STUDY OF THE FINANCIAL PERFORMANCE FOR ROMANIAN LISTED COMPANIES BENEFICIARY OF NON-REPAYABLE EUROPEAN FUNDS

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Abstract:

Our study investigates the differences in financial performance during 2011 and the first 3 quarters of 2012 for 36 Romanian companies listed on Bucharest Stock Exchange, divided in two groups: 11 companies beneficiary of non-repayable structural and cohesion European funds and 25 other non-beneficiary companies. We found that, on average, the beneficiary companies showed better debt-to-equity ratios, larger profit margin, higher return on equity and turnover growth, but, in the same time, they witness a lower profit growth and liquidity ratio. We explain this behavior by the long term advantages and also by the short term management difficulties of implementing European funded investment projects.

Keywords: European structural and cohesion funds, financial indicators, corporate financial performance, management of European project implementation

JEL classification: D24, G32, L25, F36

1. Introduction

In this study we performed an empirical analysis of the financial performance achieved by large Romanian companies receiving European non-repayable funds in comparison with same type of companies but which didn't access this kind of free and non-reimbursable source of financing. Our investigation focused only on companies listed on Bucharest Stock Exchange and took into account performances over two consecutive financial periods: the whole year 2011 and first three quarters of 2012.

Romania's integration in the European Union brought many non-repayable financing opportunities for both small and medium companies (SME's) and for large enterprises. These European funds which available for Romania until the end of 2013 are usually classified into 5 categories, 3 of them known as "structural funds and cohesion" and the last 2 being frequently called "complementary actions" that are needed and used in agriculture and rural development:

1) The European Fund of regional development;
2) The social European fund;
3) The cohesion fund;
4) The European fund for agriculture and rural development;
5) The European fund for fishing;

In corporate finance in general and especially in valuation theory it is often stated that companies beneficiary of free (non-repayable and with zero interest) sources of financing for their investments are, most of the time, developing faster and with higher efficiency, even during adverse economic conditions.

Many corporate management practitioners and researchers believe that investment projects financed from non-repayable funds can improve company's net profit margin (because the lower weighted average cost of capital) and can be a source of more economic added value for stakeholders.

Having that in mind, we were interested to see if during 2011-2012 the Romanian companies listed on Bucharest Stock Exchange that are (or were) beneficiary of investment projects financed with non-repayable European funds showed better financial performance in comparison with the other non-beneficiary listed companies. This paper represents a continuation of our preoccupation in this area of research, especially since we have previously argued that "companies which benefited from non-repayable European funds and have the potential to be more profitable in the future didn't attract more investor interest" on the local stock exchange (Panait and Stoian, 2013).

The rest of the paper is organized as follows: section 2 describes the data that we worked with and the methodology that we have used; section 3 presents the results that we have obtained; finally section 4 summarizes the most important conclusions.

2. Data and methodology

To determine the sample of surveyed companies, we have started from a number of 70 companies (the most representative) listed on the BSE. These companies have been subject to a selection process, companies that would not be eligible to receive non-repayable financial assistance due to their field of activity being eliminated. As a result of this selection process a sample of 36 companies listed on BSE was obtained, of which 11 companies are beneficiaries of European funding grants (those forming the first group, the target group), and 25 companies do not benefit from this type of funding grants (those forming the second group of companies, the control group).

In order to achieve this analysis the appropriate values of each of the 36 companies have been determined for the six financial performance indicators, grouped into three categories:

a) Financial balance indicators: degree of indebtedness against own capital and liquidity index;

b) Financial performance indicators: net profit margin and own capital profitability;

c) Business' dynamics indicators: changes in net profit and the change in turnover in the past 12 months.

Accounting data needed for the calculation of the indicators mentioned above have been obtained from primary sources (website of the Bucharest Stock Exchange and investment consultant portal www.ktd.ro).

The degree of indebtedness against own capital is calculated as a percentage ratio between the value of a company's total debt and equity. This indicator determines the size relationship between the volume of attracted financing from external sources and that of financing provided by the company's shareholders. A value less than 60% for this index reflects the existence of a good balance between the company's internal and external funding sources.

The liquidity ratio is calculated as the ratio between circulating assets and current liabilities and reflects the company's ability to transform the current assets in the form of money to honor its short term maturing debts. A sub-unitary value of this index reflects the vulnerability of the company in repayment due debt, a value between 1 and 1.5 indicates that the liquidity is kept under control, while a value greater than 1.5 reflects the ability of payment of overdue debts without any problem.

Net profit margin is calculated as a percentage ratio between net profit and turnover, the company looking for an upward trend of this indicator.

The profitability of own capital (ROE) is also known as the financial profitability rate and it is determined as a percentage ratio between net profit and equity. This indicator is one of the important indicators that are used to evaluate a company's position on the market as it actually mirrors the investments' effectiveness of shareholders' equity. Usually, the value of this indicator must be clearly superior to the value of the Bank's interest that shareholders might earn.

Change in net profit during the last 12 months is determined by comparing the difference in value between the net profit recorded at the end of the reference year and the net profit recorded at the end of the previous year to the net profit recorded at the end of the year proceeding the year of reference.

The change in turnover in the last 12 months is determined by comparing the difference between turnover value recorded at the end of the reference year and the turnover registered at the end of the previous year with the net profit recorded at the end of the year proceeding the year of reference.

3. Results

In Table 1 there are presented the values of the 6 indicators for each of the 36 companies that make up the analysis sample, these values being determined for the period from 1 January 2011 to 31 December 2011. The companies on the top 11 positions in the table below (the text in italic) correspond to companies benefiting from non-repayable European funds (first group of companies), while the remaining 25 companies were not beneficiaries of financial assistance grants (second group of companies). At the same time, in Table 2 there are presented the same indicators' values for the same two samples of companies, but corresponding to the first nine months of the year 2012. Comparing the data from the two tables we submitted the evolution of the average values of the 6 financial indicators, for both groups of companies, in the Table 3.

As shown in Table 1, in case of indebtedness of the company, the average value registered by companies that benefit from subsidized financing is 68.64% as opposed to the average value of 77.16 % recorded by companies not benefiting from non-repayable European funds. Therefore, non-reimbursable financing of companies in the first group contributes to a more stable balance between internal and external funding sources against the company's businesses from the second group.

It is also observed that the highest level of debt in relation to equity (304.13%) is recorded in the case of a company in the second sample, while the highest value of this indicator for the companies in the first sample is only

158.54%.

Liquidity index determined for the two samples of companies reveals a higher average liquidity in case of companies which do not benefit from non-reimbursable financial assistance (an average of 3.11) compared to firms that receive non-repayable financial assistance (the average value of this indicator was 1.92). This situation could be explained by short-term loans contracted by companies in the first group to provide financing for projects in deployment. However, based on the average values of this indicator, it is shown that both categories have the ability to repay their short term maturing debts.

The net profit margin records an average of 3.4% in the case of companies in the first sample, for companies from the second sample being registered an average of 12.5 percent. The values in the table in the case of this indicator for the two groups of firms reveals that most of the companies that are part of the first group of beneficiaries of EU funding registers positive values for this index, while a significant part of the companies in the second group record negative values for it.

In terms of return on capital and reserves for the companies in the first group an average of 6.23% is recorded, while for companies in the second group the average value of this indicator is - 4.81%. Also, based on the data presented in Table 1, the highest values for this indicator (27.84% and 14.7%) correspond to companies that receive non-repayable financial assistance.

The change in net profit during the last 12 months indicator is favorable to companies from the second sample (the average value of this indicator is 45.5%), companies benefiting from European funds grants recording an average of 18.5% for this indicator. Therefore, the net profit recorded by the beneficiaries of EU financing had an average upward trend more temperate than the net profit recorded by the companies that are not benefiting from European funds. This might be explained if we take into account the fact that the first review group of companies registered in the first year of European financed projects' implementation significant investment costs in order to support the implementation of these projects.

The change in turnover in the last 12 months indicates a favorable trend of the first group of companies (the average value of this indicator was 13.6%), some of the companies in the second group recording a contraction in turnover (the average value of the indicator at the level of the second group of companies was -0.8%). This result may mean that, as regards the companies benefiting from

European funds grants, projects (projects completed or under implementation) recorded a first effect of increasing production capacity and sales, so they start to produce results. As subsequent, completion of the investment project will lead to more reduced costs, being likely a more favorable effect on the dynamics of increased net profit for these companies.

Using the data in the tables 5.6 and 5.7, and the 2 graphs presented above we can try making a comparative analysis between the results obtained for each indicator (from 1 January 2011 to 30 September 2011) by each of the two groups of companies which make up the sample analysis.

4. Conclusions

In conclusion, as a result of the study conducted for the two periods, it can be stated that the non-reimbursable funds may explain at least in part the better financial results obtained by companies benefiting from this type of financing in comparison with the financial results obtained by companies which do not benefit from such European funds.

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Table 1: Financial performance during Jan 1st – Dec 31st 2011

Company	Debt-to-equity ratio	Liquidity index	Net profit margin	Return on equity	Net profit growth (last 12 months)	Turnover growth (last 12 months)
Alro Slatina	52.14%	3.77	10.19%	14.70%	42.89%	23.68%
Altur Slatina	54.74%	1.04	0.28%	0.35%	-87.16%	15.79%
Alumil Rom Industry Bucuresti	23.41%	3.9	4.98%	5.47%	69.43%	9.17%
Antibiotice Iasi	49.72%	1.92	7.20%	7.07%	61.88%	15.69%
Comelf Bistrita	158.54%	1.08	0.65%	2.91%	77.28%	29.48%
Electroarges SA Curtea de Arges	76.07%	1.89	5.82%	27.84%	-3.60%	20.07%
Electromagnetica SA	17.61%	1.92	3.04%	5.60%	-	-
Romcarbon SA Buzau	72.16%	0.57	2.53%	2.04%	-	-5.26%
Teraplast SA	79.04%	1.19	-6.99%	-11.26%	-	-1.59%
Vae Apcarom Buzau	29.43%	2.97	7.95%	11.60%	23.15%	21.76%
Vrancart Adjud	142.20%	0.9	1.22%	2.26%	-35.67%	7.21%
Amonil Slobozia	30.38%	1.53	-236.21%	-34.94%	-	-91.36%
Artego SA	87.43%	1.3	2.19%	5.51%	-	-
Bermas Suceava	27.14%	2.12	8.29%	8.31%	-1.46%	-4.26%
Biofarm Bucuresti	17.50%	4.37	15.22%	9.24%	-1.35%	13.55%
Boromir Prod SA Buzau (Spicul)	23.06%	1.75	0.79%	0.91%	132.18%	16.97%
Carbochim Cluj Napoca	13.80%	2.08	4.84%	2.27%	-31.01%	7.24%
Compa S.A. Sibiu	60.44%	1.64	3.65%	5.94%	82.54%	14.94%
Condmag SA	41.06%	1.98	0.75%	0.64%	-92.78%	-42.70%
Dafora SA Medias	177.78%	1.23	1.24%	1.27%	-75.35%	-16.79%
Electroaparataj SA	14.16%	6.43	-20.00%	-14.74%	-	-12.39%
Electrocontact Botosani	26.15%	2.51	-8.75%	-5.10%	-	-13.46%
Energopetrol Campina	214.75%	1.47	0.32%	0.57%	5.77%	-12.40%
Farmaceutica Remedia SA	304.13%	1.05	2.00%	10.24%	108.10%	11.45%
Mecanica SA Ceahlau	16.03%	3.69	22.95%	16.89%	226.06%	42.24%

Mefin Sinaia	14.50%	7.02	0.06%	0.03%	-	4.85%
Prefab SA Bucuresti	29.36%	1.89	1.42%	0.45%	-72.71%	-9.45%
Prodplast Bucuresti	5.86%	14.71	5.44%	6.16%	73.81%	11.42%
Retrasib SA Sibiu	107.74%	1.11	2.88%	5.16%	-	-
SC Concefa SA Sibiu	263.92%	0.63	-61.01%	-85.05%	-	-23.87%
Sinteza Oradea	6.70%	1.1	-9.35%	-0.79%	-	51.82%
Siretul Pascani	135.71%	1.33	-8.82%	-6.26%	-	14.77%
Socep Constanta	6.08%	13.34	12.00%	7.11%	58.93%	28.62%
Transilvania Constructii SA Cluj	38.96%	1.82	2.51%	0.84%	224.00%	21.70%
Turbomecanica Bucuresti	133.39%	0.61	-41.75%	-28.75%	-	-12.57%
VES SA Sighisoara	133.00%	0.94	-13.56%	-26.24%	-	-19.21%

Source of data: Bucharest Stock Exchange, www.ktd.ro; calculations by the authors

Table 2: Financial performance during Jan.1st – Sept.30th 2012

Company	Debt-to-equity ratio	Liquidity index	Net profit margin	Return on equity	Net profit growth (last 12 months)	Turnover growth (last 12 months)
Alro Slatina	61.93%	1.16	4.98%	5.60%	-64.57%	-7.08%
Altur Slatina	53.32%	1.1	2.15%	1.71%	653.74%	-14.50%
Alumil Rom Industry Bucuresti	32.81%	3.47	5.25%	3.68%	-16.57%	-3.42%
Antibiotice Iasi	49.22%	2.01	12.39%	8.81%	7.27%	6.90%
Comelf Bistrita	162.11%	1.08	2.47%	7.91%	83.18%	2.02%
Electroarges SA Curtea de Arges	61.84%	2.24	8.62%	22.17%	69.47%	11.52%
Electromagnetica SA	17.10%	2.17	4.46%	5.19%	-14.43%	-15.26%
Romcarbon SA Buzau	106.43%	0.58	-3.42%	-2.61%	-	20.53%
Teraplast SA	101.14%	1.05	-0.76%	-1.06%	-	9.35%
Vae Apcarom Buzau	54.42%	2.07	8.79%	8.70%	0.60%	-8.15%
Vrancart Adjud	128.48%	0.92	2.41%	3.55%	137.45%	10.30%
Amonil Slobozia	23.42%	1.31	-101.74%	-3.40%	-	-75.09%
Artego SA	69.80%	1.43	4.78%	8.04%	-	-
Bermas Suceava	18.45%	3.01	11.29%	9.97%	-11.95%	3.10%
Biofarm Bucuresti	14.29%	5.16	22.47%	10.82%	26.14%	14.94%
Boromir Prod SA Buzau (Spicul)	20.55%	2.11	0.30%	0.20%	110.37%	-25.17%
Carbochim Cluj Napoca	15.94%	1.88	3.28%	1.14%	-51.15%	-5.02%
Compa S.A. Sibiu	55.94%	1.64	5.42%	6.76%	69.46%	12.63%
Condmag SA	42.08%	1.83	-16.35%	-9.34%	-	-7.42%
Dafora SA Medias	211.81%	1.21	-12.00%	-8.20%	-	-13.67%
Electroaparataj SA	17.05%	5.16	1.32%	0.21%	-	5.62%
Electrocontact Botosani	21.40%	2.72	-15.77%	-6.32%	-	-
Energopetrol Campina	125.43%	1.72	0.03%	0.03%	-50.91%	-12.58%
Farmaceutica Remedia SA	336.30%	1.04	2.48%	10.14%	4.36%	18.53%
Mecanica SA Ceahlau	6.99%	8.09	23.39%	11.78%	-16.08%	-4.29%
Mefin Sinaia	12.40%	9.38	0.10%	0.04%	-98.95%	0.40%

Prefab SA Bucuresti	36.86%	1.59	1.83%	0.45%	35.69%	-6.24%
Prodplast Bucuresti	1.38%	59.81	5.72%	2.70%	-36.56%	-43.32%
Retrasib SA Sibiu	167.99%	1.02	-4.71%	-4.85%	-	-16.57%
SC Concefa SA Sibiu	371.53%	2.5	-105.75%	-43.35%	-	-66.31%
Sinteza Oradea	10.48%	0.95	4.81%	0.51%	-	79.38%
Siretul Pascani	195.00%	1.13	-49.30%	-28.39%	-	-12.04%
Socep Constanta	5.48%	6.84	6.64%	2.68%	-61.95%	-6.04%
Transilvania Constructii SA Cluj	32.89%	2.06	-1.91%	-0.39%	-	-26.92%
Turbomecanica Bucuresti	152.63%	0.46	-17.14%	-9.57%	-	8.21%
VES SA Sighisoara	140.50%	0.88	-14.42%	-16.62%	-	-21.72%

Source of data: Bucharest Stock Exchange, www.ktd.ro; calculations by the authors

Table 3: The evolution of averages of indicator values between the two periods investigated

Financial indicators	Jan.1st – Dec.31st 2011		Jan.1st – Sept.30th 2012	
	Average values for **beneficiary companies**	Average values for **non-beneficiary companies**	Average values for **beneficiary companies**	Average values for **non-beneficiary companies**
Debt-to-equity ratio	68.64%	77.16%	75.35%	84.26%
Liquidity index	1.92	3.11	1.62	5.00
Net profit margin	3.35%	-12.52%	4.30%	-9.81%
Return on equity	6.23%	-4.81%	5.79%	-2.60%
Net profit growth (last 12 months)	18.53%	45.48%	95.13%	-6.79%
Turnover growth (last 12 months)	13.60%	-0.82%	1.11%	-8.68%

Source of data: Bucharest Stock Exchange, www.ktd.ro; calculations by the authors