Assessment of the financial performance of companies included in the BET index of the Romanian stock market during the Covid-19 pandemic

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Abstract: *In this paper, we intend to assess the impact of the Covid -19 pandemic on the Romanian stock market, by analyzing the financial performances of the main companies listed on the Bucharest Stock Exchange, more precisely those included in the Bucharest Exchange Trade index. Our aim was to check how resilient the companies listed on the BSE were during these difficult times of the Covid-19 pandemic. We chose the BET index because we consider that this includes a very representative basket of companies from diverse areas, such as energy, utilities, finance and banking, communication, the food industry, the medical sector and transportation. Moreover, from this diversity, we can identify if some sectors were more resilient than others.*

Keywords: Stock market, financial performance, Covid-19 pandemic, ratios

1 Introduction

The Covid-19 pandemic which started at the end of 2019, and exploded in 2020, was largely viewed as a *black swan* event for human society. A black swan can be defined as an event that is rare, coming from nowhere, has massive consequences, and when it happens, can appear, retrospectively, as explainable and predictable (Taleb, 2007). Though, the same author of the book "Black Swan", stated quite clearly in several interviews that the Covid-19 pandemic was not a *black swan*, underlying that it was expected and predictable, and some people even predicted it (Avishai, 2020). Nevertheless, in whichever manner we characterize this event, disaster risk management systems, public health systems, as well as the economies around the world, in general, were challenged and stretched to the limit (Mishra, 2020).

In this paper, we intend to assess the impact of the Covid -19 pandemic on the Romanian stock market, by analyzing the financial performances of the main listed companies on the Bucharest Stock Exchange. It is well-known that the stock exchanges are often regarded like as a barometer for the economy and society. Were the stock exchanges able to predict this event or was it a *black swan* for them and they reacted only afterwards? What was their reaction after Covid-19 was confirmed in Europe and in the US, and what was their evolution during the pandemic? From the all-time high, set on February 12, 2020, at 29,551 points, the Dow Jones Industrial Average (DJIA) index dropped around 11,000 points in the next five weeks till March 23, 2020, when the index reached a low of 18,591 points, according to data from Yahoo Finance and statista.com.

Though this Covid-19 crash (over 37% in just one month and a half) was one of the worst in the history of the US stock markets, there were no previous signals on the markets to announce it, but on the contrary, the DJIA made new highs at the beginning of February. However, once the pandemic began to spread at the beginning of March and the governments from different countries started to discuss and implement the shutdowns of the economy and the lockdowns, the panic suddenly installed and led to a stock market crash that included the three worst point drops in U.S. history (Frazier, 2021):

March 9, 2020, known as "Black Monday I," the Dow Jones Industrial Average

1. dropped 7.79% or 2,014 points;
2. March 12, 2020, known as "Black Thursday," the Dow fell 9.9% or 2,352 points;
3. On March 16, known as "Black Monday II," the Dow dropped even further, losing 12.9%, almost 3,000 points. It was so dramatic that the New York Stock Exchange had to suspend trading several times.

The Romanian stock market was showing a strong correlation with the US market at that time, and through the Bucharest Exchange Trade index (BET) followed a very similar scenario:

1. On March 9, 2020, Monday, the BET Index dropped 7.53%;
2. On March 12, 2020, Thursday, the BET index fell 5.15%;
3. On March 16, Monday again, the BET dropped even further, losing 9.58%.

This strong correlation between the US and the Romanian stock market can be seen very well, also, in the following two charts picturing in parallel the DJIA and the BET index (figure no.1).

Figure 1

DJIA versus BET index

Source: Yahoo Finance, Tradingview.com, Bucharest Stock Exchange

2 Materials and Methods

This paper aims to check how resilient were the most important companies listed on the BSE during this difficult time of the Covid-19 pandemic. The data that we used are from the company's financial reports sent to the Bucharest Stock Exchange and/or from the National Company Register and the Ministry of Finance. In order to better serve our analysis, we used the financial data from the last three years, including the pre-pandemic year of 2019 and then the years 2020 and 2021.

We have opted for the BET index because is the most representative of the Romanian stock market, including twenty of the most important and traded Romanian companies that are accounting for about one-quarter of the total market capitalization.

The analysis that we performed goes on two layers. Firstly, we analyzed the price evolution of the shares from the BET index, and secondly, we performed a financial analysis of these companies. For the first layer, we used mostly charts and elements of the technical analysis method. For the second layer of our analysis, we used ratios from the financial statement analysis method, both on the dynamics and on a horizontal level. The assessment of the financial performances of the companies can be achieved with the help of market ratios and profitability ratios. More precisely, we used some market ratios like the dividend yield, as well as, profitability ratios like the Return on equity (ROE) or Return on sales (ROS), in order to see how profitable these companies were before and then during the two years of the pandemic. ROE was calculated as the net profit divided by equity, and we consider that is the most relevant ratio for any investor because it shows the ability of the company to find good investments and, ultimately is showing how profitable are these investments. A high ROE indicates a good use of shareholders' capital. For the operating performance of the company, return on assets – ROA is a better measure (Brealey, Myers 2020) because it measures the profitability compared to all the assets. Another performance indicator for a company that we used in our analysis is the return on sales, which measures the percentage of revenues which is converted into profits and is calculated by dividing the operating profit by the net sales.

We have also calculated the dividend yields, to check if the analyzed companies are not just able to be profitable, but if they have enough free cash flows in order to pay out part of the profits to reward the shareholders. Measuring the cash flow can be as important as measuring the profit when we assess the financial performance of a company.

3 Results and Discussion

The Covid-19 pandemic had an impact on the analyzed companies but mostly on their market capitalization, not so much on their financial performance. While it is true that all of them suffered severe depreciation of their market values at the beginning of the pandemic in February and March 2020, most of them were not affected on their financial performance at the end of the year 2020 compared to the previous year. It is also true that, even regarding their market value, most of these companies started to rebound from their lows already from April 2020, making a very rapid and surprising "V shape" recovery (see Figure no.2). By the end of the year, recovery was already completed, and some of these shares even made new highs. Then, this upward trend continued throughout 2021 and for the beginning part of 2022, being interrupted only by the outbreak of the war in Ukraine in February this year.

Figure no.2 BET "V Shape" Recovery

Source: Bvb.ro, Tradingview.com

In what was concerning the evolution of these companies' financial performances, things were a little more nuanced during the pandemic. We analyzed their income statements and balance sheets for the year previous to the pandemic and the next two years, and then we extracted the profit and calculated the variations from one year to the other (see table no.1).

Table no.1 BET companies profits variation during the pandemic

BET Company	Net Profit 2021	Var. Δ 21/20 %	Net Profit 2020	Var. Δ 20/19 %	Net Profit 2019
TLV	1,782,703,612	49%	1,197,304,582	-26%	1,620,511,500
FP	5,012,644,707	profit	-102,978,968	-103%	3,129,870,912
SNP	2,688,416,594	95%	1,381,578,837	-61%	3,563,589,092
SNG	1,962,509,237	53%	1,278,884,673	22%	1,046,406,623
BRD	1,279,256,000	34%	951,565,000	-38%	1,528,523,000
SNN	1,036,261,626	48%	699,322,229	31%	535,667,264
TGN	186,941,472	7%	175,000,764	-50%	348,259,016
M	55,484,430	33%	41,842,280	651%	5,573,007
DIGI	325,373,400	397%	65,496,630	-67%	199,338,300
EL	321,819,884	8%	298,378,536	16%	257,774,731
ONE	40,714,517	-56%	93,001,566	114%	43,537,969
TRP	323,510,441	877%	33,104,139	242%	9,669,152
TEL	449,891	-100%	144,956,820	51%	96,030,957
TTS	32,610,965	9%	29,799,807	5%	28,399,270
ALR	35,209,984	-88%	295,206,223	-293%	-152,901,053
WINE	51,371,926	-13%	59,229,766	46%	40,473,465
BVB	8,206,560	-10%	9,118,697	31%	6,962,791
AQ	63,308,307	14%	55,737,979	1620%	3,240,306
COTE	51,928,770	-15%	60,846,759	3%	58,876,719
SFG	29,798,823	-55%	66,375,340	107%	31,998,285
Total	**15,288,521,146**	**124%**	**6,833,771,659**	**-45%**	**12,401,801,306**

Source: own calculations based on data from bvb.ro

At first glance, we can observe that only one company from the twenty analyzed had registered a loss during the two years of the pandemic. The loss was just in one year and, moreover, this company is not very relevant because it is actually an investment fund and the loss was not related to the operational activity but, partially, to some delays in dividend payments from several companies from its portfolio.

All the other companies, with no exceptions, remained profitable during the two years of the pandemic. The differences between them appear when we look at the profit variations from one year to another. Compared to 2019, 7 out of the 20 analyzed companies registered a decrease in their profits. Unfortunately, we can notice that these companies were the largest ones from the group because when we look at the sum of all the profits, we can observe that at the end of the first pandemic year, the total profits decreased severely by -45% compared to 2019. This sharp decrease in the total profits was caused, predominantly, by the national oil company that was affected by the oil price and the restricted mobility from the first half of the year, together with the two banks that were affected by the provisions they had to create for possible non-performing loans (and, by that investment fund, that we mentioned previously). The rest of the companies increased their profits compared to the pre-pandemic year. The situation improved significantly in 2021 when the total profits were 124% larger compared to 2020 and, 23% larger compared to the pre-pandemic year. Therefore, quite a spectacular recovery was seen, also in the profitability of these companies as it was anticipated by the “V shape” recovery pictured in the charts.

If we look at the next table (see table no.2), we can observe that these companies from the BET index were not just profitable, but were able to distribute significant dividends, a fact that was showing that they had also good cash-flow positions during the pandemic years. Even more, the average dividend yield increased constantly during these three years, from 2.9% in 2019, to 3.3% in the first pandemic year and to 4.6% in 2021, almost double compared to the pre-pandemic level. In absolute terms, more than half of these companies (11 out of 20) managed to pay dividends higher than 5% in 2021 compared to just seven companies in 2019.Table no.2 The dividend yields of the BET companies

BET Company		**DivY**		
Symbol	**2021**	**2020**	**2019**	Weight in BET%
TLV	5.1%	2.9%	4.8%	20.97
FP	6.1%	4.0%	5.2%	20.2
SNP	7.2%	6.6%	8.5%	16.91
SNG	7.5%	5.5%	5.1%	9.58
BRD	8.0%	0.5%	0.0%	7.55
SNN	4.4%	5.6%	8.9%	5.23
TGN	6.1%	2.9%	5.1%	3.01
M	na	na	na	3
DIGI	na	2.0%	1,9%	2.56
EL	5.1%	5.7%	6.4%	2.07
ONE	1.2%	1.1%	na	2.02
TRP	13.5%	5.9%	na	1.38
TEL	na	3.4%	2.4%	1.24
TTS	3.3%	na	na	0.98
ALR	na	na	na	0.71
WINE	5.4%	4.2%	na	0.58
BVB	3.5%	4.2%	3.2%	0.56
AQ	6.0%	na	na	0.54
COTE	9.4%	7.5%	8.3%	0.48
SFG	na	5.1%	na	0.44
Average DivY	**4.6%**	**3.3%**	**2.9%**	100

Source: tradeville. ro, bvb. ro

If we go further and calculate the return on equity for the BET companies we can observe (see table no.3) that, for the two pandemic years, more than half of the companies had an ROE greater than 10%, which is a level that investors are expecting most of the time. Furthermore, one-quarter of the companies obtained an ROE greater than 20%, and most of the values improved compared to the pre-pandemic year of 2019. The average ROE improved gradually and significantly from 10.93% in 2019 to 14.43% in 2021 and 15.40% in 2022. To make a comparison, we can look at the database created by Aswath Damodaran, from the Stern School of Business at New York University, and we can find that the average ROE at the end of 2021 in Western Europe was lower, situated at 12.39% (Damodaran, 2022). These results show again the good resilience of most of the BET companies during the pandemic and better financial performance compared to the average of the companies from Western Europe.

Table no.3 The evolution of ROE for the BET companies

Return on equity (ROE) for the BET companies			
Year	2021	2020	2019
	Number of companies		
Negative	**0**	**1**	**1**
Under 10%	**9**	**8**	**10**
Between 10% and 20%	**5**	**6**	**5**
Higher than 20%	**6**	**5**	**4**
Average ROE	**15.40%**	**14.43%**	**10.93%**

Source: own calculations

Furthermore, we wanted also to check if the operational efficiency of the BET companies was affected by the pandemic. For this scope, we calculated the net profit margin by comparing the profit with the sales, and the results are presented in the table no.4. We can observe that in all those three years, just one company had a negative margin, while more than half of them, obtained each year a net profit margin bigger than 20%, level than is considered very good for almost all sectors of economic activities. If we look at the average net profit margins, the situation is even brighter, because we had levels that overpassed 30% in all these three years, even reaching a level of 48% during the first pandemic year. Looking again at the Aswath Damodaran database, we can find that these net margins are much bigger compared to those of the companies from Western Europe, where for example, at the end of 2021, the average net margin was at only 8.08%

The net profit margin for the BET companies			
Year	2021	2020	2019
Number of companies			
Negative	**0**	**1**	**0**
Under 10%	**6**	**7**	**6**
Between 10% and 20%	**2**	**2**	**2**
Higher than 20%	**12**	**10**	**12**
Average Net Margin	**33.96%**	**47.78%**	**35.11%**

Source: own calculations

These findings concerning the net profit margin are not surprising because they align with the calculated ROE levels. However, it might appear as a surprise the fact that these financial ratios were actually improving during the pandemic years. As a possible explanation, we have to take into account that we are discussing here the financial results of some of the largest and most representative companies from Romania, the so-called blue chip companies. Therefore, these good financial performances and the quick recovery, cannot easily be extrapolated to the whole economy and, especially to the small and medium-sized enterprises (which deserve a separate analysis). These blue-chip companies from the BET index benefited from the fact that they are well-known, well-established, often have a well-respected brand and have popular products and services and so on. Often these companies are market leaders or might have even some quasi-monopolies, like in the energy transport sector, to give one example. In addition, these blue chip companies can get much faster, easier and cheaper access to financing compared to other companies or to SMEs, they benefit from good liquidity in the stock market, and they are very attractive to large investors like, for example, the pension funds or sovereign funds, and bottom line, some of them might be "too big, to fail", as we saw during the financial crisis in 2008.

Conclusions

The impact of Covid -19 Pandemic on companies listed on the stock markets was very strong, at least at a psychological level. The panic was installed by the end of February and, especially in March 2020, conducting to crash in the quotations (as much as -37% for DJIA in the US for that period of time, for example). But very soon, the governments and the central banks from around the world stepped in and managed to calm the markets by pumping money into the economies, cutting the interest rates and/or keeping them close to zero and providing other financial incentives, both for companies and for the population. These measures seemed very good at that moment, therefore the markets started to rebound soon after and made a, rather unexpected, "V shape" recovery. With the interest rates very close to zero, the bank deposits and treasury bonds were completely unattractive. At the same time, with more money at their disposal due to the savings during the lockdowns and more time available, new investors came into the stock market. This trend was amplified also due to the rapid developments in the fintech area and the explosion of online trading platforms, very friendly, low-cost and easy to use, like for example Revolut, E-toro, Robin Hood, Trading 212 and so on, which additionally, determined the regular banks and the traditional brokers to offer online and cheaper trading solutions.

The situation was very much similar in Romania on the Bucharest Stock Exchange, where we saw a quite fast "V shape" recovery, after the initial selloff from February and March. These developments were possible because the stock prices became quite cheap after that market crash, while the financial performances of the studied companies remained solid with the average ROE and net profit margin even improving in 2020 compared with 2019. In line with what happened in other stock markets, the number of investors grew significantly, also in the Romanian stock market during the pandemic, from 53,550 in December 2019 to 65,637 in December 2020 and reaching a number of 81,793 investors by the end of 2021, according to a report from Fondul de Compensare al Investitorilor (FCI,2021). This was an increase of more than 50% in the two years of the pandemic. One more specific factor was added to support these developments on the Romanian stock market, namely the fact that the BSE was promoted from a frontier market to an emerging market status in that same pandemic year of 2020, by the FTSE Russel agency (Duma, 2015).

Last, but not least, all these large companies from the BET index, not just remained profitable during the Covid-19 pandemic crisis, but even more, their financial performances, reflected by the financial ratios, improved significantly, as we saw from our analysis. However, we need to emphasize again the fact that these blue chip companies, due to their size, notoriety and special positions in their markets, might not be representative of the whole Romanian economy. Therefore, we consider that a useful future research direction would be to analyze the financial performances and the Covid-19 pandemic impact on the small and medium enterprises in Romania.

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