

THE IMPACT OF GOVERNMENT EMERGENCY ORDINANCE NO. 114/2018 ON THE PROFITABILITY OF COMPANIES ACTING IN ENERGY DOMAIN, LISTED ON BUCHAREST STOCK EXCHANGE

Diana Elena VASIU

“Lucian Blaga” University, Sibiu, Romania
diana.vasiu@ulbsibiu.ro

ABSTRACT

On December 29, 2018, the Government Emergency Ordinance no. 114/2018 has been published. This Ordinance, among others, established a multitude of measures, both economic and fiscal that aimed companies acting in the energy field. The monetary contribution, received from the license holders in the field of energy, was set at the level of 2 %, which means an increase of 20 times of this duty. These companies also have the obligation to sell the natural gas quantities, resulting from the current domestic production activity, at the price of 68 lei / MWh to eligible suppliers and final customers. All these measures have had a direct impact on companies acting in the energy field, affecting their profitability and simultaneously their ability to carry out investment projects. This paper analyzes the way the companies listed on Bucharest Stock Exchange, acting in energy field, were affected by Government Emergency Ordinance no. 114/2018 measures.

KEYWORDS: net profit, Bucharest stock exchange, energy, Government Emergency Ordinance no. 114/2018

1. Introduction

The Government Emergency Ordinance no. 114 was published on December 29, 2018. Immediately after its public presentation, a strong reaction of the Romanian financial market was noticed. The main companies affected by a strong variation in the stock exchange rate were those acting in the energy and banking field, as a result of the fact that the measures provided by the ordinance would significantly affect their activity.

The normative act established a multitude of measures both economic and fiscal. Among the most important were the imposition of the tax on the assets of the banking system and a tax on the revenues

of the online gambling organizers. The fees for granting the radio licenses and the monetary contributions due by the licensees in the field of electricity, electricity and thermal energy in cogeneration for the component of electricity and natural gas have been modified.

The monetary contribution received from the license holders in the field of electricity, electricity and thermal energy in cogeneration and natural gas was set at the level of 2 % of the turnover realized by the economic operators from the activities covered by the licenses granted by the National Energy Regulatory Authority (ANRE). During April 1st 2019 and February 28th 2022, the producers, who

carry out both extraction activities and sales activities of the natural gas extracted from the Romanian territory, have the obligation to sell the natural gas quantities, resulting from the current domestic production activity, at the price of 68 lei / MWh to eligible suppliers and final customers.

These limitations and the additional taxation had a negative impact on the profitability of companies acting in energy field, which, during 2019, announcing the reduction of profit, respectively losses, affecting their self financing capacity (Ciuhureanu, 2017) and furthermore, the capacity to develop new investment projects. Also their stock market performance was affected.

Given these legal changes, the purpose of this paper is to highlight how companies listed on Bucharest Stock Exchange have reduced their profitability, or even recorded losses. The energy sector (oil, gas and utilities) currently holds a share of 32 % of the total market capitalization, being on the second place after the financial field. This structure confers a significant influence of the energy sector on the stock market, with a significant impact on the evolution of the BET-NG index.

The company's performance is identified through profitability, namely through its ability to make profit (Petrescu, 2005). The net profit, when it is obtained, can be considered by managers as an important source of self-financing, of investments and influenced the dividend policies (Ciuhureanu, 2017).

2. Case Study

2.1. Methodology

For the analysis of the evolution of performance, the financial indicators (Petrescu, 2008) for the first, second and third semester of 2019 were compared with the financial indicators registered in the same period of 2014, 2015, 2016, 2017, 2018 and 2019, if data was available. Since not all analyzed companies have published the quarterly financial statements for the 3rd quarter 2019 until the present paper, in some cases was difficult to compare the third 2019 quarter with the same period from 2015-2018.

The data used for the analysis are available on Bucharest Stock Exchange (BSE) website, on tradeville.eu and on each company's website. The companies acting in energy sector, listed on BSE, and those that are part of the BET-NG index composition are approximately the same, as presented in Table no.1. From this, *S.N.G.N. ROMGAZ S.A., OMV PETROM S.A., S.N.T.G.N. TRANSGAZ S.A., SOCIETATEA ENERGETICA ELECTRICA S.A., S.N. NUCLEARELECTRICA S.A., C.N.T.E.E. TRANSELECTRICA, ROMPETROL RAFINARE S.A., ROMPETROL WELL SERVICES S.A.* have licenses in the field of electricity, electricity and thermal energy in cogeneration for the component of electricity and natural gas, granted by ANRE. Therefore, the evolution of their financial performance will be analyzed.

Table no. 1
Companies acting in energy domain listed on Bucharest stock exchange

Energy field on BSE		BET-NG index composition	
Symbol	Name	Symbol	Name
EL	SOCIETATEA ENERGETICA ELECTRICA S.A.	SNG	S.N.G.N. ROMGAZ S.A.
SNN	S.N. NUCLEARELECTRICA S.A.	SNP	OMV PETROM S.A.
TEL	C.N.T.E.E. TRANSELECTRICA	TGN	S.N.T.G.N. TRANSGAZ S.A.

Energy field on BSE		BET-NG index composition	
Symbol	Name	Symbol	Name
TGN	S.N.T.G.N. TRANSGAZ S.A.	EL	SOCIETATEA ENERGETICA ELECTRICA S.A.
COTE	CONPET	SNN	S.N. NUCLEARELECTRICA S.A.
SNG	S.N.G.N. ROMGAZ S.A	TEL	C.N.T.E.E. TRANSELECTRICA
SNP	OMV PETROM S.A.	COTE	CONPET SA
RRC	ROMPETROL WELL SERVICES S.A.	RRC	ROMPETROL RAFINARE S.A.
PTR	ROMPETROL WELL SERVICES S.A.	OIL	OIL TERMINAL S.A.
OIL	OIL TERMINAL S.A.	PTR	ROMPETROL WELL SERVICES S.A.
DAFR	DAFORA		

2.2. Data Analysis

Since the monetary contribution received from the license holders in the field of energy was set at the level of 2 % of the turnover, in the beginning, the evolution of the turnover was analyzed. For each company, the evolution of the turnover was analyzed, by comparison with the previous period, through the calculation of the

individual index (Balteş, 2010), according to the following formula:

$$I_{\text{TURNOVER } 1/0} = \frac{\text{Turnover}_1}{\text{Turnover}_0}$$

Also, at each company level, an average turnover index was calculated, for the entire period, as the average of the indices using the individual indices presented above. The data are presented in Table no. 2.

Table no. 2
The individual and average index of turnover

The individual and average index of turnover for the 1 st quarter					
Company	Individual index of turnover				The average indices
	$I_{2016/2015}$	$I_{2017/2016}$	$I_{2018/2017}$	$I_{2019/2018}$	
S.N.G.N. ROMGAZ S.A	1,03	1,06	0,99	1,16	1,06
OMV PETROM S.A.,	0,83	4,68	0,29	1,11	1,06
ROMPETROL WELL SERVICES S.A.	0,46	0,92	1,89	1,29	1,01
SOCIETATEA ENERGETICA ELECTRICA S.A	1,04	0,99	0,97	1,17	1,04
S.N. NUCLEARELECTRICA S.A.,	1,04	1,05	1,13	1,23	1,11
C.N.T.E.E. TRANSELECTRICA	0,95	1,52	0,60	0,95	0,95
S.N.T.G.N. TRANSGAZ S.A	1,05	1,36	0,81	0,90	1,01
ROMPETROL RAFINARE S.A.,	0,75	1,21	1,41	1,09	1,09

The individual and average index of turnover for the 2 nd quarter					
Company	Individual index of turnover				The average indices
	$I_{2016/2015}$	$I_{2017/2016}$	$I_{2018/2017}$	$I_{2019/2018}$	
S.N.G.N. ROMGAZ S.A.	0,83	1,29	1,03	1,16	1,06
OMV PETROM S.A.	0,82	1,30	1,11	1,42	1,14
ROMPETROL WELL SERVICES S.A.	0,46	1,14	1,84	1,16	1,03
SOCIETATEA ENERGETICA ELECTRICA S.A.	0,99	2,00	0,02	1,62	0,50
S.N. NUCLEARELECTRICA S.A.	0,88	1,18	1,11	1,22	1,09
C.N.T.E.E. TRANSELECTRICA	0,95	1,29	0,71	0,96	0,95
S.N.T.G.N. TRANSGAZ S.A.	0,99	1,26	0,86	0,85	0,98
ROMPETROL RAFINARE S.A.	0,75	1,14	1,49	1,12	1,09

Comparing the evidences for the 1th quarter, as presented in Figure no. 1, an increase from 35 % to 75 % was found in

the share of companies that registered an increase of turnover, in 2019/2018 compared to 2018/2017.

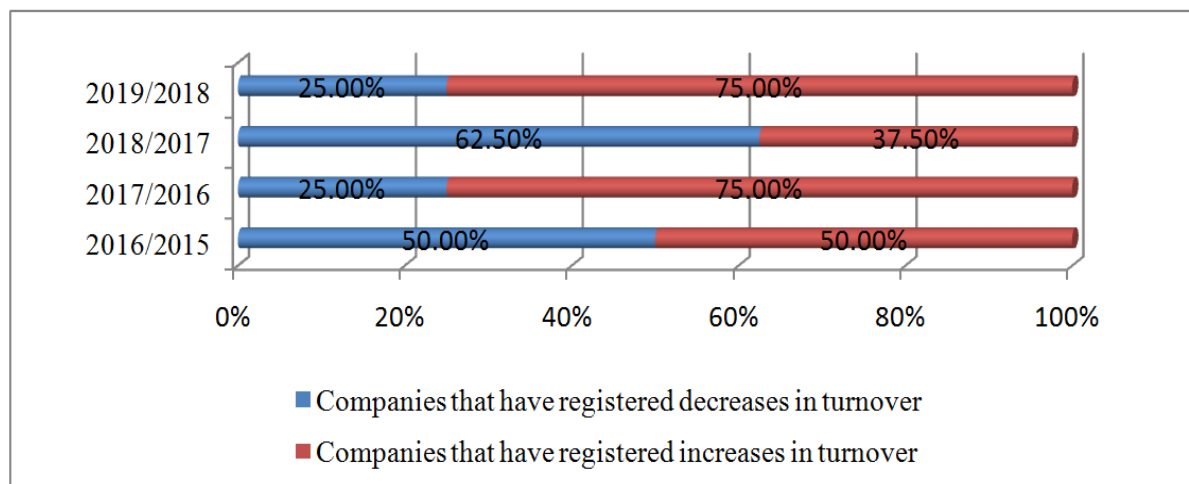


Figure no. 1: *The Situation of the companies that registered increases / decreases of the turnover. Comparative situation for 1st quarter*

For the entire period 2015-2019, 1st quarter, as presented in Figure no. 2, the highest Turnover Average Index was recorded in case of *S.N. NUCLEARELECTRICA S.A.*, which corresponds to a constant increase in

turnover, being the only company that registered only increases in turnover, while the rest of the companies also recorded decreases.

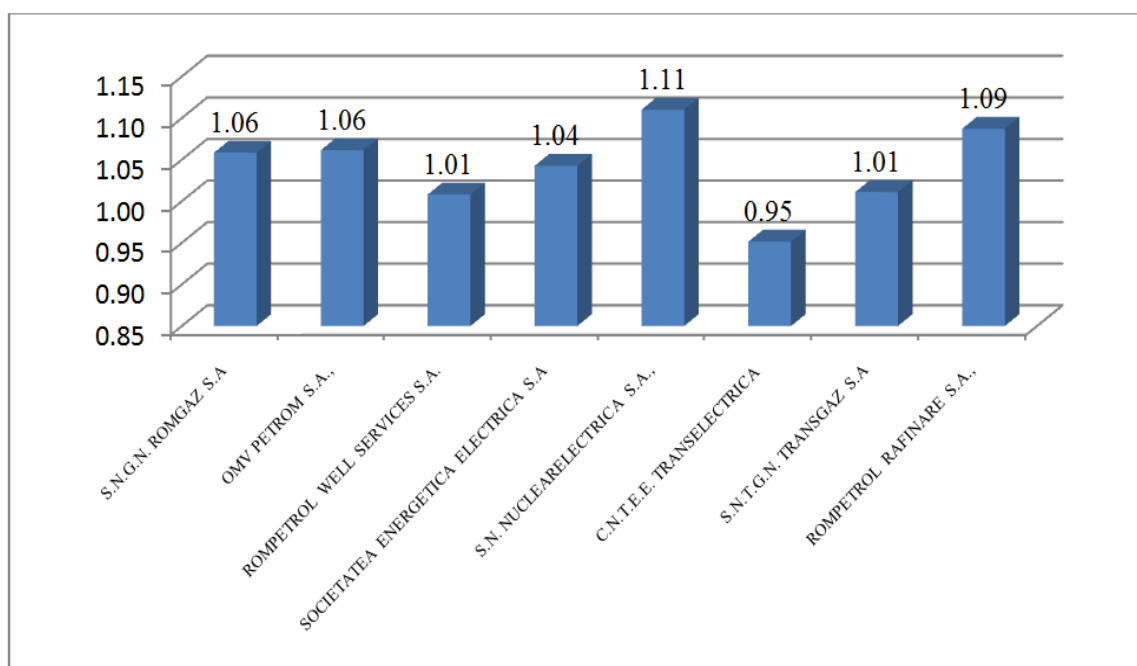


Figure no. 2: *The average indices of turnover. Comparative situation for 2nd quarter*

For the 2nd quarter, the same evidence of increased turnover can be noted, as presented in Figure no. 3, from 62,5 % to 75%. This time, the difference between the

companies that registered increases of the turnover between 2019/2018 compared to 2018/2017 is not so great, as in case of the 1st quarter.

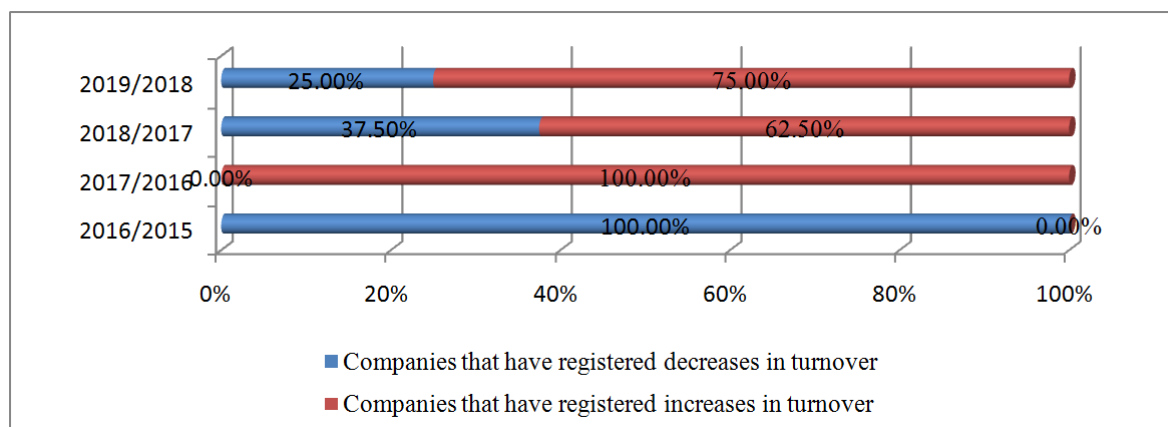


Figure no. 3: *The situation of the companies that registered increases/decreases of the turnover. Comparative situation for 2nd quarter*

During entire period 2015-2019, 2nd quarter, as presented in Figure no. 4, the highest Turnover Average Index was recorded in case of *OMV PETROM S.A.*

In the second quarter, no company achieved only increases in turnover from one year to another. Decreases in certain years were offset by increases in other periods.

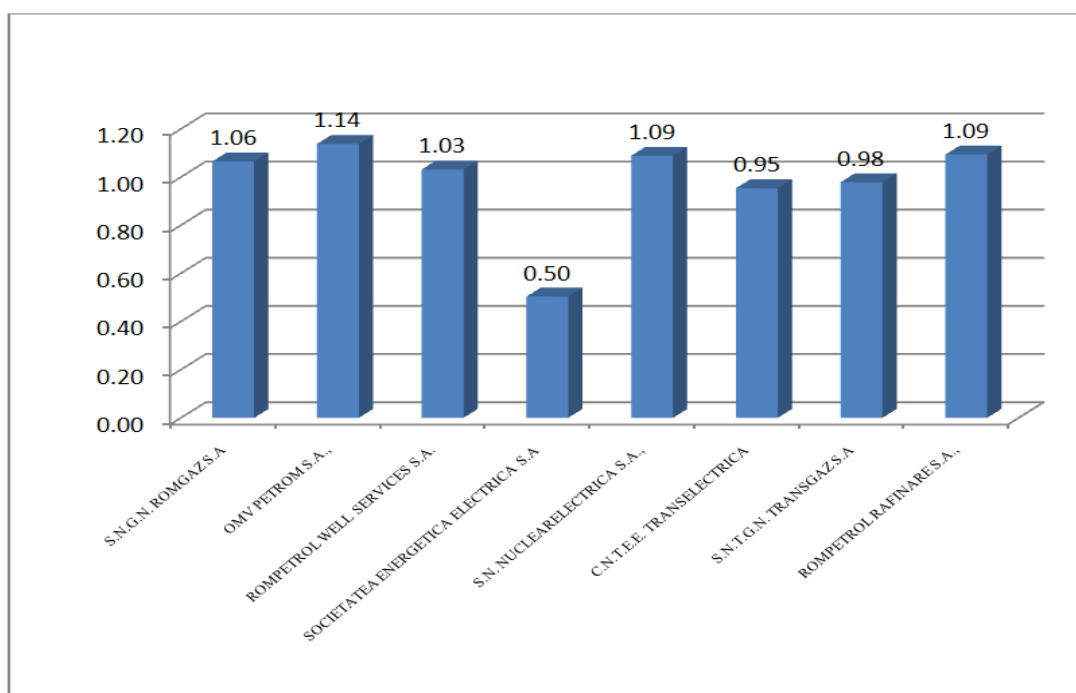


Figure no. 4: The average indices of turnover. Comparative situation for 2nd quarter

Given these evolutions of turnover, an increase is expected in the monetary contributions due the licensees in the field of electricity. The impact is expected to be even greater, as this tax has increased 20 times, from 0.2% to 2%. To this was added the cap on the sale price of gas for the

population. As a result, a reduction in the profit obtained by the energy companies in 2019 is expected, both compared to the similar period of last year and from one period to another, for the last five decades. Further, the evolution of the net profit, presented in Table no. 3 will be analyzed.

Table no. 3
The net profit for the last five decades

Company	2018Q3	2018	2019Q1	2019 Q2	2019 Q3
S.N.G.N. ROMGAZ S.A.	1.160.123.000	1.428.383.000	541.845.000	975.909.000	1.185.104.000
OMV PETROM S.A.	2.667.150.000	4.078.100.000	1.151.180.000	1.974.540.000	2.759.850.000
ROMPETROL WELL SERVICES S.A.	7.552.580	17.956.755	3.560.396	6.848.548	9.832.499
SOCIETATEA ENERGETICA ELECTRICA S.A.	314.910.000	230.395.000	-40.855.000	108.786.000	160.896.000
S.N. NUCLEARELECTRICA S.A.	9.175.870.871	8.801.132.485	9.017.532.509	8.650.536.882	8.737.114.795
C.N.T.E.E. TRANSELECTRICA	97.528.518	75.380.000	37.994.539	19.162.000	73.596.399
S.N.T.G.N. TRANSGAZ S.A.	5,160,777,206	299.281.945	495.675.108	191.387.503	195.500.934
ROMPETROL RAFINARE S.A.	-61.687.888	30.428.112	-230.205.630	-59.600.700	-80.837.279

Analyzing the evolution of net profit, for the last 5 decades (3rd quarter 2019; 2nd quarter 2019; 1st quarter 2019; 2018; 3rd quarter 2018), presented in Table no. 3, it is noted that all companies, excepting *ROMPETROL RAFINARE S.A.* and *SOCIETATEA ENERGETICA ELECTRICA S.A.* have reordered profit.

The financial difficulties of the energy companies, respectively the reduction of profitability are less evident in the 1st and 2nd quarter.

Comparing to the similar period of last year for the 1st quarter, as presented in Table no. 4, the decreases in net profit were recorded by C.N.T.E.E. TRANSELECTRICA and S.N.T.G.N. TRANSGAZ S.A while ROMPETROL RAFINARE S.A and SOCIETATEA ENERGETICA ELECTRICA S.A increased their loss, compared to the previous period 2018, during 1st quarter, shifting from profit to loss.

Table no. 4
The net profit in the 1st quarter

Company	2018Q1	2019 Q1	Difference 2019 Q1- 2018 Q1	Evolution of the net profit 2019 Q1 compared with 2018 Q1
S.N.G.N. ROMGAZ S.A.	501196000	541845000	40649000	Increase of 8,11 %
OMV PETROM S.A.	854080000	1151180000	297100000	Increase of 34,79 %
ROMPETROL WELL SERVICES S.A.	1287358	3560396	2273038	Increase of 176,57 %
SOCIETATEA ENERGETICA ELECTRICA S.A.	59256000	-40855000	-100111000	Shift from profit to loss
S.N. NUCLEARELECTRICA S.A.	189997143	219285421	29288278	Increase of 15,42 %
C.N.T.E.E. TRANSELECTRICA	68196292	37994539	-30201753	Decrease of 44,29 %
S.N.T.G.N. TRANSGAZ S.A.	236604789	191387503	-45217286	Decrease of 19,11 %
ROMPETROL RAFINARE S.A.	50481057	-59600700	-110081757	Shift from profit to loss

Comparing the similar period of last year for the 2nd quarter, as presented in Table no. 5, the largest decreases in net profit were recorded by C.N.T.E.E. TRANSELECTRICA (78,51 %) and SOCIETATEA ENERGETICA ELECTRICA

S.A. (63,92 %) while ROMPETROL RAFINARE S.A. faced the same situation as previous comparison quarter 1st, increasing its loss, this being 31,4 % greater.

Table no. 5
The net profit in the 2nd quarter

Company	2018 Q2	2019 Q2	Difference 2019 Q2- 2018 Q2	Evolution of the net profit 2019 Q3 compared with 2018 Q2
S.N.G.N. ROMGAZ S.A.	815080320	975909000	24981000	Increase of 19,73%
OMV PETROM S.A.	1441912832	1974540000	92700000	Increase of 36,94%
ROMPETROL WELL SERVICES S.A.	4035658	6848548	2279919	Increase of 69,70%
SOCIETATEA ENERGETICA ELECTRICA S.A.	301497120	108.786.000	-154014000	Decrease of 63,92%
S.N. NUCLEARELECTRICA S.A.	182314400	290619141	-438756076	Increase of 59,41%
C.N.T.E.E. TRANSELECTRICA	89155000	19162000	-23932119	Decrease of 78,51%
S.N.T.G.N. TRANSGAZ S.A.	279606304	195500934	-4965276272	Decrease of 30,08%
ROMPETROL RAFINARE S.A.	-61687888	-80837279	-19149391	Increase loose of 31,04%

The reduction of profitability becomes more obvious while comparing the similar period of last year for the 3rd quarter, as presented in Table no 6. The largest decreases in net profit were recorded by S.N.T.G.N. TRANSGAZ S.A. (96,21%), SOCIETATEA ENERGETICA ELECTRICA S.A. (48,91%) and C.N.T.E.E. TRANSELECTRICA (24,54%). The situation of ROMPETROL RAFINARE S.A. is the

same, increasing its loss while shifting from profit to loss.

Excepting ROMPETROL WELL SERVICES S.A, which registered an increase in net profit of 30,19%, the other two companies, S.N.G.N. ROMGAZ S.A. and OMV PETROM S.A., with an increase lower than 3,5%, are not very comfortable in profitability.

Table no. 6
The net profit in the 3rd quarter

Company	2018 Q3	2019 Q3	Difference 2019 Q3- 2018 Q3	Evolution of the net profit 2019 Q3 compared with 2018 Q3
S.N.G.N. ROMGAZ S.A.	1160123000	1185104000	24981000	Increase of 2,15 %
OMV PETROM S.A.	2667150000	2759850000	92700000	Increase of 3,48 %
ROMPETROL WELL SERVICES S.A.	7552580	9832499	2279919	Increase of 30,19 %
SOCIETATEA ENERGETICA ELECTRICA S.A.	314910000	160896000	-154014000	Decrease of 48,91 %
S.N. NUCLEARELECTRICA S.A.	9175870871	8737114795	-438756076	Decrease of 4,78 %
C.N.T.E.E. TRANSELECTRICA	97528518	73596399	-23932119	Decrease of 24,54 %
S.N.T.G.N. TRANSGAZ S.A.	5160777206	195500934	-4965276272	Decrease of 96,21 %
ROMPETROL RAFINARE S.A.	30428112	-319592063	-350020175	Shift from profit to loss

3. Conclusions

If, while comparing the 1st Quarter 2019 with the 1st Quarter 2018, the decrease in profitability of the energy companies is not so obvious, the situation becomes evident at the level of the 3rd quarter. Four companies out of eight (50% of them) registered a decrease of net profit, two other have shifted from profit to losses. In case of net profit increases, this is less than 5%, excepting the case of only one company, namely ROMPETROL WELL SERVICES S.A. Therefore, it can be stated that the measures imposed by Ordinance 114 had a significant impact on profitability of companies listed on Bucharest Stock Exchange, acting in energy field. Reducing

profitability or accumulating losses will affect their future performance in terms of investment policy and dividend policy. Further, these will affect the stock quotes of these companies and the BET-NG index evolution respectively will reduce the return of investors acting in this field.

However, prudence must be maintained in drawing conclusions, the data analyzed being available only for three quarters, and furthermore, some of them being unaudited. Future research are needed to a more accurately determination of the impact of these legal regulations and to exclude other causes that could have generated such losses.

REFERENCES

- Baltes, N. (2010). *Analiză și diagnostic financiar*. Sibiu: Editura Universității “Lucian Blaga”.
- Bucharest Stock Exchange (BSE). (2019). available at: www.bvb.ro, accessed on 01 November 2019.
- Ciuhureanu, A. T. (2017). Accounting information integration in the triangle financing - investment – dividend. options within economic entities in Central Region. *Revista Economica, Vol. 69, Issue 4*, 68-83.
- Ciuhureanu, A. T. (2017). Instruments and Financial Performance Indicators or The Capitalization of Accounting Information from The Profit and Loss Account – Meanings Useful to Management. *International Conference Knowledge-Based Organization, Vol. XXIII, Issue 2*, 36-40.
- Petrescu, S. (2005). Performanță și risc în analiza financiară. *Analele Științifice ale Universității “Alexandru Ioan Cuza”, Vol. 50-51*, Iași.
- Petrescu, S. (2008). *Analiză și diagnostic financiar-contabil: ghid teoretico-aplicativ*. București: Editura CECCAR.
- Romanian Energy Regulatory Authority (ANRE). (2019). available at: www.anre.ro, accessed on 01 November 2019.
- Romanian Government. (2018). *The Government Emergency Ordinance no. 114 (OUG 114)*. Bucharest: *Official Gazette*, no. 1116.
- Tradeville S.A. (2019). available at: <https://virtual.tradeville.eu/>, accessed on 05 September 2019.