A FUNDAMENTAL ANALYSIS OF THE FOOD INDUSTRY SECTOR LISTED ON THE BUCHAREST STOCK EXCHANGE

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Abstract: *This study analyzes six important food industry firms listed on the Bucharest Stock Exchange: Albalact S.A., (symbol ALBZ), Boromir Prod S.A. Buzau (symbol SPCU), Nutrientul S.A. Palota (symbol NUTP), Prolacom S.A. Botosani (symbol PRCO), Perla Covasnei S.A. (symbol PELA) and ZAREA S.A. (symbol ZARE). The aim is to identify which is the best to invest in. We follow the instruments provided by the fundamental analysis: Return on Assets, Return on Equity, Debt to Assets, Dept to Equity, Sales per Share, Current Liquidity. The fundamental analysis presumes that the future prospects of a security are best analyzed through a proper assessment of the intrinsic value of the underlying company. The risk is within us. In the end, the financial risk does not lie in what types of investments we have made, but in what type of investor we are.*

Key words: *food industry firms, fundamental analysis, investor, shares number, stocks.*

1. Introduction

Romanian food industry, like the food industry in Europe, is Romania's biggest employer. At the same time, as regards the contribution to the GDP, the Romanian food industry is number 2 after the automotive industry. The food and beverage industry is the largest manufacturing sector in Romania, with a turnover of 44.4 billion lei in 2011 and the first employer with about 180,000 employees, Sorin Minea, President of ROMALIMENTA Federation thus reported in May 2015 (AGERPRES,

2015). The Federation gathers most of the employers from food industry associations, together with large processing companies, local and multinational corporations (ROMALIMENTA, 2015).

In order to pass from individual enterprises to big companies, the investors from big companies can list the enterprises on the Bucharest Stock Exchange. We analyze six companies that have been successful by being listed on the Bucharest Stock Exchange [1].

Out of a total of 34 companies initially listed on the Bucharest Stock Exchange, after delisting and lack of financial statements, there remained basically six companies

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which we analyze in terms of stock indicators to see where to invest a capital of 10000 lei. These companies are: Albalact S.A. Alba (symbol ALBZ), Boromir Prod S.A. Buzau (symbol SPCU), Nutrientul S.A. Palota (symbol NUTP), Prolacom S.A. Botosani (symbol PRCO), Perla Covasnei S.A. Voluntari (symbol PELA) and Zarea S.A. Bucharest (symbol ZARE).

Albalact is the largest Romanian dairy company, with a tradition of over 40 years in the industry. Founded in 1971 and transformed into a joint-stock company in 1990, Albalact S.A. has been privatized in 1999 (www.albalact.ro). The company Albalact has over 6000 shareholders and is listed under the category of Rasdaq Bucharest Stock Exchange.

Boromir Prod S.A. is a company that deals with producing bakery products and confectionery. The company was founded in 1994, and after a few years they took over the Cibin mill from Sibiu and the wheat mill in Buzau. Boromir Prod S.A. has expanded its business by opening workstations in Slobozia, Deva and Hunedoara (/www.boromir.ro).

Nutrientul was set up in 1972, and in 1991 it was privatized through the MEBO method. Nutrientul S.A. Palota includes a combined fodder factory, and, since 2007, a soya bean extruder in the container. Starting from 2007 7 farms (pigs, hens and broilers) were purchased and equipped in Bihor County (www.nutrientul.ro).

Prolacom S.A. Botosani, a cheese factory, has momentarily stopped processing milk. Since 2013 it has entered on the agricultural market, intending to open a dairy farm to produce some of the raw materials needed by the processing factory reopening in Botosani (www.ziare.com/botosani).

Perla Covasnei S.A. is a company producing mineral water from Romania. The cationic and anionic composition of the Perla Covasnei mineral water is comparable to the famous French and Italian carbonated waters, with its moderate content of calcium and sulfates and a total mineralization. The natural Carbon dioxide, dissolved in the mineral water Perla Covasnei, completes the wonderful organoleptic qualities (/www.perlacovasnei.ro).

ZAREA S.A. is one of the first players on the Romanian market of alcoholic beverages, with a tradition starting from 1912. Its portfolio can be found in 13 brands of local tradition which covers the segments of sparkling wine, vermouth, bitters, brandy and spirits (www.zarea.ro).

2. The fundamental analysis of food industry

The fundamental analysis presumes that security prices are based on the intrinsic value of the underlying company. Adepts of fundamental analysis believe that in time, stocks will move up to minimize the disparity between their present value and their perceived intrinsic value. Thus, fundamental analysis presumes that the future prospects of a security are best analyzed through a proper assessment of the intrinsic value of the underlying company.

In pursuit of value, the fundamental analysis scholar collects, analyzes, and models company information, including earnings, assets, liabilities, sales, revenue, and other information required to evaluate the company. Assumptions include a belief that markets are not completely efficient and that all necessary information is available to the public, but the company may not always be efficiently priced. Overall, fundamental analysis scholars are concerned with what the price should be according to their valuation models.

While price can be observed with certainty, no one can ever be sure what constitutes true value. Although it may be difficult to determine current value, in hindsight it is clear that price does tend to revolve around it. Several indicators have been developed which purport to measure value.

Elements of calculations for ALBZ   Table 1

Company	Elements of calculation	2011	2012	2013
Albalact SA (symbol ALBZ)	Total debt	122541827	101104752	142325184
	Total assets	217347521	203035421	244920912
	Sales	338250651	343844878	423185600
	Equity	89979768	97407611	98487184
	Net profit	5767484	7320697	8400362
	Current debt	91306493	78857924	106042328
	Current assets	83111171	76660603	90789632
	Shares number	652708867		

Elements of calculations for SPCU   Table 2

Company	Elements of calculation	2011	2012	2013
Boromir SA Prod Buzau Spicul (symbol SPCU)	Total debt	20532383	22694655	15985784
	Total assets	143070007	142833584	131933928
	Sales	148719532	114064740	91640296
	Equity	104942775	102914448	97524024
	Net profit	-1195658	-1928326	-4715107
	Current debt	20532383	22694655	15568239
	Current assets	31762444	34263745	28630584
	Shares number	233063738		

Elements of calculations for NUTP   Table 3

Company	Elements of calculation	2011	2012	2013
Nutrientul SA Palota (symbol NUTP)	Total debt	86863721	86220549	83102616
	Total assets	112746500	114570965	111373742
	Sales	171177839	161727758	163325488
	Equity	22144783	24851697	83102616
	Net profit	1214049	1832914	2111009
	Current debt	80140246	81235815	79021024
	Current assets	84297319	85538954	81429104
	Shares number	301909		

Elements of calculations for PRCO   Table 4

Company	Elements of calculation	2011	2012	2013
Prolacom SA Botosani (symbol PRCO)	Total debt	334128	326118	346285
	Total assets	502490	502490	537444
	Sales	39947	25965	20748
	Equity	168660	176372	191149
	Net profit	2781	8010	14778
	Current debt	35636	22639	71180
	Current assets	41242	41244	76198
	Shares number	19437784	19437784	19437784

Elements of calculations for PELA   Table 5

Company	Elements of calculation	2011	2012	2013
Perla Covasnei SA (Symbol PELA)	Total debt	14529585	11110245	11325990
	Total assets	19042924	14221847	15095553
	Sales	16642719	25545387	32884388
	Equity	4128154	2660122	3312693
	Net profit	-1677981	-1349063	621376
	Current debt	11945252	9181753	9851261
	Current assets	6349268	3296532	5460765
	Shares number	11407352	11407352	11407352

Elements of calculations for ZARE   Table 6

Company	Elements of calculation	2011	2012	2013
Zarea SA (Symbol ZARE)	Total debt	60402473	41216239	48026176
	Total assets	114725593	92703405	98349748
	Sales	47281446	51279580	53593808
	Equity	54695535	51641399	50680932
	Net profit	118712	-1632654	-960467
	Current debt	42568671	41216239	48026176
	Current assets	45604155	49313745	55195944
	Shares number	95406378	95406378	95406378

Debt to Assets describes the proportion of other people's money to the total claims against the assets of the business. The higher the ratio, the greater the possible risk for the lender. The formula is: total debt/ total assets, [2].

Debt to Assets   Table 7

Debt to Assets	2011	2012	2013
ALBZ	0.56	0.49	0.58
SPCU	0.14	0.15	0.12
NUTP	0.77	0.75	0.74
PRCO	0.66	0.65	0.64
PELA	0.76	0.78	0.75
ZARE	0.52	0.44	0.49

Debt to Equity is the ratio of total debt, normally the sum of current liabilities and all types of long-term debt to total owners' equity or net worth. The debt to equity ratio is an attempt to show, in another form, the relative proportions of lenders' claims and of ownership claims and is used as a measure of debt exposure. It is expressed as either a percentage or as a proportion. The formula is: total debt/ net worth (equity), [6].

Debt to Equity   Table 8

Debt to Equity	2011	2012	2013
ALBZ	0.51	0.52	0.65
SPCU	0.19	0.22	0.16
NUTP	3.92	3.47	3.28
PRCO	1.48	1.84	1.81
PELA	3.51	4.17	3.41
ZARE	1.10	0.79	0.95

SPCU is first, ALBZ is second, ZARE is third, PRCO is fourth and NUTP is last.

Because owners of a firm must know whether their firm is being managed well, they need good measures of firm profitability. A basic measure of firm profitability is the return on assets (ROA), the net profit after taxes per dollar of assets: The return on assets provides information on how efficiently a bank is being run, because it indicates how much profit is generated on average by each dollar of assets. ROA is Net profit/Total assets. [6].

ROA   Table 9

ROA	2011	2012	2013
ALBZ	2.65	3.60	3.42
SPCU	-0.83	-1.35	-3.57
NUTP	1.07	1.59	1.89
PRCO	0.55	0.59	2.74
PELA	-8.81	-9.48	-4.11
ZARE	0.10	-3.29	-0.97

ALBZ is first, NUTP is second, PRCO is third, ZARE is fourth and PELA is last. ZARE, SPCU and PELA have negative results because they had losses. NUTP and PRCO improve their performances every year. ALBZ had better results in 2012 than 2011 by 73%.

However, what the bank's owners (equity holders) care about most is how much the bank is earning on their equity investment. This information is provided by the other basic measure of bank profitability, the return on equity (ROE), the net profit after taxes per dollar of equity (bank) capital. ROE is Net profit / common equity. [6].

ROE   Table 10

ROE	2011	2012	2013
ALBZ	6.40	7.51	8.52
SPCU	-1.14	-1.87	-4.83
NUTP	5.48	7.37	8.33
PRCO	1.65	4.54	7.73
PELA	-40.64	-50.71	18.75
ZARE	0.21	-5.91	-1.89

ALBZ is first, NUTP is second, PRCO is third, ZARE is fourth and PELA is last. ZARE, SPCU and PELA have negative results because they had losses. ALBZ, NUTP and PRCO improve their performances every year. ALBZ had better

results in 2012 than in 2011 by 85% and in 2013 than in 2012 by 88%. NUTP had better results in 2012 than in 2011 by 74% and in 2013 than in 2012 by 88%. PRCO had better results in 2012 than in 2011 by 35% and in 2013 than in 2012 by 58%.

Sales per share   Table 11

SPS	2011	2012	2013
ALBZ	0.51	0.52	0.64
SPCU	0.64	0.49	0.39
NUTP	566.98	535.68	540.97
PRCO	0.002	0.001	0.001
PELA	1.45	2.23	2.88
ZARE	0.49	0.53	0.56

Sales per Share is Sales/ Shares number. [1] In this indicator all companies have better results in 2012 than in 2011, but they decrease in 2013. In this indicator BUTU has better results because this company has a small number of shares.

NUTP is first, PELA is second, ALBZ is third, ZARE is fourth and PRCO is last. In this indicator we consider that the results for NUTP are nor relevant because this company has a small number of shares. The same situation is with PRCO but the reason is the opposite, namely the great number of shares. ALBZ, PELA and ZARE improve the performances every year because they have a good marketing policy.

Current ratio is current assets/ current debt. The current liquidity measures the company's ability to pay short-term debts using short-term assets in the balance sheet. Calculate: current assets/current liabilities * 100. [5].

The greater its value is, thus the company has a greater ability to pay current debts without resorting to long term resources or to new loans. A subunitary value means that the company needs to borrow or sell a portion of the fixed assets in order to pay its debts and avoid bankruptcy.

Current ratio   Table 12

Current ratio	2011	2012	2013
ALBZ	91.02	97.21	85.61
SPCU	154.70	150.97	183.90
NUTP	105.18	105.24	103.05
PRCO	115.73	182.18	107.05
PELA	53.15	35.90	55.43
ZARE	107.13	119.64	114.92

SPCU is first, PRCO is second, ZARE is third, NUTP is fourth and PELA is the last one. Graham recommends the defensive investor to follow the rules below when selecting the stock: the adequate dimension, solid financial status, uninterrupted payment of dividends over the last 20 years, no loss during the last 10 years, the increase by at least one third of the profit per stock over the last 10 years, the price no higher than 15 times the average profit for the last 3 years. (Graham, 2010, p.120).

In order to make a decision to transact, one must keep the financial information of the company in sight and use it as the basis for

the intrinsic evaluation of the stocks to buy when the price is below that margin and there are perspectives for growth in the future. At the same time, one must take into account the evolution of the stock price in the past and to use elements of technical analysis to determine the best moment to enter or exit the market. The investors should be ready when, due to a major downfall, the market is under-evaluated and to be cautious and limit their acquisitions through stop orders after a long period of growth. [7].

3. Conclusions

The advantages of listing on the stock exchange are: easy access to capital for business growth, improved performance of the management team, free publicity, improving transparency. Depending on the phase of development of a firm -business idea, starting a business, initial development, SPO expansion- one has the following options: listing technique, dual listing, transfer on RASDAQ, one on ATS, private placement. Listed companies must give investors confidence since the beginning. Investors want to know that the funds were distributed in accordance with the commitments made in the prospectus of the offer. Thus, it is of major importance for a company to demonstrate that the funding obtained has been productively used. The financial results are some of the most significant news that are communicated to the public. Investors appreciate details, such as those that describe the key factors influencing the outcome of revenue, operating profit, profit or loss, or total assets.

For Debt to Assets we give SPCU 5 points because this company is first, ALBZ 4 points because this company is second, ZARE 3 points because this company is third, PRCO 2 points because this company is fourth and PELA 1 point because this company is fifth. For Debt to Equity we give SPCU 5 points, ALBZ 4 points ZARE 3 points, PRCO 2 points and PELA 1 point. For ROA we give ALBZ 5 points, NUTP 4 points, PRCO 3 points, ZARE 2 points and SPCU 1 point. For ROE we give 10 points to ALBZ, 8 points to NUTP, 6 points to PRCO, 4 points to ZARE and 2 point to SPCU. We double the score for ROE because this is the most important indicator. For Sales per Share we give 5 points to NUTP, 4 points to PELA, 3 points to ALBZ, 2 points to ZARE and 1 point to SPCU. For Current ratio we give 5 points to SPCU, 4 points to PRCO, 3 points to ZARE, 2 points to NUTP and 1 point to ALBZ.

The general score is: ALBZ 27 points, SPCU 19 points, NUTP 19 points, PRCO 17 points, PELA 6 points and ZARE 17 points. So, as a general score ALBZ is first, SPCU and NUTP are second, ZARE and NUTP are third, and PELA is the last one. If we want to invest 10000 lei in this sector we buy 60% ALBZ, SPCU 20% and NUTP 20%. So we spent 6000 lei on ALBZ, 2000 lei on SPCU and 2000 lei on NUTP.

The risk is within us. If we overestimate our ability to really understand an investment or to come out clean after a dramatic price period, it doesn't matter what our portfolio contains or what happens on the market. In the end, the financial risk does not lie in what types of investments we have made, but in what type of investor we are. For this, there are five types of investor profiles: very conservative, conservative or moderate, balanced, growth oriented and dynamic or aggressive. Practically, the last two are suitable for a stock market broker.

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