

COMPARATIVE ANALYSIS OF FINANCIAL RESULTS AND SHARE PRICES OF COMPANIES LISTED ON THE BUCHAREST STOCK EXCHANGE IN 2022

Marian Siminică^{1,2*}

¹⁾ University of Craiova, Craiova, Romania

²⁾ Institute of Financial Studies, Bucharest, Romania

Abstract

The evolution of trading prices of stocks is influenced by a multitude of factors, some of which are specific to each company (such as financial results, dividend distribution rate, various events that influence its evolution, etc.), while others are of a macroeconomic nature (global economic or political events, general market trends, etc.) or emotional. The intensity of the influence of these factors differs from one company to another, as well as from one period to another. A lot of uncertainty in financial markets marked the year 2022. The amplification of the inflationary phenomenon, the energy crisis, as well as the risks generated by the conflict in Ukraine, made investors reluctant in the stock market, taking positions of "wait and see", often avoiding making major decisions. At the same time, numerous companies, especially those in the energy sector, achieved exceptional financial results, far exceeding what they had obtained in previous years. Although, according to financial theory, there is a close relationship between financial results and the evolution of trading prices of stocks, the results of the study carried out for the year 2022, including the companies listed on the main market of the Bucharest Stock Exchange, do not confirm such a relationship. Although net profit increased significantly in 2022 compared to 2021, trading prices did not follow such a trend, being in decline for most of the analyzed companies.

Keywords

Net profit, share price, Bucharest Stock Exchange, comparative analysis

JEL Classification

G11, G23, O16

Introduction

The financial results achieved by companies listed on the stock exchange represent the basis for remunerating investors. A company that reports good financial results has resources for paying stimulating dividends or reinvesting them. Studies conducted at international level confirm the dependence between the financial results achieved by

* Corresponding author, **Marian Siminică** – msiminica@yahoo.com.

companies and the evolution of stock prices. At the same time, the evolution of stock prices depends on the influence of other factors, such as the macroeconomic environment, investors' expectations regarding the growth prospects of companies, etc.

In 2022, the intensity of such factors was very strong. The ongoing Covid-19 pandemic, the energy crisis that led to a strong increase in fuel and energy prices, the acceleration of inflation, supply chain deficiencies that affected the activity of numerous companies, as well as the still unquantified effects of the crisis in Ukraine, significantly influenced the decision of investors on the capital market. However, preliminary financial reports for 2022 confirm the achievement of exceptional financial results by many of the companies listed on the Bucharest Stock Exchange (BVB).

1. Research methodology

The paper analyzes comparatively the evolution of the financial results and stock prices of companies listed on the main market of the BVB. The analysis is based on financial data reported in 2021 and 2022, as well as on the evolution of stock prices in the period between December 31, 2021 and December 31, 2022.

According to economic theory, the financial results reported by listed companies represent an important factor influencing the evolution of their stock prices. In a study conducted in 2022 (Siminica M., 2022) based on data from 2019-2021, it was found that "the evolution of stock prices of companies listed on the BVB was influenced by their positive financial results. The intensity of the influence was greater in periods with moderate price increases compared to periods with strong increases, which were more influenced by investor expectations."

Balțeș and Dragoș (2017) conducted a study on the influence of changes in capital structure on financial performance in companies listed on the Bucharest Stock Exchange. They found that there is an interdependence between the solvency of companies, expressed by the financial leverage indicator, and their profitability, expressed by the financial rate of return (ROE) indicator.

The study continues a previous research (Siminica M., 2022) using data from 2022. The research includes 80 companies listed on the main market, excluding only three companies in the "International" category for which financial data were not available (DIGI, EBS, and WINE).

For each of the 80 companies included in the analysis, data was collected on net profit reported in 2021 and 2022, as well as the trading prices of their stocks on the last day of 2021 and 2022. The individual data is analyzed at the level of each company, after which it is aggregated at the level of the industry sector to which they belong. To this end, cumulative and average values of indicators, as well as dynamic indicators, are used.

In terms of research methods, observation and quantitative data analysis were used. The analysis of the relationship between financial results and the evolution of stock prices is carried out using the Pearson correlation coefficient.

2. Results and discussions

In 2022, the companies listed on the BVB reported exceptional financial results. The 80 companies analyzed reported a cumulative net profit of RON 26.7 billion, 65% higher than the cumulative profit reported in 2021 (RON 16.1 billion). At the same time, there was a very high degree of profit concentration, with only one company (SNP) reporting a net profit of RON 10.3 billion, representing 38.6% of the cumulative profit. Out of the 80 companies analyzed, 64 companies reported a profit and 16 companies reported losses in 2022. The cumulative value of net profit reported by the 64 profitable companies was RON 26.9 billion, while the cumulative loss reported by the remaining 16 companies was RON 176 million. Compared to 2021, the financial results of the companies listed on the main market have significantly improved. In 2020, 63 companies reported a profit, with a cumulative value of RON 17.3 billion, and the difference of 17 companies reporting losses, with a cumulative value of RON 1.14 billion.

In terms of dynamics, the situation in 2022 is as follows:

- 44 analyzed companies recorded an improvement in their financial results, with a higher level of net profit compared to the previous year. Of these, 10 companies managed to make their activity profitable, reporting a profit in 2022 after reporting losses in 2021.
- 20 companies, although profitable in both years, had a lower level of profit in 2022 compared to 2021.
- 16 companies recorded losses in 2022, after 9 of them reported a profit in 2021 and 7 reported losses.

Based on the activity carried out, the analyzed companies were grouped into sectors of activity. The cumulative net profit situation for each sector of activity is presented in the following table (table no. 1):

Table no. 1. Distribution of net profit by activity sector, 2021-2022

Sector of activity	Number of companies	Net income 2021	Net income 2022	Index
Professional, scientific and technical activity, information and communications, health	5	-452.273.258	608.699.543	-
Wholesale and retail trade	4	84.332.319	104.567.530	124,0%

Construction	4	37.861.487	83.735.599	221,2%
Hotels and restaurants	4	66.699.000	-2.670.246	-
Extractive industry	4	4.824.474.063	12.845.530.301	266,3%
Manufacturing industry	39	806.205.425	2.075.855.342	257,5%
Financial intermediation and insurance	13	9.504.230.951	7.191.782.891	75,7%
Electricity production and supply	2	1.030.261.626	3.258.016.000	316,2%
Transport and storage	5	288.036.994	550.131.985	191,0%
Total	80	16.189.828.607	26.715.648.945	165,0%

Source: Centralized data from www.bvb.ro.

It can be observed that most of the analyzed companies operate in the manufacturing industry (about 50% of the total), but they contribute less than 10% to the total profit. On the other hand, the extractive industry, in which 4 companies operate (including SNP), contributes almost 50% to the total profit. There is also a sector (Hotels and restaurants) in which losses of 2.6 million lei were reported in 2022. Additionally, the net cumulative profit for a single sector was lower in 2022 compared to 2021, while for the other 7 sectors, the net profit was higher.

Regarding the stock price performance of the listed companies, the index of each company included in the analysis was calculated based on the trading prices as of December 31, 2021, and December 31, 2022. The summary of the analyzed indicators is presented in the following table (table no. 2):

Table no. 2. Indicators of the evolution of share prices of companies listed on the BSE, in 2022

No.	Indicators	Main Market
1	Total number of analyzed companies, of which:	80
	- number of companies with price increases	26
	- number of companies with price reductions	54
2	Share of the number of companies with price reductions	67,5%
3	The average value of the stock price index	1,0061
4	The maximum value of the stock price index	4,2393
5	The minimum value of the stock price index	0,4000
6	Standard deviation	0,4925
7	Coefficient of Variation	48,9%

Source: Centralized data from www.bvb.ro.

Although there was a slight increase in trading prices overall for the 80 companies analyzed in 2022, with a 0.61% rise, only 26 companies recorded price increases, while 54 companies, representing 67.5% of the total, recorded decreases. The largest increase in prices was over four times, while the largest decrease was 60%. The average value of

the stock price growth index on the main market in 2022 (calculated as a simple arithmetic mean of individual values) was 100.61%, but large differences in returns between different stocks led to a standard deviation of 0.4925 and a coefficient of variation of 48.9%, high values indicating significant risks.

There were also significant differences in the performance of stock prices among companies in 2022. The distribution of these prices based on their trading price performance is presented next (Table No. 3):

Table no. 3. Distribution of companies by share price index

Stock price index	Number of companies	Share
> 1,40	9	11,3%
1,00 – 1,40	17	21,3%
0,60 – 1,00	46	57,5%
< 0,60	8	10,0%
Total	80	100%

Source: Centralized data from www.bvb.ro.

Comparing the number of companies that have recorded very large increases in share prices (9 companies with increases of over 40%) with those that have recorded very large decreases (8 companies with decreases greater than 40%), it is found that this is relatively balanced. In the intervals of growth and reduction of up to 40%, there is a significant concentration in the area of price reductions (57.5%).

Based on the sector of activity and the evolution of share prices, the 80 analyzed companies were distributed as follows (table no. 4):

Table no. 4. Distribution of companies by share price performance

Sector of activity	Number of companies	From which,	
		With increasing price	With decreasing price
Professional, scientific and technical activity, information and communications, health	5	-	5
Wholesale and retail trade	4	1	3
Construction	4	-	4
Hotels and restaurants	4	2	2
Extractive industry	4	2	2
Manufacturing industry	39	14	25
Financial intermediation and insurance	13	4	9
Electricity production and supply	2	-	2

Transport and storage	5	3	2
Total	80	26	54

Source: Centralized data from www.bvb.ro.

The primary data shows that for most companies, the trading prices of stocks decreased throughout the year 2022. At the same time, they reported very good financial results, significantly higher compared to 2021. The analysis of the evolution of stock prices in correlation with financial results led us to the distribution in the following table (table no. 5):

Table no 5. Distribution of companies by share price and profit performance

Stock price index	Number of companies	From which		
		With increasing profit	With decreasing profit	With losses
> 1,40	9	5	1	3
1,00 – 1,40	17	10	5	2
0,60 – 1,00	46	25	12	9
< 0,60	8	4	2	2
Total	80	44	20	16

Source: Centralized data from www.bvb.ro.

Most of the companies that have seen increases in their stock prices (26 companies) have reported increased profits (15 companies). There are 6 companies whose stock prices have increased but their profits have decreased, and 5 companies whose stock prices have increased but have reported losses. Among the companies that have seen decreases in their stock prices (54 companies), a significant portion have reported increased profits (29 companies), while 14 companies have reported decreased profits and 11 companies have reported losses.

However, these data do not provide a clear picture of the relationship between reported financial results and stock price movements. To establish whether such a relationship exists and quantify its intensity, the Pearson correlation coefficient (P) is used. The obtained values are presented in the following table (table no. 6):

Table no. 6. Correlations

		Price_index_2022	Profit_index_2022
Price_index_2022	Pearson Correlation	1	.061
	Sig. (2-tailed)		.593
	N	80	80
Profit_index_2022	Pearson Correlation	.061	1

	Sig. (2-tailed)	.593	
	N	80	80

Source: Data processed with SPSS.

The value of the Pearson coefficient between the net profit index and the stock price index in 2022, for the companies listed on the main market of the BVB, is very small, close to "0", which means that there was no correlation between the dynamics of net profit and the evolution of stock prices in 2022. These results do not validate financial results as a determinant factor of stock price evolution, in 2022 they were significantly influenced by the general macroeconomic situation, the unpredictable consequences of the conflict in Ukraine, the risk of exacerbating the energy crisis, etc.

According to data from previous studies, between 2009 and 2015, companies have registered decreases in profits due to the economic and financial crisis. At present, although there is a situation characterised by uncertainty, for several reasons, companies are either stagnating or growing depending on the field of activity.

Conclusions

A lot of uncertainty on financial markets marked the year 2022. The amplification of the inflationary phenomenon, the energy crisis, and the risks generated by the conflict in Ukraine made investors reluctant to take major decisions on the capital market, often occupying a "wait and see" position.

At the same time, numerous companies, especially those in the energy sector, achieved exceptional financial results, well above what they had obtained in previous years. By far, the best results were recorded by SNP, which went from 2.8 billion lei in 2021 to over 10 billion lei in 2022. Significant increases were also reported by SNN (from 1.03 billion lei in 2021 to 2.73 billion lei in 2022) and SNG (from 1.96 billion lei in 2021 to 2.54 billion lei in 2022). Another 3 companies in the energy sector went from losses reported in 2021 to profits of over 0.5 billion lei each in 2022 (RRC, EL, and TEL). The banking sector, represented by TLV and BRD, also had very good financial results, increasing compared to 2021.

Good financial results create the premises for increased dividends, as well as resources for financing investments in modernizing/extending companies. According to financial theory, such results have an immediate or medium-term consequence of increasing the trading prices of stocks. But this did not happen during 2022 because macroeconomic and geopolitical risks were high, and the investment impulse of capital holders was tempered. Reducing the inflation rate, stabilizing the prices of main energy sources, and reducing geopolitical risks are factors that can contribute to increasing investor confidence and resuming the upward trend of trading prices of shares listed on the BVB.

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