

EARNINGS PER SHARE – RELEVANT INDICATOR FOR MEASURING THE PERFORMANCE OF COMPANIES LISTED ON THE BUCHAREST STOCK EXCHANGE

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Abstract

The supply of information that reflects the performance of entities is among the most important objectives of financial statements, so that by publishing them, entities meet the requirements of a diverse range of users. Regarding the measurement of financial performance, the benchmark or basis for calculating many performance indicators was considered profit, but over time, in the process of performance measurement, other relevant concepts made their way, one of these concepts being the result per action. Thus, for a more consistent analysis of the performance of the sampled entities (companies listed on the BSE), the main objective of this paper is the analysis of the result per share indicator, this result per share being analyzed according to the main field of activity.

Key words: *performance; financial performance; global performance; Bucharest Stock Exchange; Earnings per share*

JEL Classification: *M14, M48.*

I. INTRODUCTION

The concept of performance, as the main objective of the information provided from financial statements to meet the information needs of various users is presented in the literature from various angles and through a variety of approaches, but in general it represents the final result obtained after carrying out an activity, associated either with a positive outcome or with the success achieved in a particular area (Grosu, Mihalciuc, Munteanu, 2022).

Defining the concept of performance through the net result or through the overall result depends on the vision. It is found that the overall result shows the overall performance, but only to the extent that the gains and losses that curtail economic benefits are taken into account and do not include the gains generated by the increase in asset prices (Tabără, Dicu, 2007, p. 369).

An important indicator used to measure the performance of entities of interest to investors is the Earnings per Share (EPS) indicator. The importance and relevance of this result is particularly important when comparing the values obtained by an entity over a longer period of time or when comparing the results obtained by an entity with the results obtained by other entities operating in the same industry (Contzilla.ro, 2009). Thus, based on the importance of this indicator, the authors considered it essential to carry out a complex analysis of the earnings per share indicator, for the companies listed on the BSE included in the sample, so that the performance assessment can have a more consistent character. The sample subject to analysis is 66 entities, out of the 83 entities initially selected, since neither banking nor financial investment institutions were taken into account, as well as the Stock Exchange and two other entities with activities that presented differential features in the determination of the analysed results.

II. LITERATURE REVIEW

Today's global economic environment, through its specific elements, imposes new performance standards on economic entities that go beyond the economic sphere. Thus, an essential element in the process of improving and assessing the effectiveness and efficiency of the economic activity carried out is the knowledge and measurement of performance (Dănilă, 2014, p.10). The process of measuring the performance of a company is

influenced by two aspects of how the business should operate, one that aims at the financial perspective, whereby the owner's investment is expected to be profitable and the value of the company to increase, and the second aspect follows the non-financial perspective, according to which companies are an economic system, a complex network of internal relationships. and external, which must be carefully balanced (Morosan, Mihalciuc, Grosu).

Performance is essential in any activity, and even more so in business. Depending on their interests, each category of economic actors perceives performance differently. Managers are interested in the overall performance of entities and their ability to make profit, current and potential investors perceive performance through return on investment, employees and customers see the performance of entities as a state of stability and continuity, while creditors are interested in the solvency and liquidity of entities (Gruian, 2015, p. 244).

We find in the Explanatory Dictionary of the Romanian Language (DEX, 2009) the term performance defined by association with a particular achievement in a particular field of activity.

From an economic point of view, performance is a relative measure that is determined by making comparisons with other measures that mirror the ability of entities to progress based on their own efforts made and measured (Gruian, 2015, p. 245). It can also be assessed that an economic entity is performing if it is profitable, liquid or able to pay its debts due in the short term and solvent, which makes it able to pay its debts due in the long term (Mihalciuc, Barnea, 2017).

In the banking rules (Regulation No. 5/2012), the concept of performance represents the financial soundness and economic potential of entities, information that is obtained by analyzing a set of economic and financial indicators calculated on the basis of data from financial statements.

Entities are considered to be performing if they have the capacity to make a profit. Depending on this capacity, it is possible to estimate the size of the resources that entities will own and control in the future (Horomnea, 2009, p. 231). Keeping companies in business depends on their carrying out a rational, efficient activity, and increasing profit and thus profitability being an objective necessity, vital for the very existence of the entity, profitability representing the decisive tool in the mechanism of the market economy (Mihalciuc, Cosmulesi, Popescu, 2016). Financial performance shows the level at which the enterprise has met the objective of achieving the profit line, which involves profit maximization (Malciu, 1998, p. 50).

Performance is one of the main indicators that explain the level of development of a company, being one of the most important evaluation variables, this concept is evolving towards a global approach that includes some financial and non-financial factors impacting on the value of a company that refer to elements of actions aimed at social responsibility (Grosu, Mihalciuc, 2015; Mihalciuc, Grosu, Apetri, 2020; Mihalciuc, Grosu, 2022). In terms of overall performance, this is defined in terms of the ability of entities to create value for all stakeholders, we are talking here about shareholders, creditors, suppliers, employees, the local community, etc. (Mihalciuc, Apetri, 2017). Traditional indicators that reflect the historical performance of entities, are increasingly less relevant in forecasting their future development (Mihalciuc, Apetri, 2019). The information content of traditional indicators does not take into account the cost of capital invested in the business, but only reflects the effects generated by the use of this capital (Berheci, 2010). For these reasons, there are many situations in which traditional indicators reflect a superior performance of entities, but the reality is different, because the activities carried out do not actually create value, but rather degrade the situation of these entities, leading to permanent losses of value (Horomnea, 2009, p. 235).

Situations similar to the one presented above were among the factors that required the emergence of the concept of overall result, a concept that reflects the overall performance of entities, i.e. their ability to create value at the level of the entire activity carried out (Grosu, Mihalciuc, Munteanu, 2022). Global performance refers to the relationship of balance and causality existing between internal and external forces, being built through continuous improvement of internal processes, through innovation and training, through customer and shareholder satisfaction, through environmental protection (Mihalciuc, Cibotariu, 2009, pp. 430-436).

III. EARNINGS PER SHARE ANALYSIS

Basic earnings per share is calculated as the ratio of net profit or loss attributable to ordinary shareholders to the average number of ordinary shares outstanding during the period. The difference between basic and diluted

earnings per share is that in calculating the latter, entities also take into account those classes of securities that do not yet give entitlement to a share of earnings but are expected to be transferred to ordinary shares or to give such entitlement in the future (Contzilla.ro, 2009). The numerator of the ratio on the basis of which EPS, i.e. net income, is determined is reduced by preferred dividends, and the numerator, as mentioned above, is a weighted average of ordinary shares outstanding. It goes without saying that those entities that generate high values of this indicator have the ability to generate significant dividends to equity owners. Of course, entities can also choose to reinvest the result, but for investors, it is preferable for this indicator to have positive values and as high as possible (ceccarbusinessmagazine.ro, Expertise and Business Audit, no. 3, 2020).

IV. RESEARCH METHODOLOGY

The sample on which the study in this paper is based consists of financial statements for the financial year 2021 published by 66 entities applying IFRS. Thus, the performance measurement was based on the key indicators earnings per share and the sector of activity in which the companies carry out their main activity, and for the analysis, the public financial data of listed companies, which prepare financial statements in accordance with international accounting standards, were used, which can be found on the official website of the BSE. Based on the analysis of the data from the selected sample, the structure of the sample according to the earnings per share obtained can be observed, as shown in Figure 1.

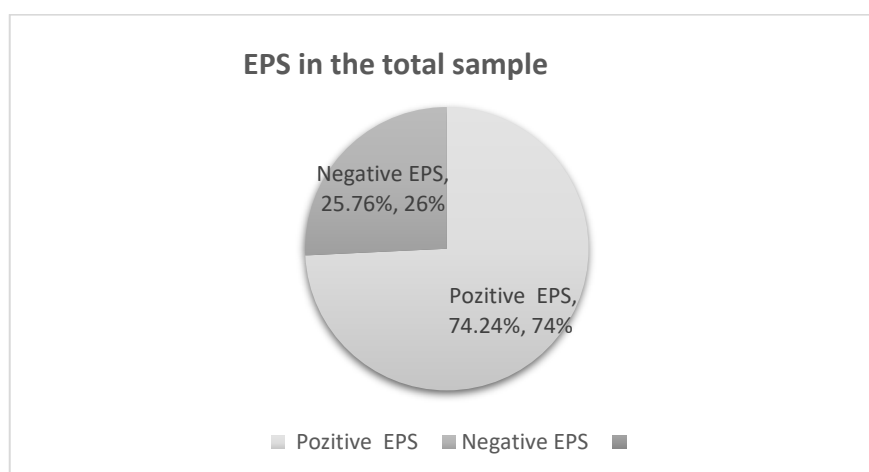


Figure – 1 Structure of the sample according to the earning per share (EPS)

Source: own processing based on data collected from the annual financial statements at 2021 level

V. RESULTS AND DISCUSSION

Of the entities analysed, for 2021 approximately 74.26% report positive earnings per share and the remaining 25.76% report negative earnings per share. The nature of the earnings per share is closely related to the nature of the net result, so the 49 entities out of the total of 66 analysed that were profitable also recorded positive EPS values, contributing to the creation of shareholder value at the end of the period. While the other 17 report losses and the result per share can only be negative.

Although the value importance of earnings per share is higher when the analysis is carried out either over a longer period of time or according to the field of activity, we have made a top five of the best and worst performing entities of the sample, reflecting a different angle of analysis of the performance and results obtained by the entities during 2021 (Table 1), different from the one provided by the net and overall results, carried out in a previous study (Grosu, Mihalciuc, Munteanu, 2022).

Table 1. Top entities with highest and lowest earnings per share respectively in 2021

No. crt.	Best performing	EPS (lei/share)
1	S.N.T.G.N. TRANSGAZ S.A.	15,02
2	TTS (TRANSPORT TRADE SERVICES)	8,58
3	CONPET SA	6,00
4	S.N.G.N. ROMGAZ S.A.	4,97
5	S.N. NUCLEARELECTRICA S.A.	3,43
No. crt	The worst performers	EPS (lei/share)
1	CONTED SA	-7,61
2	SOCIETATEA ENERGETICA ELECTRICA S.A.	-1,60
3	MECANICA FINA SA	-1,05
4	COMPANIA ENERGOPETROL S.A. - in insolventa	-0,89
5	COS TARGOVISTE S.A.	-0,66
	EPS sample average	0,5367

Source: own processing based on data collected from the annual financial statements at 2021 level

We note that the order presented by earnings per share differs significantly from that indicated by net income and comprehensive income, because earnings per share not only reflects an entity's ability to generate shareholder value, but measures the actual amount of value created for each individual share held by the owners of that entity.

For a more relevant analysis, the authors have broken down earnings per share by main business area, as shown in Table 2.

Table 2. Earnings per share by business area

Branch of activity	EPS (+)	EPS (-)	Best performing	EPS lei/shar	Most underperforming	EPS lei/share
Energy, Oil and Gas and Energy Mining, Extractive Industry	8	0	S.N.T.G.N. TRANSGAZ S.A.	15,0200	DAFORA SA	0,0037
Food, beverages and tobacco	1	0	BERMAS S.A.	0,3100	n/a	n/a
Textile industry, textile products, clothing. Leather and footwear	0	1	n/a	n/a	CONTED SA	-7,6100
Wood processing. Manufacture of paper and paper products	1	0	VRANCART SA	0,0100	n/a	n/a
Chemical and petrochemical industry and related activities	9	1	CHIMCOMPLEX S.A. BORZESTI.	1,5900	ROMPETROL RAFINARE S.A.	-0,0300
Glass and fine ceramics industry. The building materials industry - manufacture of other non-metallic mineral products	4	1	CARBOCHIM S.A.	0,2900	COMCM SA CONSTANTA	-0,0200
Metallurgical industry	1	1	ALRO S.A.	0,0400	COS TARGOVISTE S.A.	-0,6600
Machine building and metal construction industry	8	5	IAR SA Brasov	1,2400	U.C.M. RESITA SA	-0,3600
Electrical, electronic and fine mechanical equipment industry	4	3	S.C AAGES S.A.	0,4600	MECANICA FINA SA	-1,0500
Civil and Industrial Construction	1	3	IMPACT DEVELOPER & CONTRACTOR S.A.	0,0500	ENERGOPETROL S.A.	-0,8900
Trade	4	0	ALUMIL ROM INDUSTRY S.A.	0,1900	ROPHARMA SA	0,0200
Water transport and related services sector. Air transport and related services	3	0	TTS (TRANSPORT TRADE SERVICES)	8,5800	OIL TERMINAL S.A.	0,0100
Tourism, hotels and restaurants	3	1	SIF HOTELURI SA	0,1400	TURISM, HOTELURI, RESTAURANTE MAREA NEAGRA S.A.	-0,0200
Assistance, consultancy, support services. Other service activities	1	1	SPHERA FRANCHISE GROUP	0,4800	ENERGETICA ELECTRICA S.A.	-1,6000
Health care. Sanitary and veterinary activities	1	0	MedLife S.A.	0,8500	n/a	n/a

TOTAL	49	17	EPS (+) mediu	1,9500	EPS (-) mediu	-0,8138
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Source: own processing based on data collected from the annual financial statements at 2021 level

Table 2 shows in detail the analysis of the result by action by area/sectors of activity.

Thus, in the field of Energy, Oil and Gas and Energy Mining, Extractive Industry eight entities of the sample were included, all of them recording positive EPS values. The best performer in terms of earnings per share in 2021 in this sector, but also in the sample is S.N.T.G.N. Transgaz S.A with 15.02 lei per share, and the worst performer is Dafora SA with 0.0037 lei per share.entities.

The Chemical and petrochemical industry and related activities sector is represented by ten entities, nine of which record positive results per share, the most profitable being Chimcomplex S.A. Borzesti with 1.5900 lei / share. One of the less performing entities, identified by Rompetrol Rafinare S.A (0.03 lei / share).

The machine building and metal construction industry sector is the best represented in the sample, with thirteen entities, eight with positive results, the best result being recorded by Iar SA Brasov, 1.24 lei/share, and the worst return being given by U.C.M. RESITA SA with -0.36 lei/share.

In the category Electrical, electronic and fine mechanical equipment industry. Other industrial activities are active in 2021 seven sample entities, four with positive values and three with negative values. The highest value in this area in terms of earnings per share is recorded at Ages S.A. and is 0.4600 lei per share; and the worst performer is Mecanica Fina SA, with an EPS of -1.050 lei per share.

Glass and fine ceramics industry. The building materials industry - manufacture of other non-metallic mineral products identifies five entities in the sample analysed. Four entities are found to be profitable, the most profitable of which is Carbochim S.A. with 0.29 lei/share, while only one of them is not profitable, Comcm SA Constanta, 0.02 lei/share..

The Civil and Industrial Construction sector proves to be one of the most unprofitable, three of the four listed entities have a negative EPS, the lowest value being recorded by Energopetrol S.A., -8.9 lei/share.

The Trade sector remains a profitable one, with all four entities having positive EPS.

Water transport and related services sector. Air transport and related services, with three entities, all with positive indicators, the representative entity of the sector, TTS (Transport Trade Services) being the 2nd entity in the sample by EPS.

Four of the sampled entities are active in the Tourism, hotels and restaurants sector. These entities, registering considerably low values, similar to those in Wholesale and retail trade, show low earnings per share compared to the values registered by other entities in the sample. The sector performer in terms of EPS is Sif Hotels SA with 0.140 lei per share, and the worst performer is Turism, Hotels, Restaurants Marea Neagra S.A, with only -0.020 lei per share.

Of the sectors analysed, for 4 of them, namely Food, beverages and tobacco industry, Textile industry, textile products, clothing. Leather and footwear, Logging and primary wood processing. Manufacture of paper and paper products and Health care. Sanitary and veterinary activities, only one representative entity was identified, the result per share being positive, in the case of 3 of them, with values ranging from 0.0100 lei to 0.8500 lei per share. The entities in question are Bermas S.A., Vrancart SA and MedLife, the highest value of the result per share among them is recorded by MedLife, the lowest value belongs to Vrancart SA, and in the case of one the result per share was negative, the entity in question being Conted SA.

There are 2 entities in the category Assistance, consultancy, support services. Other service activities, one with a positive value and the second with a negative value. The recorded values are aporiated by 0.

The average value of earnings per share in the sample analysed is 0.5367 lei per share, and only 15% of the sample entities record values above this value.

VI. CONCLUSION

Out of the total number of entities analysed in terms of EPS, 49 entities have positive results and 17 negative results. The top profitable entities in terms of EPS come from the Chemical and petrochemical industry and related activities sector followed by Energy, oil and gas and energy mining. Extractive Industry together representing about 26% of the sample.

As a conclusion from the information presented on earnings per share, we note that those entities that were in the top performers in terms of net and overall earnings are no longer in the top performers in terms of net earnings per share. Only Transgaz retains its position in the top five best performing entities not only in terms of net and overall results, but also in terms of earnings per share achieved during 2021. As regards the top of the worst performing entities of the sample, three of the worst performers in terms of net and overall results are also in the top of the worst performing entities in terms of earnings per share, namely Romcab, Cos Târgoviște and Rompetrol Rafinare.

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