energy performance of a company is very important for the state budget and especially for domestic and industrial consumers, since it has an impact on prices and tariffs for distribution and sales.
We think that the performance analysis is particularly useful for the management of these companies as performance leaves its mark on the market value of the shares of these companies.
Last but not least, we believe that performance is a barometer of strong and dynamic that adequately reflects the rating energy companies.

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