

Analysis of the financial result of Macedonian companies for the year 2020

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Abstract

It started as a health crisis, far from Europe and our country, but Covid-19 quickly led to the global economic crisis. Stock markets crashed, oil prices fell abruptly, production stopped, factories and shops began to close, and markets of labor were disturbed. The crisis has hit businesses, albeit at different speeds and in different extent. Some sectors have suffered more as a result of prevention and proliferation measures which led to isolation and restricted movement, especially restaurants, educational institutions, tourism and transport. The macedonian economy was severely affected by the crisis, in particular tourism, catering, airlines, etc.

The purpose of this paper is to see how the corona crisis affected the performance of macedonian companies and the disclosed financial results in their financial statements, analyzing a few companies from different industries, which stocks are traded on Macedonian stock exchange.

Keywords: affect, Covid-19, companies, economy, financial, result

1. Introduction

The consequences from Covid-19 pandemic are deep for everyone: for the citizens, the businessmen, for the state. How deep, shows the probably expected, but still depressing recession, the large number of jobs lost - over 50 thousand - of which one third directly because of the crisis. Additionally, there are bunch of failed deals and businesses, lost markets and impoverished citizens. The statistics are relentless, and the numbers are staggering despite the anti-crisis measures to prevent consequences from the pandemic.

The pandemic has had a negative impact on overall economic activity in North Macedonia, where average GDP fell by -5.4% in 2020. According to the State Statistical office, North Macedonia's economic output shrank by an estimated 4.5% year-on-year in 2020. Exports of goods and services fell by 10.9% in nominal terms in the year under review, while imports declined by 10.5%. Household final consumption decreased by an estimated 5.6% last year. The unemployment rate declined throughout 2020, reaching 16.1% in the fourth quarter, which is 0.5 % points lower than last year. [1]

According to the research conducted by International Labour Organizartion in May 2020, the Covid-19 crisis severely affected about 82 percent of surveyed enterprises, which reported significant financial losses and temporary termination of their business operations. About 43 percent of the companies surveyed are faced a reduction in their income of more than 50 percent, while 11 percent temporarily closed the enterprises. Micro enterprises showed the largest vulnerability, 50 percent of micro-enterprises reported halving their own revenues, and 19 percent reported closing the business. Although large enterprises show greater resistance

(none reported temporary closure), a large proportion of them (48 percent) still faced a revenue drop of more than 50 percent. The biggest part of companies that have reported revenue declines operate in sectors affected by the ban of the Government for operation and curfew, especially transport, storage services, accommodation and food services, construction, trade and professional, scientific and technical activities. The companies identified several common challenges affecting their business, including declining demand for products and services (45 percent), weaker trust in chain partners supply (38 percent), and interruptions in raw material supply (35 percent). These challenges mainly affected the profitability and turnover of enterprises (90 percent), followed by reduced productivity and inability to achieve business goals for 2020 (78 percent). [2]

2. Analysis of financial results of selected companies from macedonian economy

To make a rough assessment of how Covid-19 affected financial performance of macedonian companies I present a short analysis of financial results of several macedonian companies for the year 2020 compared to the year 2019, which stocks are traded on Macedonian stock exchange.

Alkaloid AD Skopje

Table 1 Consolidated Income statement

	(in 000 MKD)				
	2020		2019		IND
	Amount	%	Amount	%	20/19
Sales	12.132.328	97	11.102.808	98	109
Cost of sales	-6.698.493	-53	-5.974.145	-53	112
Gross profit	5.433.835	43	5.128.663	45	106
Research and development expenses	-121.368	-1	-109.931	-1	110
Selling and market expenses	-3.409.148	-27	-3.353.516	-29	103
Administrative expenses	-466.502	-4	-420.697	-4	111
Provision for other liabilities and charges	-9.737	-	-10.499	-	93
Other income	421.554	3	245.019	2	172
Other expenses	-502.418	-4	-308.167	-3	163
Operating profit	1.346.216	11	1.200.872	11	112
Finance expense (net)	-17.817	-	-12.561	-	142
Profit before income tax	1.328.399	11	1.188.311	10	112
Income tax expense	-160.914	-1	-173.051	-2	93
Profit from continuing operations	1.167.485	9	1.015.260	9	115

Source: <https://alkaloid.com.mk>

Total revenues of Alkaloid AD Skopje for the year 2020 are 12.553.883 thousand denars, which compared to previous year have increased for 11%.

The largest portion of total revenues i.e., 98% belongs to sales of goods and other sales revenues, which compared to the year 2019 have increased for 9%.

Other income has a portion in total revenues of 3% and compared to previous year have increased for 72%.

Finance income consists of foreign exchange transactions gains on borrowings and interest income on borrowings. The portion in total revenues is insignificant.

The data from the above table are presented in Chart 1 from which the movement of the elements of the financial result of the company Alkaloid for 2020 and 2019 can be seen.

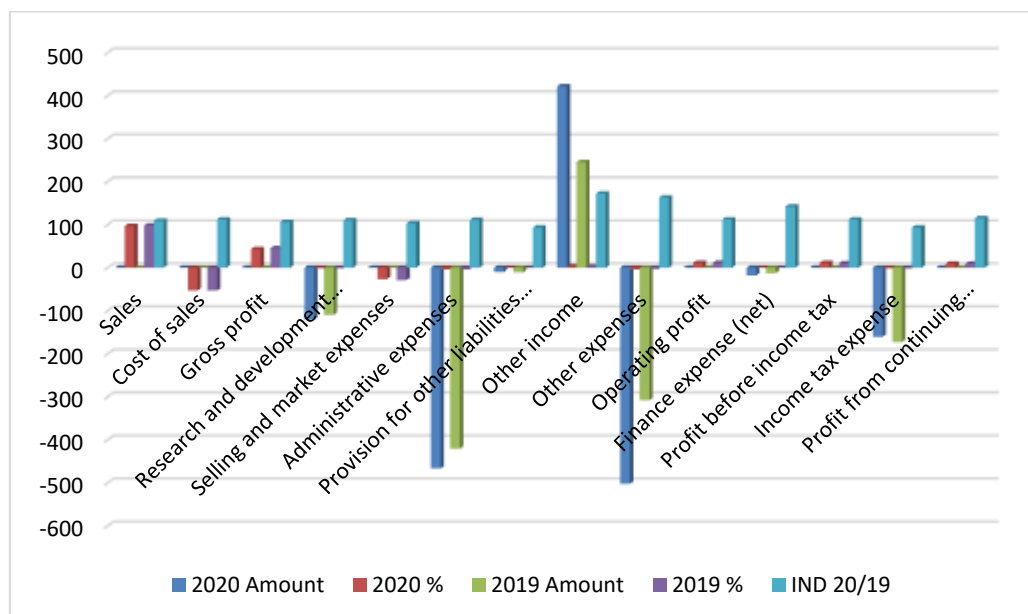


Chart 1 Comparative analysis of elements of financial result of Alkaloid AD Skopje for the years 2020 and 2019

Tikves AD Kavadarci

Table 2 Consolidated income statement

(in 000 MKD)

	2020	2019
Sales	1.610.977	1.804.708
Discounts allowed	-141.858	-168.403
Net sales revenues	1.469.119	1.636.305
Costs of sales	-792.516	-824.385
Gross profit	676.603	811.920
Other operative revenues	59.068	49.106
Distributive (sales) expenses	-162.014	-141.121
Administrative expenses	-111.120	-129.904
Other operative expenses	-286.721	-410.174
Operating profit	75.817	149.298

Revenues (expenses) from financing	-5.542	-30.529
Profit before income tax	70.275	149.298
Income tax expense	-11.807	-24.225
Net profit for the period	58.468	125.073

Source: <https://www.seinet.com.mk/>

As can be seen from the data presented in the table, the company Tikves AD Kavadarci achieved a significant reduction of the achieved financial result in 2020 compared to 2019. There is a large decrease in the realized sales revenues, hence the gross profit and operating profit. Net profit shows a decrease of significant 46.7%.

This is illustrated in the chart below.

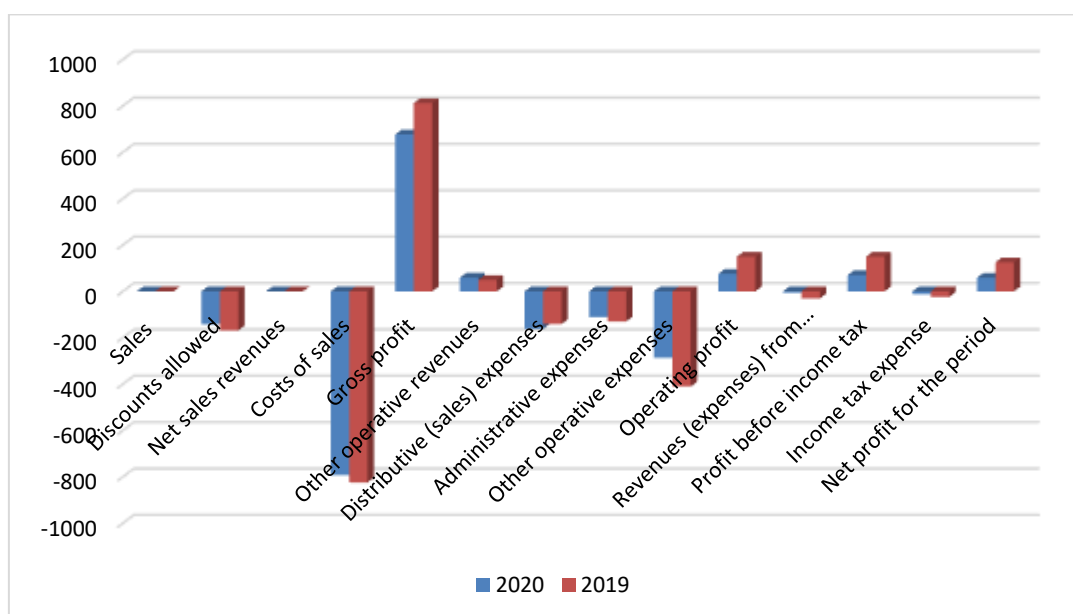


Chart 2 Comparative analysis of elements of financial result of Tikves AD Kavadarci for the years 2020 and 2019

Zito Luks AD Skopje

Table 3 Income statement

(in 000 MKD)

	2020	2019
Sales	1.090.139	1.103.506
Costs of sales	-773.898	-786.639
Gross profit	316.241	316.867
Other operative revenues	11.673	22.677
Distributive (sales) expenses	-226.988	-232.005
Administrative expenses	-58.080	-67.595
Other operative expenses	-18.854	-29.262
Operating profit	23.992	10.682

Revenues from financing	55	509
Expenses from financing	-16.454	-19.589
Net expenses from financing	-16.399	-19.080
Profit (loss) before income tax	7.593	-8.398
Income tax expense	-2.759	-1.500
Net profit (loss) for the period	4.834	-9.898

Source: <https://www.seinet.com.mk/>

In the period January-December 2020 Zito Luks converted the loss from regular operations from 2019 in profit, which after tax is 4,834 thousand denars. Profit before tax for 2020 is 7,593 thousand which is an increase of 15,991 thousand denars compared to the same period previous year. The profit from the regular operation is 23,992 thousand denars and is increased by 124.6% or 13,310 thousand denars compared to 2019. Gross profit margin improved by 0.3 percentage points.

The total sales revenues in 2020 amount to 1,090,139 thousand denars. Compared to the same period last year there was a decrease in revenue from sales on the domestic market by 1%, while revenues from sales on the foreign market increased by 6%. Other revenues from the activity amount to 11,673 thousand denars and are lower compared to last year by 48.5%, as a result of the capital gain of sale of fixed assets in 2019 and other one-off effects.

The costs of manufactured products are reduced by 2% compared to the comparison period last year despite rising staff costs in production (+ 5% compared to the same period last year) and additional costs caused by the Corona virus crisis. The main focus of management was cost rationalization, which led to a reduction in operating costs by 5%, where administrative costs were reduced by 14%, while sales and distribution costs were reduced by 2%. The remaining expenses are lower by 36% as a result of the lower value adjustment recognized in 2020.

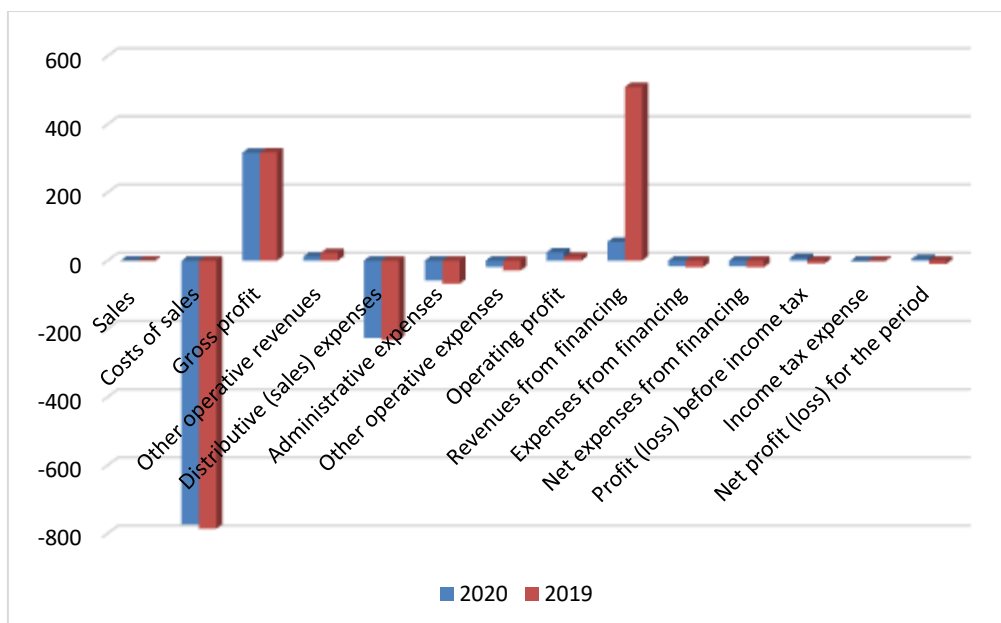


Chart 3 Comparative analysis of elements of financial result of Zito Luks AD Skopje for the years 2020 and 2019

Okta AD Skopje

Table 4 Income statement

(in 000 MKD)

	2020	2019
Sales	15.363.568	27.673.826
Costs of sales	-14.382.337	-26.512.202
Gross profit	981.231	1.161.624
Operative and logistic expenses	-409.765	-510.686
Administrative expenses	-242.661	-260.375
Expenses for sale and distribution	-95.154	-117.379
Other operative revenues	18.473	6.907
Impairment of assets for sales	-2.779	40.069
Operating loss / profit	-565.902	293.847
Financial revenues	20.194	16.711
Financial expenses	-7.532	-8.704
Financial revenues/expenses (net)		
Loss/profit before income tax	-553.240	301.854
Income tax expense	32.658	-39.062
Net Loss / profit for the period	-520.582	262.792

Source: <https://www.seinet.com.mk/>

Sales revenues of Okta AD Skopje in the amount of denars 15,193 million in 2020 decreased significantly compared to the previous year, when they amounted to denars 27,674 million, as a result of reduced demand and decline in international fuel prices.

Gross margin follows this trend and is reduced by 68% compared to 2019.

The company ends the year 2020 with a significant loss of operations.

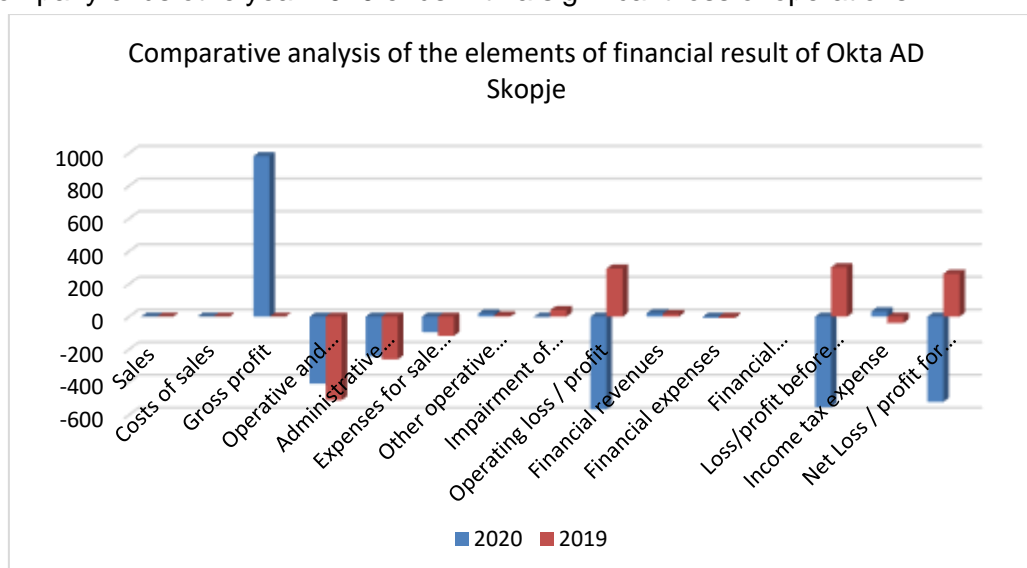


Chart 4 Comparative analysis of elements of financial result of Okta AD Skopje for the years 2020 and 2019

HOTELS METROPOL AD OHRID

Table 5 Income statement

(in 000 MKD)

	2020	2019
Sales revenues	59.357	209.870
Other revenues from operation	19.996	1.785
Expenses for materials	-14.901	-44.145
Salaries and other compensation for employees	-49.350	-65.249
Amortization	-21.063	-17.015
Costs of goods sold	-87	-72
Other expenses from operations	-22.122	-44.238
Loss / profit from operations	-28.170	40.936
Financial revenues	1.012	3.134
Financial expenses	-1.354	-2.386
Loss/profit before income tax	-28.512	41.684
Income tax expense	/	-3.924
Net Loss / profit for the period	-28.512	37.760

Source: <https://www.seinet.com.mk/>

According to the presented data, Hotels Metropol AD Ohrid ended the year 2020 with a loss of 28.512.000 denars, compared to the year 2019 when a profit of 37.760.000 denars was realized. This result is a consequence of the health Covid-19 crisis, which caused a huge reduction in the company's revenues. According to the Company's Report for 2020, the company has seen a drastic decline in the number of foreign visitors, which in 2020 amounted to only 2.023, compared to 2019 when they amounted to 20.890. This means a reduction in the number of foreign visitors by as much as 90.32%. [3]

The chart below illustrates the movement of the company's financial result for the years 2019 and 2020.

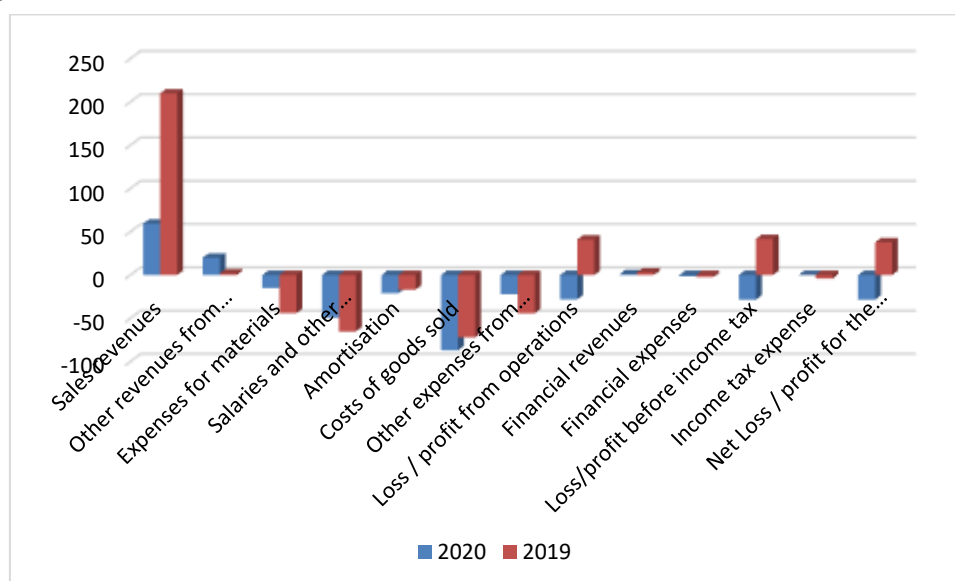


Chart 5 Comparative analysis of elements of financial result of Hotels Metropol AD Skopje for the years 2020 and 2019

5. Government policies for support of local businesses during the pandemic with Covid-19

On 16 February 2021, the Government announced the launch of the 5th package of support aimed at mitigating the negative impact of the pandemic on the economy and local businesses. This package consisted of 29 measures with an estimated cost of EUR 160 million. The previous four packages included the following measures: [3]

- **Aid for the payment of wages:** this measure was further extended for the last quarter of 2020. Support will be determined gradually according to the income losses suffered by the company and will vary between 14.500 (equivalent to the minimum wage in MKD; around EUR 240) and 21.776 MKD (around EUR 350). Eligible companies will be subject to a strict employment protection obligation until 31 July 2021.
- **Support loans:** Individuals and businesses benefit from new loans, preferential interest rates, regulated penalties, state guarantees or additional delays for repayment.
- **Support of local consumption:** payment cards and VAT refunds: Extension of the measure on payment cards for citizens for in-home consumption.
- **Measures on taxes:** Increases in income tax payment deadlines, lowering of tax base thresholds and the modulation of payments were announced. The Government also introduced Measures affecting VAT: it will be reduced for food and beverage services (10% against the previous 18%) and craftsmanship (reduced VAT from 18% to 5%), and occasionally refunded VAT during targeted commercial actions “Weekends without VAT”.
- **Reduction of Para fiscal charges:** including various fees, licenses and permits.
- **Tourism:** direct payments to tourist guides (21.776 MKD about EUR 350) and a total subsidy aid of EUR 1.9 million to travel agencies and reimbursement of the tourist tax to all operators in this sector (estimated around EUR 2 million).
- **Agriculture:** Support for wine production: through the purchase of grapes from the 2020 harvest, for which EUR 6.7 million is foreseen.
- **Catering:** “Grants to restaurants for weddings” – support will be given to all entities registered and authorized for this activity, for a total value of EUR 1 million.
- **Import duties:** Reduction of import duties on raw materials, provides support for the most affected processing industries, as well as an incentive for the development of processing facilities.

The practical implementation of these measures showed that governmental support packages have not been implemented consistently by the beneficiaries.

6. Conclusion

The rapid spread of the pandemic in early March 2020 interrupted the growth momentum abruptly. Measures to prevent the spread of COVID-19 have slowed economic activity, which in turn has had a negative impact on the national economy. The ongoing crisis resulted in: short-term, but severe economic downturn; upward pressure on unemployment and poverty in R.N. Macedonia and social and psychological problems (a rise in domestic violence, anxiety, depression). Ultimately, the pandemic has also slowed down the country’s progress in achieving the Sustainable Development Goals (SDGs) in 2020.

Even with government support, businesses are still facing serious and unprecedented cash flow, supply and operating problems (it is confirmed with this research where several companies from Macedonian economy, from different industries, have been analyzed).

The economy will not be able to return to pre-crisis levels (or the counterfactual scenario without the pandemic and without new government reforms). Cumulative output losses for 2020 and 2021 are estimated at EUR 3.7 billion. Based on more recent projections, the National Bank forecasts a 17.1% decline in exports of goods and services in real terms.

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