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APPROACH OF THE FINANCIAL EQUILIBRIUM IN THE CONTEXT OF CHALLENGES ON THE ROMANIAN ENERGY MARKET

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ABSTRACT

In the context of the last turbulent three years, the energy industry in Romania had to face additional problems, due to the liberalization of the energy market. Despite pursuing profit as the immediate goal of a company, obtaining and maintaining the financial equilibrium becomes more and more important for the survival and the development of a company. The existence and maintenance of a positive Net Treasury over several successive years reflects the success of the company, proofing a good strategic position in relation to its competitors. Its lack is a permanent source of risks for the enterprise, of which long-term persistence can be considered a symptom of the risk of bankruptcy.

KEYWORDS:

Financial equilibrium, necessary working capital, treasury, working capital

1. Introduction

Usually, pursuing profit is the immediate company's goal. However, considering the long-term goals, it is of major importance to obtain that profitability in the context of a sustainable economic growth, doubled by financial equilibrium. From the financial perspective, the financial equilibrium represents the equality between the financial sources and the economic means necessary to carry out the exploitation activity considering both long and short term.

The medium and long term financial equilibrium is approached through the working capital and necessary working capital indicators. In a modern approach, this analysis is completed through the calculation of liquidity and solvency indicators, which measures the enterprise capacity to faces payment terms as well as the ability to transform its assets into liquid assets. The financial equilibrium must be understood as a set of correlations that are formed in the capital rotation process, the assessment of the equilibrium being made through financing rates.

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The context of the last 3 years has been extremely turbulent, in all economic fields, both in Romania and worldwide. Added to the health crisis generated by the COVID pandemic are new problems such as the economic crisis due to roadblocks, transportation problems, quarantine and other issues related to the pandemic. Starting in February 2022, everything then became a new uncertainty, due to the war in Ukraine. Every industry coped in its own way, entering or exiting these crises, but the energy industry in Romania had to face additional problems, due to the liberalization of the energy market.

For these reasons, beyond the special performance materialized in higher rates of profit, obtained by some companies acting in the energy field, is very important to analyze how the biggest companies in Romania managed to obtain or preserve their financial equilibrium. Despite the opportunistically performance obtained by some companies, materialized in significant increases in the profit rate, maintaining financial equilibrium is the key to sustainable development and growth. Considering these aspects, the assessment of the financial equilibrium will be analyzed dynamically, in case of the main companies acting in the energy field in Romania, namely those listed on the Bucharest Stock Exchange.

2. Assesing financial equilibrium

The working capital represents the company's safety margin, imposed by the differences between the amounts to be collected and the amounts to be paid, as well as the gap between the average term of transformation of current assets into cash and the average duration in which short-term debts become due (Robu & Georgescu, 2000).

There are several ways of calculating the working capital, agreed by the national and international specialists. At the level of a company, the static analysis of the financial balance can be perform at three levels. When considering the long-term equilibrium, permanent resources are compared with permanent uses, using the working capital. If the medium financial equilibrium is the subject of interest, temporary resources are compared to temporary uses, resulting the necessary working capital. Through comparing the availabilities with the level of temporary bank loans results the financial current equilibrium, namely the level of the net treasury (Monea, 2015).

The financial equilibrium results from the comparison between liquidity (the period required to transform actives into money) and demandability of resources, respectively, the compliance with the traditional rules of financial equilibrium, according to which uses must be financed from the resources remaining at the company's disposal, for a period of time equal to the lifetime of these uses.

2.1. The working capital

Depending on the balance sheet used for its calculation, there are two concepts of the working capital: net financial working capital, calculated on the basis of the financial balance sheet or global net working capital, calculated on the basis of the functional balance sheet (Balteş, 2010).

Some authors (Robu & Georgescu, 2000) propose several names for the working capital indicators, making distinction between gross working capital, net working capital, own working capital and foreign working capital.

The greatest importance, from the long-term financial equilibrium analysis point of view, is the net working capital or permanent working capital fund. This represents the part of the remaining permanent resources, after financing the permanent needs, respectively the surplus of permanent capital remaining after the financing of net fixed assets. It highlights the surplus of current assets in relation to temporary liabilities on one hand, and the part of current assets not financed by short-term resources, which is financed by

permanent resources. The working capital is considered to be the most important indicator of the financial equilibrium between liquidity and demandability, which allows the short-term assessment of the risk of insolvency.

The net financial working capital is calculated either using the upper part of the balance sheet, or taking into account the elements from the lower part of the balance sheet.

Considering the upper part of the balance sheet, the net financial working capital is computed as the difference between permanent capital and net fixed assets. When considering the lower part of the balance sheet (Pavel & Ciuhureanu, 2017), the net financial working capital is computed as difference between current assets (Current assets plus Expenses registered in advance) and temporary resources, respectively current debts (Debts to be paid over a period of up to one year plus Revenue recorded in advance) (Petrescu, 2008). Both methods should lead to the same result, which can also be found on position E of the balance sheet, namely the net current assets/net current liabilities.

When liquidity and maturity periods are comparable, positive working capital reflects an increase in the margin of security of the enterprise, reducing the risk of insolvency, due to the fact that a growing part of current assets will be financed with the help of permanent capitals remaining after coverage the permanent needs. Then the company has a margin of safety, which can partially or fully protect against the effects of disruption of the collection or payment cycle. In reality, between the average duration of transformation the current assets into liquidity and the average duration of payment of short-term debts, there are differences that influence the financial balance.

2.2. The necessary working capital

The necessary working capital requirement takes into account the structure of current assets and liabilities and the liquidity/receivable ratio between them.

This approach takes into account the fact that, during the operating cycle, part of the current assets is financed from non-financial capital drown from third parties (suppliers, creditor customers, employees, social security, the state budget, shareholders or associates). Only the part of current assets remaining unfinanced from non-financial capitals is covered from the permanent capital surplus (working capital) or from short-term financial liabilities, for which this part is called net working capital requirement (necessary working capital).

Necessary working capital requirement represents the financial needs, generated by carrying out some repetitive operations that make up the current exploitation cycle, such as purchases, sales, salary and tax payments, the amount of /which must be covered at least partially based on stable resources (working capital).

Necessary working capital requirement is calculated as the difference between the temporary needs, and temporary resources, where temporary needs consist of current assets, less treasury assets (short-term investments, house and bank accounts) plus Expenses registered in advance, while temporary resources consist of current liabilities, less treasury liabilities (short term banking loans) plus Revenue recorded in advance (Petrescu, 2008).

2.3. Net treasury

Net treasury is defined as the excess of availability derived from the activity carried out by the enterprise in a financial exercise. It also can be defined in terms of assets and liabilities of treasury, as a surplus of availability resulting from the current evolution of the operations of receipts and payments that take place in the enterprise in a financial year.

This surplus is the expression of the overall financial balance of the enterprise. Net treasury is computed as the difference between the net working capital and the working capital.

A positive net treasury materializes in cash availability, in bank accounts and/or cash registers, namely in the existence of liquidity, which allow the entity to repay short-term debts and make investments, increasing short-term financial autonomy. It is the expression of the financial equilibrium established at the level the entire activity of the enterprise and the result of a financial exercise that has ended with a surplus of cash availability. Not always a positive treasury is the sign of a favorable situation; it can also be the signal of the insufficient use of the available resources of the enterprise. This happens frequently in financial situations characterized by a very high interest on loans, which discourages productive investments and lead companies to direct their resources towards in current assets investments.

3. Case study regarding financial equilibrium, in listed on the Bucharest Stock Exchange energy suppliers

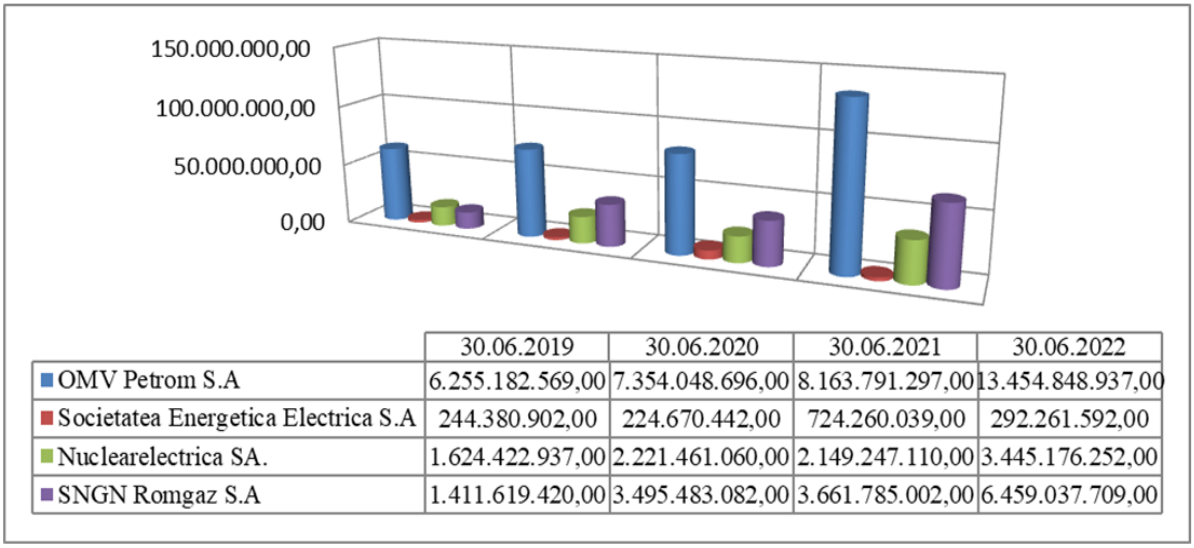
The COVID pandemic caught the energy market in Romania preparing for the liberalization of prices, but being strongly affected by the legislative changes during 2018-2019, which stipulated that, from January 1, 2019, all actors on the natural gas market have the obligation to conclude contracts on the regulated market that would add up to at least 50 % of their natural gas production, or cap both the price of electricity and the price of natural gas. The effect of these legal changes was also felt at the level of consumers, with increased in prices and in the import of natural gas and electricity. At the beginning of the 2020 new laws were adopted, which brought significant changes to the previous legislation, removing the main restrictions in order to prepare the market for liberalization. This fact happened on the natural gas market for domestic consumers starting with July 1th, 2020, and on electricity market starting January 1th, 2021.

3.1. Methodology

The analysis of the financial balance is particularized through the case study carried out for the energy field, in the case of gas and energy suppliers, listed at the Bucharest Stock Exchange. On the Romanian Energy Regulatory Authority website is published the List of electricity suppliers active on the retail market, the List of natural gas suppliers active on the retail market. From these lists, comprising over 100 companies, the companies listed at BVB were chosen for the analysis of the financial balance, considering that these companies are part of the most performing companies in Romania. These companies are OMV Petrom S.A., Societatea Energetica Electrica S.A, the groups to which belongs Electrica Furnizare S.A., SNGN Romgaz S.A. and Nuclearelectrica S.A. The necessary data for the financial balance analysis are available on the BVB website and on the website of each of the analysed companies. The assessment of the financial equilibrum was carried out dynamically, during 30.06.2019 – 30.06.2022, as it was desired to use the latest published financial data, as well as the possibility of carrying out a comparative analysis, capturing the pre-pandemic period, the impact of the COVID crisis and the impact of the energy crisis, after the outbreak of the war in Ukraine.

3.2. Data analysis and presentation of the results

The working capital was calculated using the upper part of the balance sheet and the lower part of it, the obtained values being presented in the Figure no. 1.



	30.06.2019	30.06.2020	30.06.2021	30.06.2022
OMV Petrom S.A	6.255.182.569,00	7.354.048.696,00	8.163.791.297,00	13.454.848.937,00
Societatea Energetica Electrica S.A	244.380.902,00	224.670.442,00	724.260.039,00	292.261.592,00
Nuclearelectrica SA.	1.624.422.937,00	2.221.461.060,00	2.149.247.110,00	3.445.176.252,00
SNGN Romgaz S.A	1.411.619.420,00	3.495.483.082,00	3.661.785.002,00	6.459.037.709,00

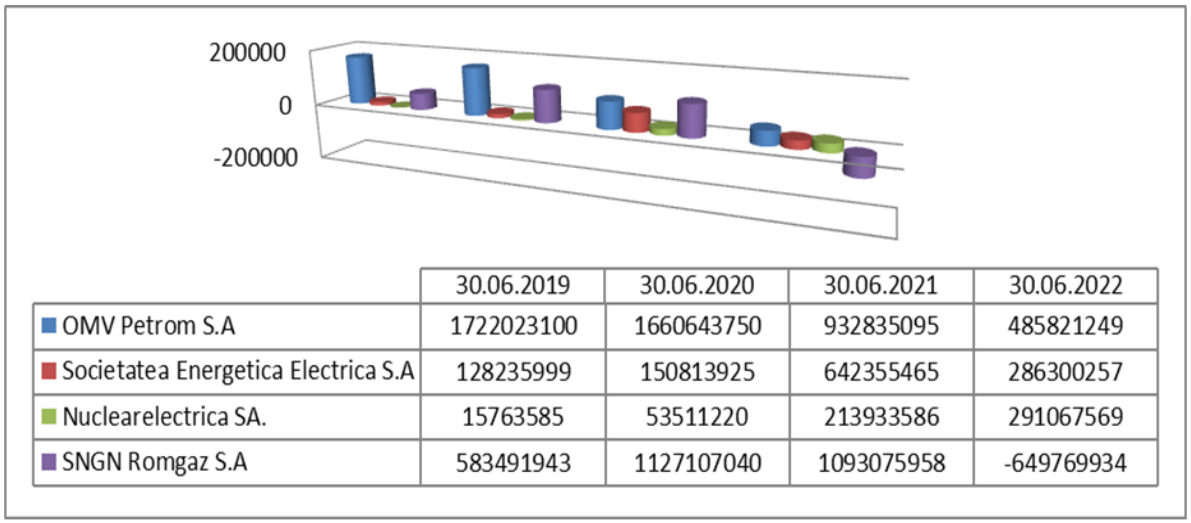
Figure no. 1: The evolution of Working capital
(Source: Author)

In 30.06.2022, compared with 30.06.2019, all the analyzed companies recorded increases in Working capital. The highest average growth rate of the Working capital was registered in the case of SNGN Romgaz S.A., which achieved an increase of 46.24 % of Working capital, from one year to another. OMV Petrom S.A. and Nuclearelectrica S.A. recorded similar values of the average annual growth rate of Working capital, representing an increase of 21.10 %, respectively 20.68 % from one year to another. The lowest average annual growth rate of the Working capital was recorded in the case of the Electrica S.A., of only 4 % from one year to another. Moreover, in the case of Electrica S.A., the Working capital values are relatively close in 2019, 2020 and 2022, but register a spectacular increase of 222 % in 2021, compared to 2020. For the other three companies, the increase in Working capital in 2022 compared to 2021 was over 60 %.

Since a positive and growing net working capital is the result of either increasing the permanent capital or decreasing the permanent need to be financed (fixed assets net), the evolution of these elements was further analyzed, in order to identify the impact of each factor had in the increase of the working capital. The correlations which are established between the permanent resources and the permanent need to be financed are studied trough the rates of financial coverage, which allows the appreciation of the extent to which the permanent resources ensure the financing of net fixed assets.

In all cases, except for Electrica S.A, the values of the rate of stable financing of fixed assets are above unity, which indicates the possibility of partial financing of the company's current activity. Even in the case of Electrica S.A, the values of the rate of stable financing of fixed assets recorded values closed of 0.99, which can be considered a favorable value.

The Necessary working capital was calculated as the difference between the temporary needs, and temporary resources, the obtained values being presented in the Figure no. 2.

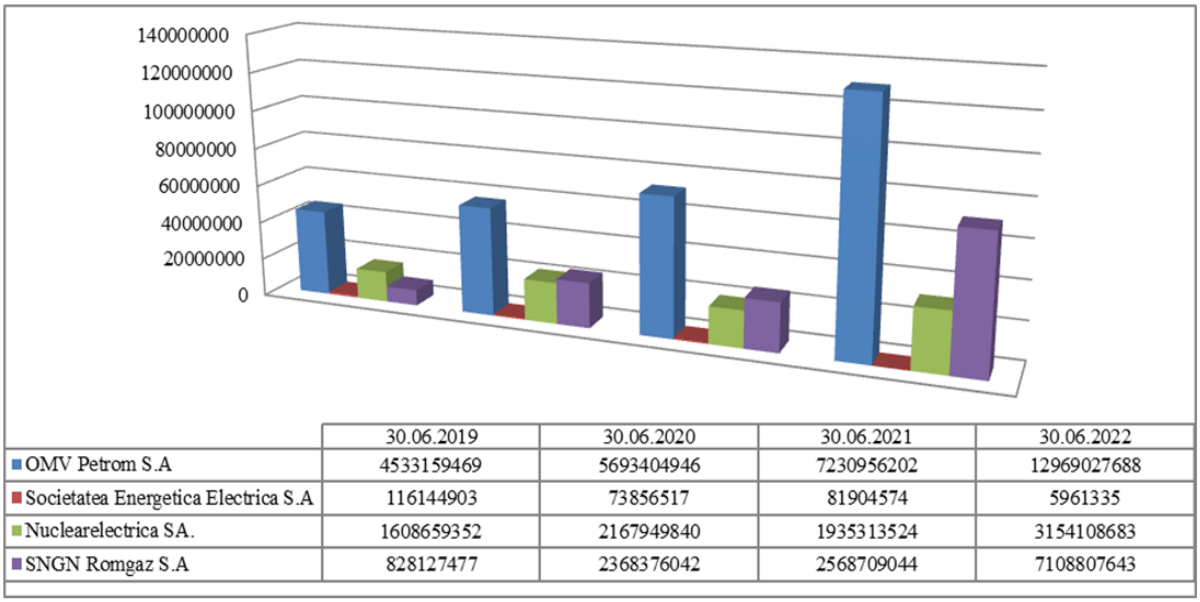


	30.06.2019	30.06.2020	30.06.2021	30.06.2022
OMV Petrom S.A	1722023100	1660643750	932835095	485821249
Societatea Energetica Electrica S.A	128235999	150813925	642355465	286300257
Nuclearelectrica SA.	15763585	53511220	213933586	291067569
SNGN Romgaz S.A	583491943	1127107040	1093075958	-649769934

Figure no. 2: The evolution of the Necessary Working capital
(Source: Author)

Regarding the Necessary working capital, the companies had different developments. While Electrica S.A., and Nuclearelectrica S.A. recorded an average annual increase of 22.24 % and respectively 107.29 %, OMV Petrom S.A. recorded an average annual decrese rate of –27.12 % of Necessary Working capital from one year to another. SNGN Romgaz S.A. was the only company that registered a negative Necessary working capital in 2022, indicating a surplus of temporary resources, in relation to the need to finance current assets. In all other cases, a positive Necessary working capital indicate an unfavourable gap between the liquidity of stocks and receivables, on the one hand, and the enforceability of commercial debts, on the other.

Net treasury was computed as the difference between the net working capital and the working capital and temporary resources, the obtained values being presented in the Figure no. 3.



	30.06.2019	30.06.2020	30.06.2021	30.06.2022
OMV Petrom S.A	4533159469	5693404946	7230956202	12969027688
Societatea Energetica Electrica S.A	116144903	73856517	81904574	5961335
Nuclearelectrica SA.	1608659352	2167949840	1935313524	3154108683
SNGN Romgaz S.A	828127477	2368376042	2568709044	7108807643

Figure no. 3: The evolution of the Net treasury
(Source: Author)

Taking into account the Working capital and the Necessary working capital developments previously presented, all the analyzed companies recorded positive values of the treasury, which shows that, despite the challenges they had to face, the gas and energy suppliers acting, listed on the Bucharest Stock Exchange, managed to obtain and preserve a strong financial equilibrium and to generate a surplus of cash availability. Excepting Electrica S.A., all other companies register an average annual rate of growth of the Net Treasury of over 15 %, from one year to another. The highest growth rate of the Net Treasury, of 71.17 %, from one year to another, was recorded by SNGN Romgaz S.A, followed by OMV Petrom S.A, with an average annual grew rate of 30,05% and Nuclearelectrica SA, with an average annual grew rate of 18.33 %. Although Electrica S.A. obtained positive treasury values, these were variable and decreasing, registering a decrease in Net Treasury with an average rate of 52 % from one year to another.

Considering the 2021-2022 period and the impact of the liberalization of the energy market in Romania, excepting Electrica S.A. companies recorded increases in Working capital and Net treasury, but without these being the highest of the four years analyzed period.

4. Conclusions

Despite the problems generated by the war in Ukraine, which directly impacted the energy market in Romania, the companies listed on the Bucharest Stock Exchange in this field managed to obtain a stable and constant financial balance. In all cases, the values of the rate of stable financing of fixed assets are above or close to unity, which indicates the possibility of partial financing of the company's current activity. The constantly positive treasury indicates an optimal financial situation of the companies, and their ability to successfully face the following challenges.

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