

THE IMPACT OF FINANCIAL INFORMATIONS OVER PER INDEX

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Abstract: Company performances evaluation rated on capital market starts from the assumption that the company value is decisive determined by its financial variables and its growth potential, business risk, profitability, financial liquidity and flexibility as well as its capability to finance on its own its development projects. In the present study we wish to demonstrate the way of using the informations to take a decision for investing in stocks of the listed companies, considering the ratio between current price of one stock rated at the stock-market and the net benefit per stock (PER), as well as the way that this ratio is influenced by the company financial indexes, underlining some.

Key words: performance, PER ratio, levier effect, profitability

The economic activity in this stage of company evolution is characterized by major changes in regard to traditional economy. The term that defines this stage of economy evolution is “the new economy”, this being, in principle, the result of structural changes appeared in the last decades of XX-th century as a result of technological innovations and as an effect of the globalization process.

The main characteristic of this new economy is the fact that the intangible goods are more important than the tangible ones. In the knowledge society “economy based on knowledge (digital economy, internet market) is very important, final, essential and contains the usage and management of existent knowledge under the form of technological and organizational knowledge, a new economy in which the innovate process is determinant.”

The factor with the strongest impact over economy and social evolution is the appearance and development of the Internet that can be considered the engine of the new economy. The main resource is information and in the same time the base support of this economy. The domain, in which the information represents a very important resource and in which the usage of this information at the right moment can have special effects, on short time as well as on average time, is the financial domain.

Financial markets react extremely fast and unpredictable at any information, arrived from various sources. At any time, as a reaction to these informations, the marketable can have very big fluctuations, leading to bankruptcy or miraculous saving companies. These informations together with the base law of economy – ratio between request and offer – determine the evolution of financial markets.

Performances evaluation of marketable company’s starts from the assumption the value of the company is critical determined by its financial variables, respectively the growth potential, business risk, profitability, financial liquidity and flexibility, as well as its capacity to finance its own development projects.

An important index that reflects the confidence degree of the investor in the company's capacity to develop and make a profit is the PER ratio (Price Earning Ratio)- the ratio between the current price of one stock and the net profit per stock, registered at the end of the year at that company.

This index has a special importance in the investment decision, allows the choice of the investment opportunity that is most efficient. A big PER ratio means that the investors are paying at a higher price per current profit unit in waiting for a sustained, faster and immediate growth of future profits. A PER ratio with a low value together with an expectation of faster growth of a company's profit will make from this an attractive target for investors.

The comparison of two investment options with the help of PER ratio allows bringing to mutual denominator of different stock evaluation. Direct comparison of stock rate is in most cases irrelevant and the comparison of PER indexes of stocks is more relevant.

An interesting interpretation of PER index is the calculation of its inverse, meaning the ratio between the stock profit and price. For example, if PER index of one stock(or market) is 15, then the inverse index is $1/15=0,0667$ (can be expressed as 6,67%). This elaboration of PER index is interesting because allows comparison with bank interests. Bank interest expresses the gain obtained from interests per placed monetary unit. The PER index calculated above expresses the gain obtained from profits on monetary unit invested in the related stocks. The ideal situation would be when the inverse of PER index is higher than the bank interests, that shows a stock subevaluation.

If an investor places an amount of money in a certain stock at a fixed price C, index $1/PER$ of its investment has growth potential on average and long time in the conditions that C stays fix and we start from the assumption of general economical growth what leads to business and profitability growth of the company which stocks were bought, so a numerator growth of ratio $1/PER$. Only, if the same money are placed in a bank account, then this growth potential doesn't exist (if the interest remains fix) or is very little (if the interest is variable, but fluctuates in market limits).

The level of the interest ratio determines essentially PER ratio of one stock. If the interest ratio has a low level, the investments in titles with fixed income will became unattractive and the funds are heading towards the capital market. At the same time, a lower level of the interests facilitates the company access towards more accessible financing sources that determines activity activation.

In our country, in the last years, a good coordination between monetary policy and fiscal policy together with structural reforms acceleration have determined a continuous deflation of the inflation ratio. One of the results of this evolution was the continuous deflation of the reference interest ratio of BNR from 35% in January 2002 down to approximately 15% in March 2005 and 8% in year 2007.

Regarding that the interest ratio deflated very much, monetary market doesn't offer high efficiency to the investors. That is why, starting with year 2004, is shown a growth tendency of the amounts invested in companies listed to Bucharest Stock Market comparing the investments on monetary market, because the capital market can offer higher efficiency. The deflation of the interest ratio influenced in a positive way the level of the stock investments and the activity of Romanian companies, the having access at cheaper financing sources.

On the Romanian market, during 2004-2007 can be noticed the following aspects:

- currency deposits (euro and USD) brought losses in ratio with the ones in RON
- the investments in treasury tickets brought an average efficiency expressed in real terms of 6% in year 2004 and under 2% in 2007
- the investments at Stock Market Bucharest had an average efficiency expressed in real terms of approximately 80% in 2004 and over 15% in 2007.

In consequence was proved that the investment in stock at Bucharest Stock Market is the best alternative of financial investment and this tendency will be expressed more in the following years.

Besides of interest ratio level, an important factor that influences PER ratio on average and long time is the general evolution of the market.

Regarding the measures that were taken in our country, for integration in EU in 2007 was registered a growth of the internal raw product an ascendant trend of commercial deficiency (mainly determined by the imports volume of throughput and components used in industry and the capital imports for investments) and an inflation deflation from 17,8% in 2002 to approximately 4% in 2007.

Regarding the Romanian economic situation from last years, capitalization of Bucharest Stock Market grew continuously reaching over 21.400 million euro in 2007 from only 463 million euros in year 2000. Starting with year 2000, an ascendant evolution was registered of PER ratio, showing that not only the development potential of Romanian companies but also the investors confidence in economical evolution of Romania.

Regarding that the activity period of Bucharest Stock Market is relatively short (12 years) and that there were big fluctuations in what regards the number of listed companies it is difficult to appreciate the influence of external factors over PER ratio, as: interest ratio and market's general evolution.

Will be imposed so the analysis of factor influence of internal nature, over PER ratio: a) economical profitableness

b) lever effect

c) granted dividends

a) *Economical profitableness* represents the profile generated by each unit of active from the company balance-sheet. Economical profitableness measures the result obtained by the company compared with the totality of resources in its disposal. It's calculated dividing the net profit obtained in a certain period to the average actives that the company had in the related period. So, the companies based on actives (ex. Car construction companies, oil, railway companies, etc., that need costly equipments from acquiring and maintenance point of view to produce profit) will register usual an economical profitableness lowered then those that doesn't have the activity based on actives (ex. Software producing companies).

As a main rule, companies that have a economical profitableness under 5% are companies with the activity based on actives and those that have a profitableness bigger than 20% are companies with no high active (publicity agencies, soft companies) [2]. The investors are not preferring companies with activities based on big actives because for these to obtain profit are needed high investments and presumes big expenses for maintenance.

b) *Lever effect* is an important index with special implications over future

development of a company and represents the debts value used for financing the actives of one company.

An important aspect, that needs to be taken into account by the investors then when they decide what stocks to buy, is the debts balance of that company that has lever effect for company profitableness. A reasonable balance of debts regarding the own capital creates an advantage for these companies that use loaned money for activity development. In the case this ratio is bigger can appear problems for that company related to refund capacity of these debts. If from the balance-sheet analysis of a company results that the debt value on long term is deflating then this represents a consolidation in the position of the company. In the situation when the debt value is deflating and in the same time the available in the actives grows is considered that the balance situation of the company is improving. But when the debts grow and the available deflates the situation of the company is deteriorating. A bigger debt value on long term means for the company the reduction of the bearing fund, a risk for not paying the debts that can be too big and may determine the insolvability of that company.

The financial instrument that offers us informations about the indebttness degree of a company is the *solvability ratio*(debt to equity ratio) that shows the loaned funds value on long term without affecting the stability of the company comparing the total value of the debts with its own capitals.

A big balance of the debts in the own capital of a company shows the fact that the company prefers to finance the activity and the investments from external sources. This situation can determine a growth of profit volatility these being affected by the paid debts. In general, if we have for a company: Total debts/Own Capital > 50%, then the investors will ensure that this doesn't have liquidity problems. If this company has a low bearing fund and in the same time has a low liquidity means that it's in a precarious financial situation.

Because of the problems caused by a big indebttness ratio the companies that have a big debt balance in the capital structure will be a risk for investors and their actions have a low PER ratio.

c) *granted dividends* by the companies to its stock-holders represents an important factor in the investment decision in that company's stocks.

Dividends efficiency expresses the percentage from the obtained profit by a company that is paid to the stock-holders in the form of dividends. This a calculated ratio between the paid dividends value during a year for a stock and the price per stock.

The solid companies offer, in general, a high dividend efficiency and the companies that are in development offer a lowered dividend efficiency.

In general as high as it is the dividend efficiency of a company will have a high PER ratio, this reflecting the investors trust in that company.

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