

FINANCIAL PERFORMANCE ANALYSIS FROM THE CAPITAL MARKET INDICATORS PERSPECTIVE

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Abstract: *This paper aims at presenting an analysis of the financial performance from the perspective of the specific capital market indicators based on the market value. The analysis has been performed using data from the financial statements of three Romanian companies in the energy field, listed at Bucharest Stock Exchange (BSE). The purpose of the analysis is to study the dynamic of some financial performance indicators such as fixed asset turnover ratio, receivables turnover, dividend yield, price-to-book-value, price earnings ratio and to, accordingly, rank the companies.*

Key words: financial performance, capital market indicators.

JEL Classification Code: G32.

1. INTRODUCTION

Financial performance analysis has always been in the center of interest of companies and their stakeholders, although the economic literature does not provide a precise definition of it. But, there are numerous studies that have focused on the financial performance.

Financial analysis is a tool of financial management. It consists of the evaluation of the financial condition and operating performance of a business firm, an industry, or even the economy, and the forecasting of its future condition and performance (Fabozzi and Peterson, 2003, p. 5).

The financial information offered by the financial statements are considered to be the main means of communication with investors. Moreover, specialists have tried to find the most important and significant ratios, with influence on stock performance, measured by changes in the price or by total stock return (Mironiuc and Robu, 2013).

Financial statements are accounting reports that a firm issues periodically to describe its past performance. Investors, financial analysts, managers, and other interested parties such as creditors rely on financial statements to obtain reliable information about a corporation (Berk and De Marzo, 2017, p. 83).

Koralun-Bereznicka (2013, p. 6) considers that, when referring to the practice of the industrial organisations, the corporate performance is almost exclusively identified as profitability. But, the same author identifies the limitations resulting from imperfections of book values, e.g. due to manipulations performed on financial items, especially on the profit. The problem is particularly noticeable in the case of some profitability ratios, such as earnings per share or return on equity.

The information offered to investors, regardless of its origin, represent a fundamental support in making investments decisions on a capital market (Mironiuc and Robu, 2013).



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In addition to traditional and modern performance indicators, specific indicators can be used for listed companies. „Their role is to define the situation on the company's capital market, to express the earnings that the company brings to its shareholders through the evolution of the share exchange rate” (Siminică et al., 2017).

Fama and French (1992) document a relationship between the book-to-market equity (BV / P) ratio and the subsequent returns on shares.

Lewellen (2004) argues that the Yield dividend and the book-to-market and the earnings-price ratio have a strong predictive power over the profitability of the share.

Brendea and Pop (2019) state that the financing decisions and characteristics of firms from the sector they belong to are important determinants of their decisions; furthermore, the managers follow the herd when they decide firms’ financing sources and, as a consequence, they miss the maximization of firms’ market value.

One of the analyzes performed on firms listed at BSE (Mironiuc and Robu, 2013) states that, as regards to Romania, perceived as an emerging economy, the studies considering the link between the performance criteria and their impact on creating value for shareholders are insufficient. The same authors reveal the importance and the impact that traditional return variables, acquired from financial statements, have on stock price and on capital gains yield. Furthermore, the link between the price and the financial information expressed by the P/B ratio is considered to be significant.

Another cited research (Siminică et al., 2017) analyzes the impact of economic and financial performance on stock exchange performance of some companies listed on the BSE and reveals that the decrease in the market value of shares has implicitly led to a decline in stock market indices reflecting the firm's stock market performance.

Apostol (2020) provides an analysis of financial performance of companies listed at BSE using liquidity, profitability and solvency ratios.

According to Moore (1975), „economic indicators are often likened to a barometer because they register some significant aspect of the performance of the economy, are sensitive to changes in the economic climate and may portend further changes”.

2. MATERIALS AND METHOD

In the case of listed and traded companies, the analysis of financial performance from the perspective of classical indicators (liquidity ratios, profitability ratios or solvency ratios) must be doubled by the analysis of performance from the perspective of the specific market capital indicators based on the market value (price earnings ratio, dividend yield, price to book value, etc.), to capture the investors’ external perception, sometimes marked by subjectivism, on the financial performance of a company.

Our research involves three companies in the energy field (electricity, oil and gas), listed on the Bucharest Stock Exchange (BSE): Nuclearelectrica (SNN), Societatea Energetica Electrica (EL) and S.N.G.N. Romgaz (SNG). The information is provided by the annual financial reports of these companies, available on the BSE website (www.bvb.ro).

The analysis focuses on several indicators that can be grouped in:

I. Turnover Ratios

- a) Fixed asset turnover ratio
- b) Receivables turnover

II. Market value ratios

- a) Dividend yield
- b) Price-to-book ratio
- c) Price-earnings ratio

3. DATA ANALYSIS AND RESEARCH RESULTS

I. Turnover ratios

The activity ratios measure how efficiently a company manages its various assets. These reports reflect the efficient management of both working capital and long-term assets.

a) The **fixed assets turnover** measures the efficiency of the use of fixed assets, calculated as the ratio between the turnover and the fixed assets. It is a useful indicator because it shows the result, seen in terms of turnover, of money invested in long-term assets (equipment, buildings, land, etc.). A high turnover rate of fixed assets indicates that they are used efficiently.

$$\text{Fixed assets turnover} = \text{Turnover} / \text{Fixed assets} \quad (1)$$

Table 1. Fixed assets turnover of SNG, EL, SNN between 2013 and 2020

Years	SNG			EL			SNN		
	Sales thousand RON	Fixed assets thousand RON	Fixed assets turnover	Sales thousand RON	Fixed assets thousand RON	Fixed assets turnover	Sales thousand RON	Fixed assets thousand RON	Fixed assets turnover
2013	3,894,267	6,246,163	0.62	5,156,633	6,078,163	0.87	1,933,075	8,279,553	0.23
2014	4,493,341	6,447,795	0.70	5,043,728	4,382,414	1.15	1,796,119	8,022,113	0.22
2015	4,052,684	6,497,062	0.62	5,502,795	4,548,169	1.21	1,749,911	7,695,330	0.23
2016	3,411,868	6,258,103	0.55	5,517,802	4,805,469	1.15	1,648,408	7,293,659	0.23
2017	4,585,189	6,327,112	0.72	5,603,235	5,408,877	1.04	1,899,937	6,948,684	0.27
2018	5,004,197	6,445,319	0.78	5,612,784	5,776,154	0.97	2,128,667	6,671,436	0.32
2019	5,080,482	5,822,038	0.87	6,279,834	6,122,429	1.03	2,377,772	6,301,960	0.38
2020	4,074,893	5,942,619	0.69	6,501,100	6,018,458	1.08	2,448,712	5,995,542	0.41

Source: authors' processing based on data obtained from the website of BSE: <https://www.bvb.ro>

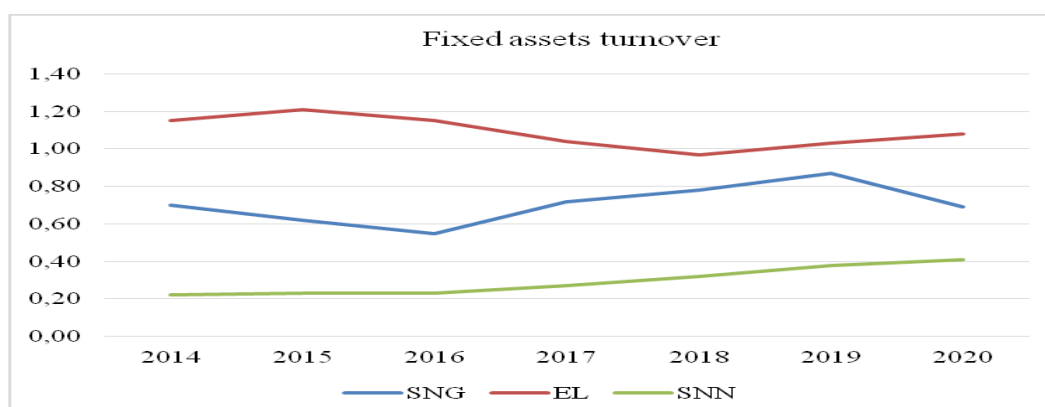


Figure 1. Dynamics of fixed assets turnover

Throughout the analyzed period, among the three companies, EL had the highest asset turnover, but the indicator was declining between 2015-2018, due to the fact that the growth rate of fixed assets exceeded the growth rate of turnover, and starting 2019 the situation was reversed, leading to an increase in asset turnover.

In the case of SNG, the asset turnover was increasing, except for 2015, 2016 and 2020, due to a higher development of turnover compared to that of fixed assets. The decrease of the indicator in 2020, year marked by the Covid-19 pandemic, has as a major cause the decrease of

the turnover, this being the consequence of the reduction of the gas demand in the short term, as a result of the overlapping of some commercial, economic, sanitary factors.

SNN had the lowest turnover of fixed assets, but was on an upward trend due to the decrease in its fixed assets in 2013-2020 and the turnover increase in 2016-2020.

b) The **receivables turnover** is a measure of the efficiency in which the company uses its assets, in this case the receivables from customers.

A higher value of this indicator means either that the company uses very little sales on credit, most of them paid at sight, or that it manages to collect its receivables with increased efficiency. A small turnover of receivables normally means that the company has problems in collecting them in due time, and the effects are a difficult activity, liquidity problems and a volume of production and especially of sales lower than the potential (Ross et al., 2003, p. 68).

$$\text{Receivables turnover} = \text{Turnover} / \text{Receivables} \quad (2)$$

Table 2. Receivables turnover of SNG, EL, SNN between 2013 and 2020

Years	SNG			EL			SNN		
	Sales thousand RON	Receivables thousand RON	Receivables turnover	Sales thousand RON	Receivables thousand RON	Receivables turnover	Sales thousand RON	Receivables thousand RON	Receivables turnover
2013	3,894,267	1,086,628	3.58	5,156,633	1,087,545	4.74	1,933,075	197,045	9.81
2014	4,493,341	1,000,195	4.49	5,043,728	781,000	6.46	1,796,119	240,119	7.48
2015	4,052,684	601,065	6.74	5,502,795	860,917	6.39	1,749,911	163,499	10.70
2016	3,411,868	828,610	4.12	5,517,802	798,019	6.91	1,648,408	162,063	10.17
2017	4,585,189	816,086	5.62	5,603,235	861,029	6.51	1,899,937	150,443	12.63
2018	5,004,197	826,046	6.06	5,612,784	844,754	6.64	2,128,667	157,665	13.50
2019	5,080,482	638,158	7.96	6,279,834	918,482	6.84	2,377,772	169,994	13.99
2020	4,074,893	592,875	6.87	6,501,100	1,062,235	6.12	2,448,712	157,944	15.50

Source: authors' processing based on data obtained from the website of BSE: <https://www.bvb.ro>

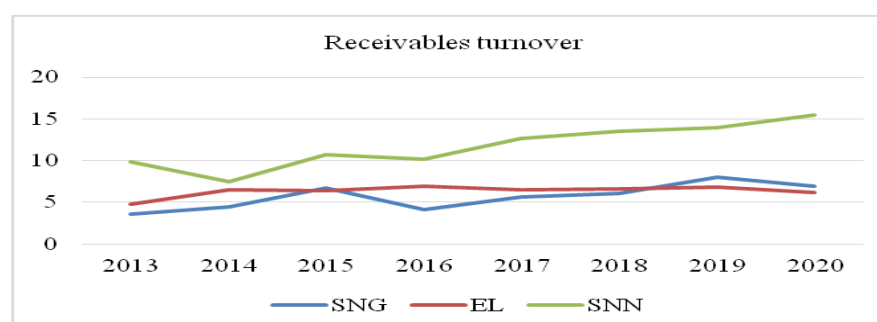


Figure 2. Dynamics of receivables turnover

The highest rotation of receivables between these 3 analyzed companies was recorded by SNN, in each year of the period 2013-2020, reaching a maximum of 12.63 in 2017 due to the increase in turnover compared to 2016 with 15% and the decrease of receivables by 7%, after which the rotation of receivables entered a downward trend given the growth of receivables at a faster rate than the turnover (22% compared to 12% in 2018, respectively 20% compared to 12% in 2019).

SNG recorded the highest turnover of receivables in 2015 and 2019 of 6.74 and 7.96, respectively, as a result of the decrease in trade receivables, but these values do not indicate the efficiency of receivable use. In 2015, the trade receivables decreased, compared to December 31, 2014 by 37.89%, as a result of the decrease in the value and quantity of gas delivered and the

increase in the value of adjustments related to outstanding receivables by RON 187.88 million to receivables from ELCEN Bucharest and Electrocentrale Galati. In 2019, compared to December 31, 2018, the trade receivables decreased by 22.75% due to the delivery of smaller quantities of gas in December 2019, compared to December 2018 by approximately 16.64%, but also as a result of some net losses from the depreciation of trade receivables of RON 81.22 million, resulted from the risk of non-collecting the receivables from the insolvent customers.

The rotation of receivables in the case of EL increased from 4.74 in 2013 to 6.46 in 2014, given the decrease in the value of receivables, a decrease largely due to the collection by Electrica Furnizare of the receivables from the National Railway Company CFR. The period 2014-2019 is characterized by a stability of the indicator, without major changes, reaching a higher value in 2019 due to the increase in turnover to a greater extent (by 11.88% compared to 2018) than of receivables (by 8.73%), a variation generated mainly by the increase in sales, especially in the supply segment.

II. Market value ratios

a) Dividend yield (DIVY - historical prices) is a useful tool in assessing the performance of shares issued by companies that distribute part of the profit to shareholders, calculated as the ratio between the dividend per share (D) and the current share price (P) and the result represents the percentage gain (from dividends) of an investor (Corduneanu et al., 2013).

$$DIVY (\%) = D_{n-1}/P_n \quad (3)$$

where:

D_{n-1} = dividend per share for year n-1 and paid in year n

P_n = closing price of the action at the end of year n

This indicator can provide a view of the potential return on equity investment if the company pursues a stable dividend policy (Apostol & Jelimalai, 2017). Dividend yield is a helpful indicator when comparing the returns brought by different actions but it can also be compared with other investment opportunities to select the most advantageous alternative. Shares with a high dividend yield, belonging to financially stable and mature companies, are recommended.

Considering the expected dividend, it is possible to determine a threshold below which the market price would not be rational to fall, reason for which such companies that distribute dividends remain as investment options even in periods of prolonged decline of a stock market.

Table 3. Dividend yield of SNG, EL, SNN between 2013 and 2020

Year	SNG			EL			SNN		
	P (RON)	D (RON)	DIVY (%)	P (RON)	D (RON)	DIVY (%)	P (RON)	D (RON)	DIVY (%)
2012		2.77			0.187			0.11	
2013	34.19	2.57	8.10 %	n.a.*	0.108	n.a.*	12.20	1.21	0.90 %
2014	35.36	3.15	7.27 %	11.37	0.7217	0.95 %	7.74	0.3	15.63 %
2015	27.2	2.7	11.58 %	12.2	0.86	5.92 %	6.53	0.33	4.59 %
2016	25	5.76	10.80 %	13.16	0.7415	6.53 %	4.80	0.69	6.88 %
2017	31.3	6.85	18.40 %	11.3	0.7237	6.56 %	7.20	2.51	9.58 %
2018	27.8	4.17	24.64 %	9.7	0.73	7.46 %	8.16	1.26	30.76 %
2019	37.1	1.61	11.24 %	10.65	0.724	6.85 %	14.26	1.653	8.84 %
2020	28.1	1.79	5.73%	12.55	0.73	5.77%	17.86	1.565	9.26%

* EL Trading start date July 4th, 2014

Source: authors' processing based on data obtained from the website of BSE: <https://www.bvb.ro>

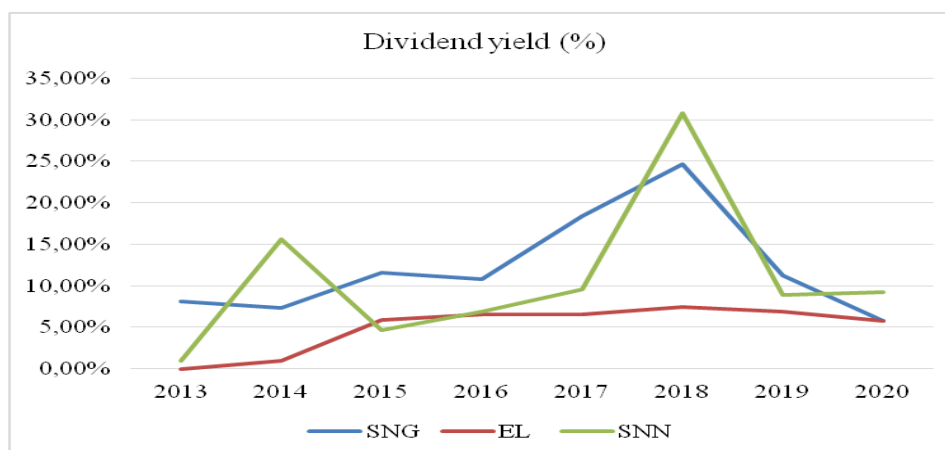


Figure 3. Dynamics of dividend yield

Analyzing the data from table no. 3 of the shares of the other two companies that reached levels above expectation, the shares of EL offered a stable dividend yield except for 2013, even if it was lower than the returns, 18.4% in 2017 and 24.64% in 2018 for SNG, respectively 15.63% in 2014 and 30.76% in 2018 for SNN.

In the case of Romgaz (SNG), the gross dividends per share related to the financial years 2016, 2017 and 2018 resulted from the distribution of the net profit, the result carried forward and the company's reserves. Also, in the case of SNN, in 2018 it was decided in addition to the distribution of the profit for 2017 in the proportion of 93.07% and the distribution of additional dividends from other reserves and the result carried forward, thus reaching record levels of 2.51 lei for dividend per share and 30.76% for dividend yield.

Table 3 shows that all three state-owned companies distributed dividends of approximately equal value, for the years 2019 and 2020, from net profit but also from carried forward results, given the high budget deficit and the difficult situation of public finances caused by the pandemic economic situation.

b) The **price-to-book-value (PBV)** is the ratio between the book value of the shares and their market price. The book value - BV (book value) of a share is determined as the ratio between the net accounting asset (obtained by deducting debts from total assets or equal to equity) and the total number of shares issued by the company. The net asset represents practically the amount that the shareholders would receive, after the payment of all debts to external entities, in case the business would be liquidated.

$$PBV = P_n / BV_{n-1} \quad (4)$$

where: P_n - closing price of the action at the end of year n

BV_{n-1} - the book value at the end of the previous year

Under these conditions, if PBV was over unity, the company has created value for the shareholders, because the amount the investors in the market would be willing to pay is higher than the amount the shareholders would receive from the liquidation of assets; if PBV was below unity, the company has lost part of the value that the shareholders brought. Depending on the characteristics of the field of activity and of the company in particular, the indicator can record higher or lower values. In the sectors characterized by large investments in fixed assets, PBV is usually lower, while in the banking sector, for example, characterized by a high ratio of assets to equity, PBV is higher.

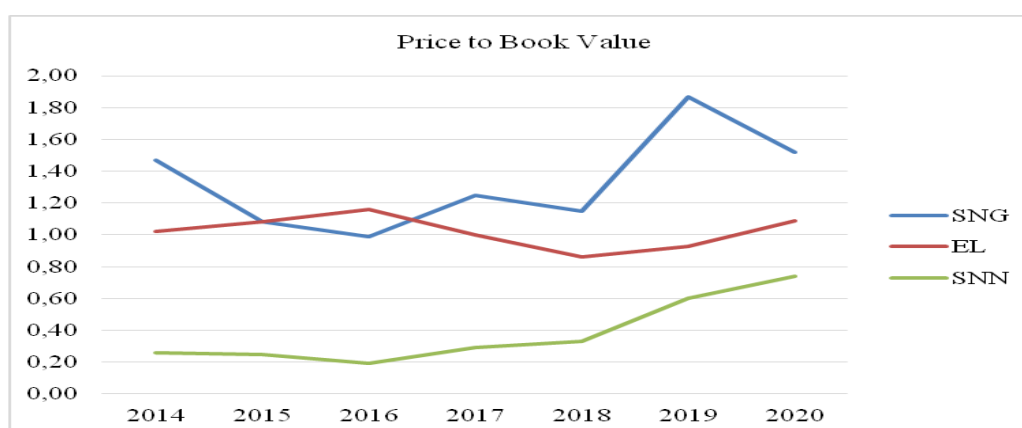
Table 4. The price-to-book value ratio of SNG, EL, SNN between 2013 and 2020

Year	SNG			EL			SNN		
	P (RON)	BV (RON)	P/BV	P (RON)	BV (RON)	P/BV	P (RON)	BV (RON)	P/BV
2012		26.00							
2013	34.19	24.11	1.32	n.a.	11.15	n.a	n.a**	29.80	n.a**
2014	35.36	25.20	1.47	11.37	11.19	1.02	7.74	26.56	0.26
2015	27.2	25.15	1.08	12.2	11.35	1.08	6.53	25.27	0.25
2016	25	25.11	0.99	13.16	11.28	1.16	4.80	24.88	0.19
2017	31.3	24.16	1.25	11.3	11.34	1.00	7.20	24.62	0.29
2018	27.8	19.82	1.15	9.7	11.50	0.86	8.16	23.59	0.33
2019	37.1	18.43	1.87	10.65	11.51	0.93	14.26	24.34	0.6
2020	28.1	20.10	1.52	12.55	11.69	1.09	17.86	24.93	0.74

* EL Trading start date July 4th, 2014

**SNN Trading start date November 4th, 2013

Source: authors' processing based on data obtained from the website of BSE: <https://www.bvb.ro>


Figure 4. Dynamics of price-to-book value

Excepting 2016, SNG recorded over unity values of the PBV, reaching a maximum level of 1.87 in 2019, higher than the median value for similar companies. These high values of the book value for money ratio are the result mainly of the decrease of the book value per share, so of the own capitals, as a result of the total distribution of the net profit, but also of the company's reserves in the form of dividends for 2016-2018.

For EL, the price-to-book value was relatively stable during the analyzed period, remaining around 1 (with a maximum of 1.16 in 2016 and a minimum of 0.86 in 2018), as a result of an almost constant accounting amount and a year-end closing price of the share which fluctuated very little.

Regarding SNN, after the lowest level recorded at the end of 2016, the book value for money ratio started to increase, given the decrease of the book value of the share and the increase of the stock exchange price of the share, the report remaining subunitary throughout the analyzed period.

c) The **price earnings ratio (PER)** is one of the most used indicators in the stock market analysis, being a prospective market indicator that calculates the number of years needed for the price currently paid for a share to be recovered from the profits it generates, if the profit remains at a constant level, by relating the current share price (P) to the net profit per share (EPS).

$$PER = P_n / EPS_{n-1} \quad (5)$$

where: P_n - closing price of the action at the end of the year

EPS_{n-1} - net profit per share at the end of the previous year calculated by reporting net profit to (E) number of shares

PER can also be calculated by dividing the total market value of the company (market capitalization) by the total profit.

A low value of PER indicates that the stock is undervalued in relation to the profit it brings and, in theory, the investment in that stock is advisable because it means a faster recovery through profit. In practice, PER depends a lot on the share price, and this, in its turn, depends on the market expectations regarding the company or the activity sector. A low market price can generally mean that the investors expect the company to perform worse in the future. A high PER could mean either an overestimation of the company or very optimistic expectations from the market.

Table 5. Price earnings ratio of SNG, EL, SNN between 2014 and 2020

Year	SNG			EL			SNN			PER - E ¹	PER - OG ²
	P (RON)	EPS (RON)	PER	P (RON)	EPS (RON)	PER	P (RON)	EPS (RON)	PER		
2012		29.22									
2013	34.19	2.58	11.17	n.a.	1.20	n.a.	n.a.**	1.52	n.a.**	5.6	10.3
2014	35.36	3.66	13.69	11.37	0.97	9.46	7.74	0.44	5.09	13	9.3
2015	27.2	3.10	7.44	12.2	0.87	12.59	6.53	0.50	14.8	11.40	8.80
2016	25	2.66	8.07	13.16	0.766	15.13	4.80	0.37	9.60	12.5	9.5
2017	31.3	4.81	11.77	11.3	0.75	14.75	7.20	1.01	19.5	15.9	11.7
2018	27.8	3.53	5.78	9.7	0.86	12.89	8.16	1.36	8.08	14.3	7.5
2019	37.1	2.83	10.51	10.65	0.74	12.38	14.26	1.78	10.5	12.9	10
2020	28.10	3.53	10.37	12.55	0.86	16.87	17.86	2.32	10.06	11.0	15.4

* EL Trading start date July 4th, 2014; **SNN Trading start date November 4th, 2013

¹ PER average in the electricity sector ; ² PER average in the oil and gas sector

Source: authors' processing based on data obtained from the website of BSE <https://www.bvb.ro/> and Pricewaterhouse Coopers România (2021)

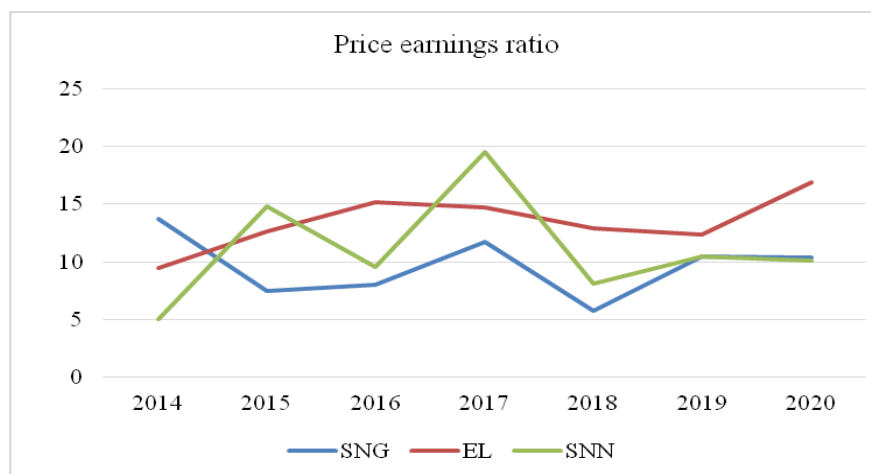


Figure 5. Dynamics of price earnings ratio

SNN shares had a maximum PER of 19.46 in 2017 due to the weakest result recorded per share in the analyzed period of RON 0.37 (the price paid on the stock exchange at the end of 2017 for a SNN share could recover in 19.46 years from the net profit recorded in 2016), in the conditions of an average PER of 15.9 in the field of electricity, in 2017. In the next two years, PER decreased for SNN shares to 8.08 in 2018, 10.49 in 2019, respectively 10.06 in 2020 due to the increase in earnings per share, being well below the average PER in the field of electricity (14.3 in 2018, 12.9 in 2019 and 11 in 2020). EL recorded PER values between 9.46-16.87, exceeding the average PER of the electricity sector only in 2015, 2016 and 2020. Values between 10 and 15 years can indicate a correctly assessed stock by the market. After 2 years (2013 and 2014) of PER values above the average of the oil and gas sector, SNG shares recorded the lowest PER values among the three analyzed companies, in the period 2015-2020, values (with small exceptions) below the average of the sector.

Starting 21st of September 2020, SNN was included in the indices of the global index provider FTSE Russell in the context of the transition of the Romanian capital market from the status of Border Market to the status of Secondary Emerging Market. As a result of the inclusion of SNN in the emerging market indices of FTSE Russell, the company's shares are included in the following global supplier indices: FTSE Global All-Cap, FTSE Global Total-Cap, FTSE Global Small Cap, FTSE Emerging Index and FTSE Emerging All Cap Index.

Taking into account the five analyzed indicators, we used the rank method for the three companies, with a scalar scoring system that marks from 1 to 3 (1 for the best, 3 for the weakest). The result of the evaluation by this method is the aggregate value of the financial performance achieved by each company.

Table 6. Rank of indicators calculated for SNG, EL, SNN

Average value of the indicator for the period 2013-2020	SNG	Rank for SNG	EL	Rank for EL	SNN	Rank for SNN
Average fixed assets turnover	0.69	2	1.06	1	0.29	3
Average receivables turnover	5.68	3	6.33	2	11.72	1
Average dividend yield	12.22%	1	5.72%	3	10.81%	2
Average price-to-book value	1.33	1	1.02	2	0.38	3
Average price earnings ratio	9.66	1	13.44	3	11.09	2
Average rank		1.6		2.2		2.2
Position in the hierarchy		1		2		2

Source: calculations performed by the authors based on the data presented above

Table 6 shows that SNG recorded the best score and therefore, given that nothing changes, SNG shares represent an opportunity for investment, compared to the shares of the other two companies.

4. CONCLUSIONS

The conclusions of the retrospective analysis of the specific indicators of the capital market can be used in the forecast analysis, being a useful tool for the investment decision-making process.

The financial performance was measured through the turnover ratios and capital market ratios, using financial reports of three Romanian companies in the energy field.

The appreciation of share by investors is reflected in the stock market price - the market value of the company. The analysis of the financial performance of these enterprises listed on the

capital market was made using the stock market indicators (PER, DIVY, PBV) which show the over / underestimation of each company.

Our analysis showed that SNG ranked first among the three companies analyzed, so we concluded that the investment in its shares was the best of the three companies in the period 2013-2020.

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