A SECTORIAL ANALYSIS OF THE FINANCING PRACTICES OF THE ROMANIAN COMPANIES LISTED ON BUCHAREST STOCK EXCHANGE

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Abstract

Maintaining the market share of a company, as well as increasing it, implies using an adequate financial policy. The liabilities ratios allow the analysis of this adopted financial policy, by giving useful information about the structure of financing (debt or equity), emphasizing upon some important aspects like financial stability, financial autonomy or indebt. In this paper, the authors try to realize an empirical analysis, upon a sample of 40 reprezentative Romanian companies, all listed on Bucharest Stock Exchange, from different fields of activity (financial, energetic, quemical, equipments and materials sector). Using their financial statements for the period 2002-2007, for the computation of the financial ratios, the authors draw up useful and recent information about the pecularities or similarities between the 5 different sectors, as far as concerns the structure of their liabilities.

Key words: financial structure, listed companies, BSE, sectorial analysis
JEL Classification: G32

1. Introduction

The financing policy of a company is one of the major issues for every manager of a company, that aims at maintaining the company position on the market or even increase its market share. This involves finding the right financing resources, in accordance with a coherent investment programme and an internal strategy. As it is well known, the financing resources that can be chosen by a company are of two types:

- own capital, that could mean internal resources (reinvested turnover) or attracting new capital (by issuing equity);
- borrowed resources, that include bank loans or issuing bonds, or by appealing to some exploitation debt that can be used but just for a short period of time, without suplimentary costs.

The manner of structuring the liabilities of the listed companies has been a debated subject, both at a national and international level. One of the most recent papers in this respect is the one of Norvegian economist [Hillestad, 2007]. Few studies had as approach though realizing a thourough analysis of the financial policy of the companies, distinguish-

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ing some pecularities at the level of sectors of activity. This is the main reason why we choose to enlarge the current level of knowledge so far in this respect, with new evidence from the Romanian companies case.

2. Methodology

For analysing the financial ratios for companies from different fields of activity, we have chosen a sample of 40 reprezentative economic entities, from: financial sector (5 companies), energetic sector (5 companies), quemical sector (9 companies), materials sector (10 companies), equipment sector (11 companies) (1). From these, 13 companies are listed on Tier I and the rest are listed on Tier II on the Bucharest Stock Exchange. To have a general view, we can say that on Bucharest Stock Exchange, at the beginning of the year 2009, there were listed 67 companies on Tier I and Tier II, the most important tiers on the Romanian capital market. The companies that are listed here are considered the most representative from the Romanian economy, since they have to reach some strict conditions regarding free float (more than 25 %), a level of shareholders equity for the last financial year (over 2 millions Euro) and to fulfill some operational criteria as well [Corduneanu, 2009].

We have considered a broader period of analysis (2002-2007), in order to provide a deeper analysis, making comparisons not just with the level reached by the industry as a whole, but also highlighting the trend from year-to-year registered by a specific company. For building our database we used several sources: first, the official site of the Bucharest Stock Exchange, then ktd.ro and finally, for some companies, we also had to collect personally some information. The importance and dynamics of the different sources of finance for companies are revealed through computing the following financial ratios: financial stability, financial autonomy, global indebt.

3. Results

The permanent capital include all the long-term, stable, financial resources that a company uses, meaning own capital and long-term debt. As the theory states, they have to finance all the fixed assets and the structural (almost permanent) part of the necessary working capital [Buglea, 2005]. Identifying the optimal measure of permanent capital is a problem of major importance for the financial management of the company, since a potential insufficiency of these resources would bring problems of solvency, liquidity and profitableness of the company.

The importance of permanent capital can be observed by the *financial stability ratio*, computed as report between the permanent capital and total liabilities. The ratio of financial stability shows the percent of the permanent resources that a company owns. The bigger this ratio is, the bigger the financial stability of that company. A ratio reaching more than 50 % is considered to be acceptable.

Financial sector

Energetic sector

Quemical sector

Equipment sector

Materials sector
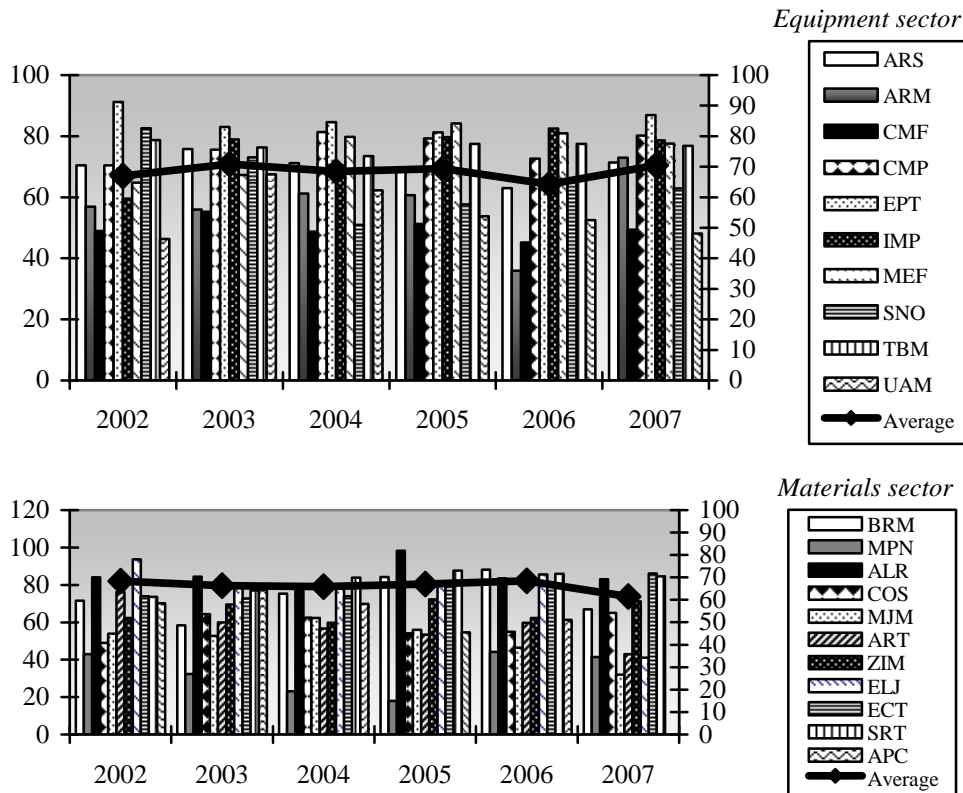
Source: [computed by authors by using the financial statements of the companies]
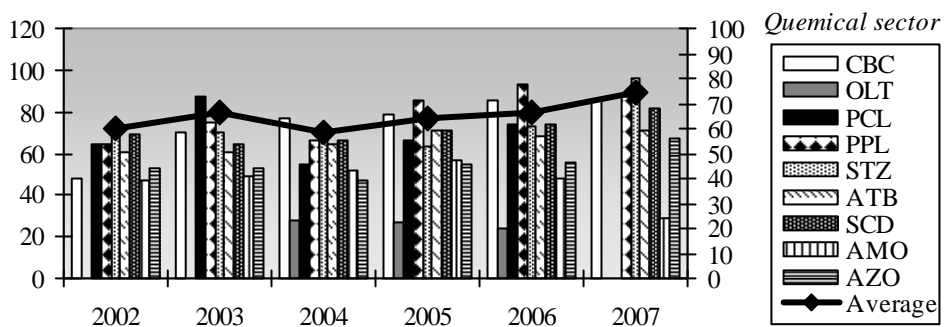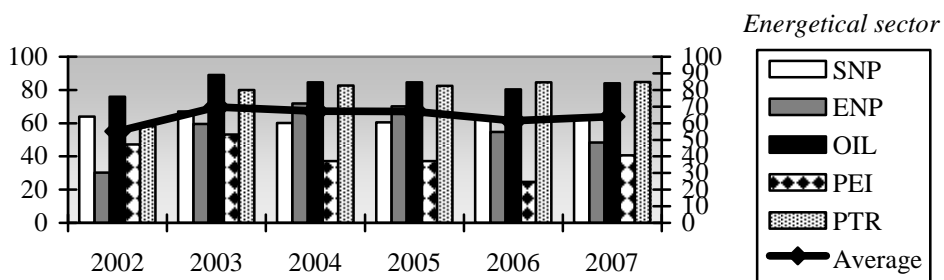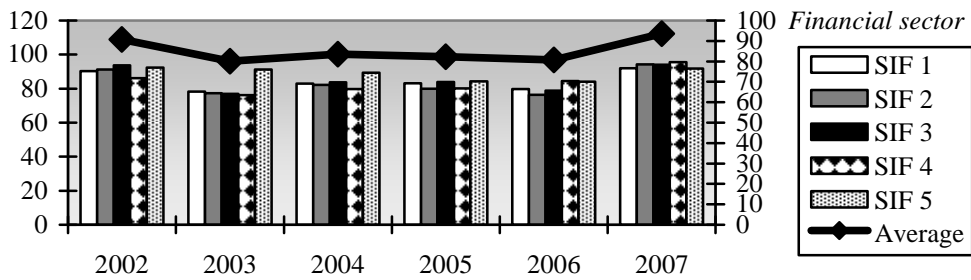
**Fig. 1. Financial stability ratio for companies listed on BSE, belonging to different fields
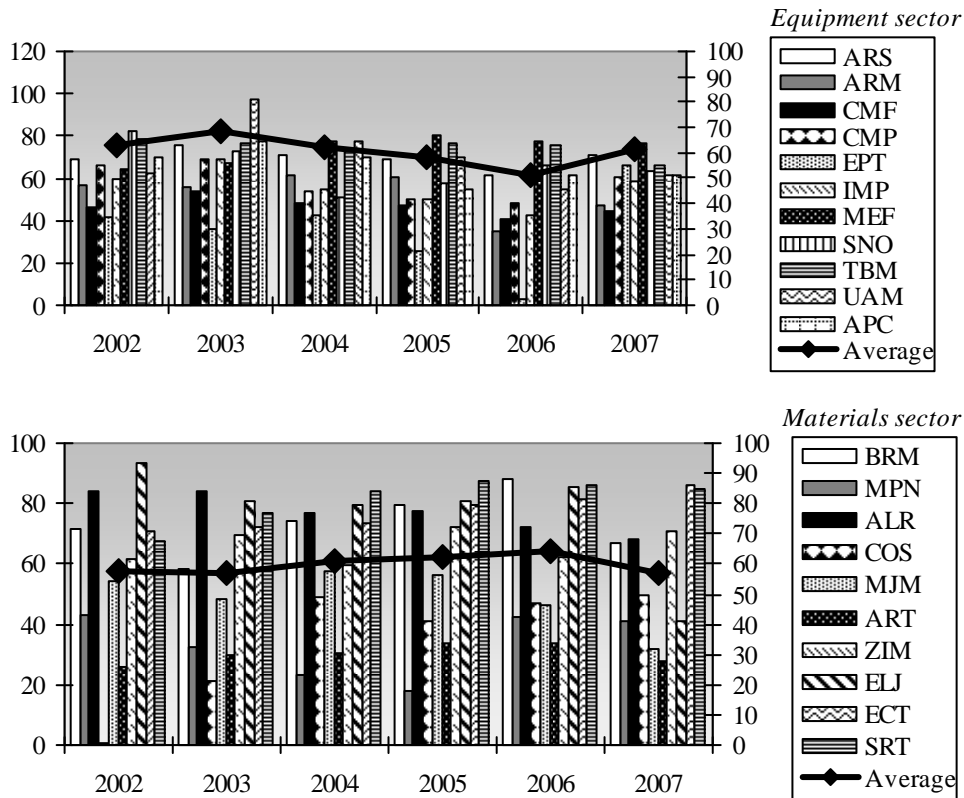of activity in the period 2001-2007 (%)**

From Figure 1, there can be noticed the relative importance of the long-term financing resources (own capital, long-term debt). The financial stability ratio varies within a very wide range, between 24, 59 % reached by PEI (energetical sector) in 2006 and 133,22 % reached by PCL in 2003 (quemical sector). If we make a comparison on the financial stability ratio between the different fields of activity taken into consideration, we can see that the financial sector has by far, the highest ratio, giving the nature of its companies. It is followed by the equipment sector, and the quemical sector, the majority of the companies that compose this sector going beyond the minimum level of the ratio, of 50 %.

A more conservative analysis of the financial resources of the considered companies can be made through the ***autonomy ratio***, the ratio between own capital and total liabilities that characterizes the concentration of an own capital. It is one financial independence ratio, that shows in which way the company is able to freely manouver its funds to guarantee a continous process of economical activity as well as to recreate and widen it.

In other words, it meets the demands of a company's development and satisfies the require of the external envirnonment. A number of analysts think that the autonomy rate

should not be less than 0,33. The dynamics of this ratio for the considered sectors of activity is present in the below figure (Fig. 2).
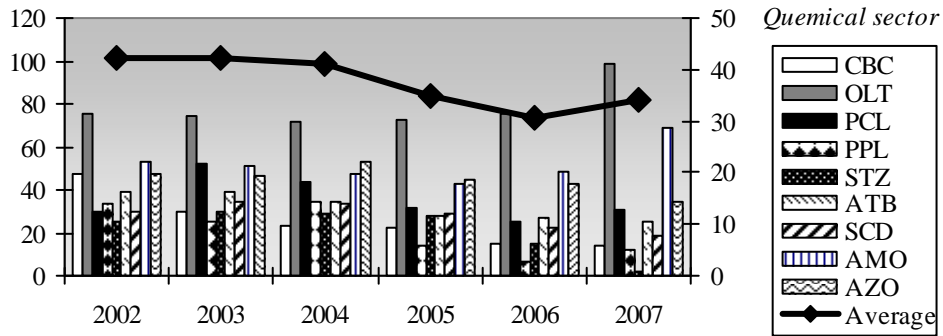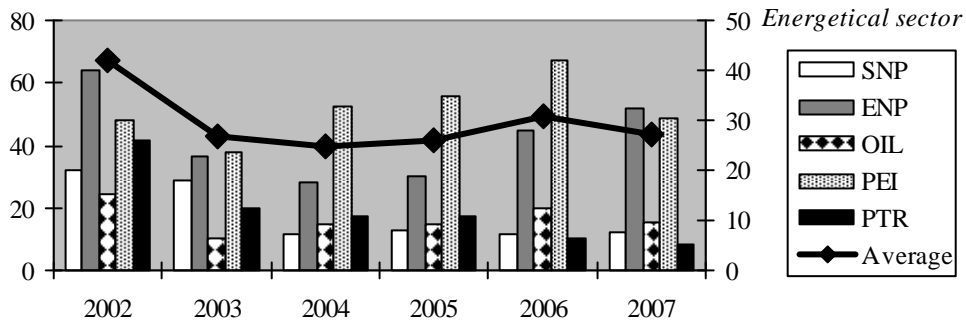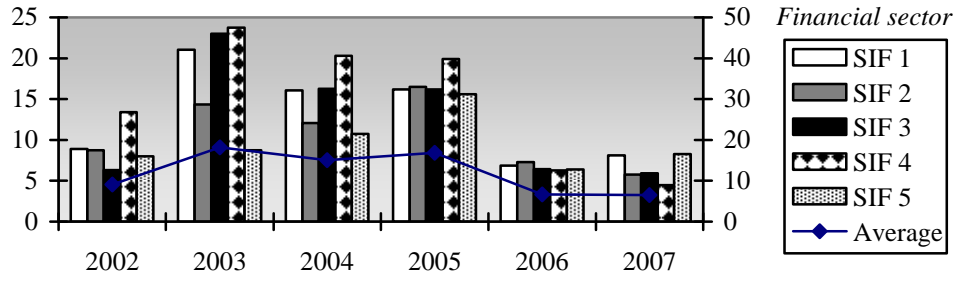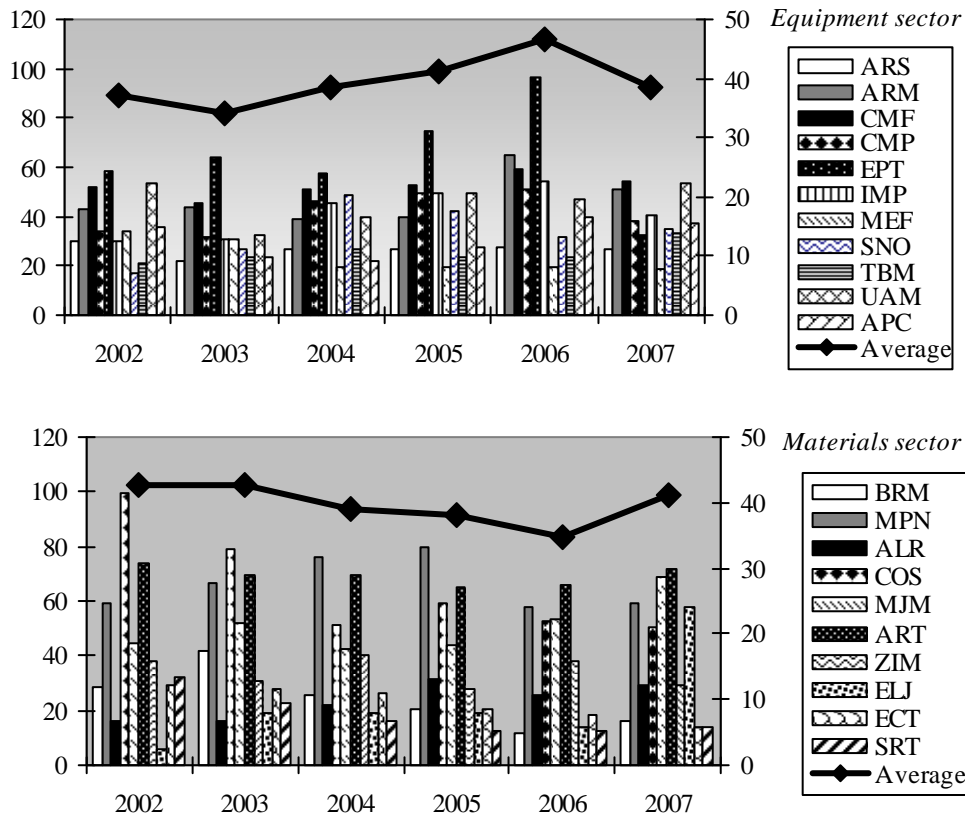
Source: [computed by authors by using the financial statements of the companies]

Fig. 2. The financial autonomy ratio for companies listed on BSE, belonging to different fields of activity in the period 2001-2007 (%)

This indicator is strongly influenced by the sector of activity of the company, as well as by its financial policy. With few exceptions (COS, from the materials sector; OLT from the quemical sector; ARM from the equipment sector and PEI from the energetical sector), the companies surpass with a lot the minimum level of 33 %, mentioned in the economic literature. The worst situated sector is the material sone and the best is, as expected, the financial one, with ratios that are over 90 %. On the whole, the financial autonomy ratio shows a pretty strong financing of the needs of the companies with their own resources. Unfortunately, the growing of own capital from year to year was not due to many situations of equity issuing, in the considered period being developed few such operations.

Adding the short-term debt at the long-term debt and dividing the output by total liabilities, leads to another important financial ratio, the ***global indebt ratio***. This ratio measures the relative importance of debt, regardless the maturity of the debt. For the considered companies, the situation is as it follows (Figure 3).

Financial sector

Energetical sector

Quemical sector

Source: [computed by authors by using the financial statements of the companies]

Fig. 3. Global indebt ratio for companies listed on BSE, belonging to different fields of activity in the period 2001-2007 (%)

The global indebt ratio varies a lot within the selected companies and the selected sectors of activity. The lowest ratios are registered by the financial sector. The highest ratios of debt are achieved by companies from the equipment sector (OLT) and the materials sector (COS and ART). This high ratios can be justified by a difficult financial situation for the specific company (in the case of OLT), but also by the fact that in some periods, the companies maz reach higher indebt ratios, given the nature of their activitz and the fact that need to finance large proportion investment projects. When analysing the indebt ratio, we cannot say that a company that reaches a level of indebt more than 33 % of the total liabilities finds itself in a critical financial position. If a company has a well-defined business-plan and carries aut an agressive policy of market penetration, then it needs for a period some important resources, that could lead to an increased indebt ratio.

If we divide the companies from the five considered sectors of activity, on different groups, having in consideration some different ranges of the financial ratios computed so far, we can get a broader image of the financial resources that companies tend to use to finance their activities (Table 1).

Table 1. Groups of the considered companies, having in consideration the computed financial ratios

Indicators	Number of companies that have the indicators varying between the following limits:		
	0,00-33 %	33-50 %	50 - 100 %
Financial stability ratio			
2002	**0**	**8**	**32**
2003	**2**	**1**	**37**
2004	**1**	**3**	**36**
2005	**1**	**2**	**37**
2006	**1**	**5**	**34**
2007	**2**	**7**	**31**
Financial autonomy ratio			
2002	**2**	**6**	**32**
2003	**3**	**3**	**34**
2004	**3**	**4**	**33**
2005	**3**	**4**	**33**
2006	**3**	**9**	**28**
2007	**2**	**11**	**27**
Global indebt ratio			
2002	**19**	**12**	**9**
2003	**23**	**9**	**8**
2004	**20**	**12**	**8**
2005	**25**	**8**	**7**
2006	**22**	**6**	**11**
2007	**22**	**6**	**11**

Source: [realized by authors by grouping computed dates from the financial statements]

4. Conclusions

From what we have mentioned above, it results that **the main source of financing for the Romanian companies** taken in consideration in the study, is **their own capital, for all the sectors taken into consideration.** Over all, around 70 % of the considered companies finance themselves with over 70% from own capital. The choice of own capital seems to be more visible for the first part of the considered period (2002-2004), while for the second part of the period there can be seen **an increase of the indebt of the companies**, for all the sectors of activity taken into consideration. This can prove a growing interest for long-term debt, represented mainly by bank loans, situation that can be explained by the downward trend of the interest rates for the bank loans in the period 2005-2007 and on the other hand by the favourable macroeconomical conditions for the last period of analysis (2004-2007).

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*** http://www.ktd.ro, accessed on 10th of March 2009

*** http://www.kmarket.ro, accessed on 10th of March 2009

*** http://www.bvb.ro , accessed on 10th of March 2009

Notes

(1)   A detailed list of the companies taken in consideration in the study is reflected in Appendix 1

Appendix 1

COMPONENT SECTORS OF ACTIVITY	OBTAINED SECTORS OF ACTIVITY	COMPANIES TAKEN INTO CONSIDERATION IN THE ANALYSIS, FROM DIFFERENT SECTORS OF ACTIVITY
Energetical resources	*I. ENERGETIC*	Petrom (SNP)
Services and energetical equipments		Energopetrol Campina (ENP) Oil Terminal Constanta (OIL) Petrolexportimport Bucuresti (PEI) Rompetrol Well Services (PTR)
Quemistry	*II. QUEMICAL*	Carbochim Cluj Napoca (CBC) Oltchim Rm. Valcea (OLT) Policolor Bucuresti (PCL) Prodplast Bucuresti (PPL) Sinteza Oradea (STZ)
Pharmaceutics		Antibiotice Iasi (ATB) Zentiva SA (SCD)
Fertilizers		Amonil Slobozia (AMO) Azomures Tg. Mures (AZO)
Equipments	*III. EQUIPMENTS*	Aerostar Bacau (ARS)
		Armatura Cluj-Napoca (ARM)
		Comelf Bistrita (CMF)
		Compa S. A. Sibiu (CMP)
		Electroputere Craiova (EPT)
		Impact Developer & Contractor S.A. (IMP)
		Mefin Sinaia (MEF)
		Santierul Naval Orsova (SNO)
		Turbomecanica Bucuresti (TBM)
		Uamt Oradea (UAM)
		Vae Apcarom Buzau (APC)
Consumer goods	*IV. MATERIALS*	Bermas Suceava (BRM) TITAN S.A. (MPN)
Materials		Alro Slatina (ALR) Mechel Târgovişte (COS) MJ Maillis Romania (MJM) TMK Artrom (ART) Zimtub Zimnicea (ZIM)
Other		Electroaparataj Bucuresti (ELJ) Electrocontact Botosani (ECT) Siretul Pascani (SRT)