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EVALUATION OF THE INVESTMENT ATTRACTIVENESS OF THE COMPANY ON THE EXAMPLE OF THE PJSC M.VIDEO

Abstract*: this article considers the topic of investment attractiveness of the company in the framework of value-based management. The concept of profit maximization as the main goal of business operations is no longer actual and is being replaced by the concept of maximizing the value of the company. Potential investors shift their attention to value indicators, the components of which demonstrate the operational, investment, and financial performance of the corporation. In the article, two models of assessing company performance and investment attractiveness are reviewed.*

Keywords*: value based method, investment attractiveness, company value, spread of effectiveness, investment attractiveness.*

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ФОРМИРОВАНИЕ ИНВЕСТИЦИОННОЙ ПРИВЛЕКАТЕЛЬНОСТИ КОМПАНИИ НА ПРИМЕРЕ КОМПАНИИ ПАО «М.ВИДЕО»

Аннотация*: в статье рассматриваются вопросы инвестиционной привлекательности компании в рамках стоимостно-ориентировонного менеджмента. На сегодняшний день концепция максимизации прибыли, как основной цели ведения бизнеса, перестает быть актуальной. На смену ей приходит концепция максимизации стоимости компании. Потенциальные инвесторы все больше переключают свое внимание на показатели стоимости, составляющие которых демонстрируют операционные, инвестиционные и финансовые результаты деятельности компании. В статье представлены две модели оценки эффективности деятельности и инвестиционной привлекательности компании.*

Ключевые слова*: стоимостно-ориентировонный менеджмент, инвестиционная привлекательность, спрэд эффективности, инвестиционная привлекательность.*

For every investor in the modern economic world it is crucial to assess company's performance. The infallible assessment of the investment attractiveness of enterprises is one of the most significant factors of the future success of the business. Based on financial performance, such a way of assessment would play a key role in the management system build based on the principle of maximizing the company's value.

If an investor want to find the most investment attractive business or project, following point should be taken into account: company should operate in the large developing market; its market position should not be easy to alter; it must be financially «healthy», have financial resources and right distribution of own and attracted funds; they should not be a conflict of interest between stakeholders and shareholders.

A common among financial analyst criterion for the measuring financial performance of the company since 1990s is to value creation. Value based management embraces value maximization as the ultimate financial goal of a company.

To improve an organization performance many managements schemes are used, but one of the most efficient is Value Based method (VBM). VBM embraces value maximization as the ultimate financial goal for a company. A series of economic indicator for measurement was developed in the concept of value creation. They are the following: the economic value added (EVA), market value added (MVA), total shareholders return (TSR), return on assets (ROA), return on equity (ROE), return on capital investment (ROIC), cost of capital or weighted average cost of capital (WACC). In real life analyst chose indicators based on their goal of assessment, as well as their role in the company's value creation process.

Under VBM the discounted future cash flows is the company' value precisely, this value is generated when return form invested capital (ROIC) is higher and exceeds the expected return of the company's capital providers, measured by weighted average cost of capital (WACC). This concept is called spread of effectiveness, it is a measure of the ability to generate cash on capital invested. When assessing company effectiveness, following assumptions must be taken into account [2, p. 506]:

$$\text{ROIC-WACC} > 0 \ (1)$$

$$\frac{\text{ROIC}}{\text{WACC}} > 1 \ (2)$$

The spread of effectiveness must be more than zero and the ratio of effectiveness must be more than 1. If ROIC is greater than WACC, the company earns more from its investments than it pays in financing costs to fund those investments. This means it's generating excess returns for its investors and shareholders, which is positive for the company's value. Conversely, if ROIC is lower than WACC, the company's investments are not generating enough returns to cover the cost of capital, indicating a potential loss of value and financial inefficiency. That help investors to decide whether to invest in a business or a project, is the invested capital is used efficiently, is company a value creator or a value destroyer.

Overall, companies have to take many aspects and steps to fulfill its goal of value creation. Firstly, companies should concern their goals in short and long-term perspective, in this way discounted cash flow value, need to be transferred into short-term more objective financial performance target. Secondly, nonfinancial goals needed to be considered by companies. Such goals include customers satisfaction, product innovation, company's image. Thirdly, objectives must be customized in accordance with every level of management.

Figure 1 introduces by Tim Koller compares various measures of corporate performance within two dimensions: the need to take a long-term view and the need to manage the company's balance sheet [3]. Both of these concepts are only handled by discounted cash flow valuation. Companies that narrowly focus on their reporting year income or return on sales are missing out on major opportunities of improvement their working capital, capital expenditures and their balance sheet as a whole.

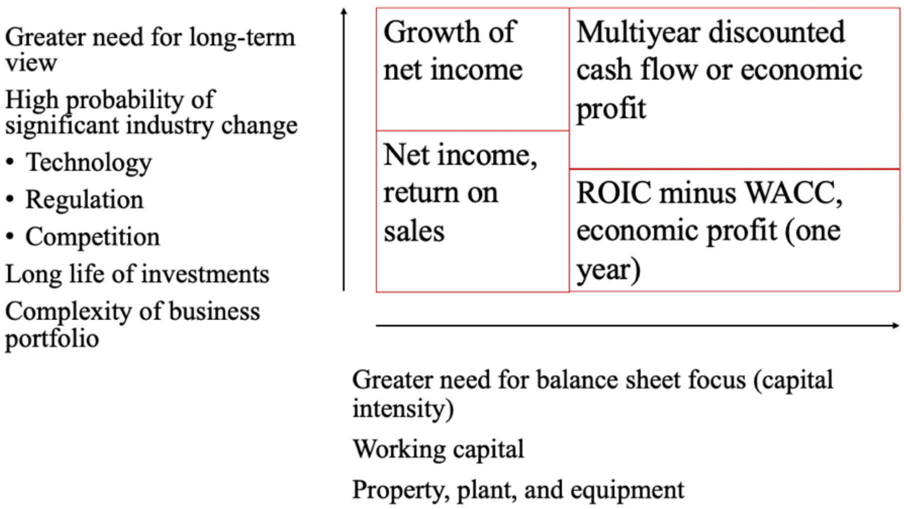

Fig. 1. Measuring corporate performance [3]

Another, simplified for use, model of measuring the performance was introduced by T.V. Teplova [1]. Figure 2 shows the scheme based on which investors may decide whether invest in the busines or not. On the axis the Figure 2 is divided by the industry average growth rate, it is obvious for the investors, that putting money in the company that operates worse than its competitors as a whole is absolutely senseless. On the basis of this scheme we can conclude that the companies in the upper rectangles will be the most favorable ones for investment. Upper right corner – the place where the most favorable companies for investment are located, taking into account that their Net Debt ratio (NDR) should be less than three.

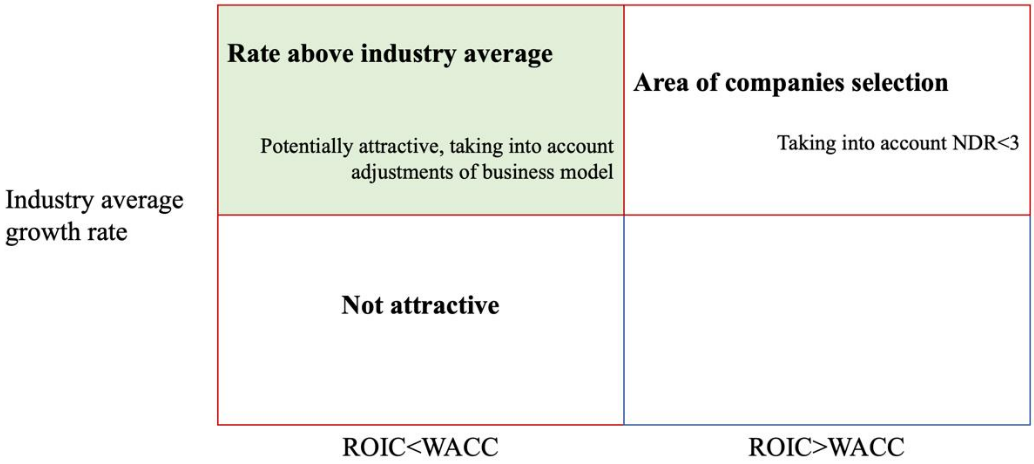

Fig. 2. Example of constructing a selection of companies for investment [1, p. 284]

Now as an example, the PJSC M.Video investment attractiveness via VBM will be analyzed. PJSC M.Video is one of the leading retailers in the sector of home appliance and electronics in Russia, with a share of 25,6% in net turnover [4]. It operates through over 100 cities, as well as through online store within the Russian Federation.

Based on the company's balance sheet its rates of returns can be calculated for the past three years. An important remark is that in this calculations net profit is subtracted by net operating profit after tax (NOPAT). NOPAT is used in order to see the business actual efficiency as it does not take into consideration the tax benefits of the existing debt.

Table 1

Profitability ratios

Indicator	Formula	2020	2021	2022	Growth, %
ROA	Net Profit/ Total assets	0,047	0,010	0,019	39,5
ROS	Net Profit/ Sales	0,043	0,010	0,015	35,4
ROE	Net Profit/ Total equity	0,545	0,199	0,972	178,2

Source: [5].

Taking into account the data from the table presented above, the company's performance is relatively average for its field. Nevertheless, regardless of the fact that PJSC M Video is a leader in its industry, it has problems with the financing of its operations, as well as with the use of borrowed funds. Besides, from this table it is possible to take data on the Return on Sales for 2022, which is equal to 1,5% and compare it with the industry average, which is equal to the interval of 4–6%, thus it can be immediately concluded that PJSC M.Video will be in the lower plane of the model.

Company’s ROIC for 2022 is equal to 31,98% [7], and WACC for 2022 is equal to 19,5% [6] based on the data provided in the internet. Consequently, it may be concluded that the company's spread of effectiveness is positive and the efficiency index is equal to 1,64. The company's net debt ratio as of 2022 can also be viewed, NDR for PJSC M.Video in 2022 is equal to 2,28.

$$\mathrm{NDR} = \frac{(Net\ Debt\text{-}Cash)}{EBITDA} \quad (3)$$

In this way Teplova’s model on the example of the PJSC M.Video is represented in the Figure 3.

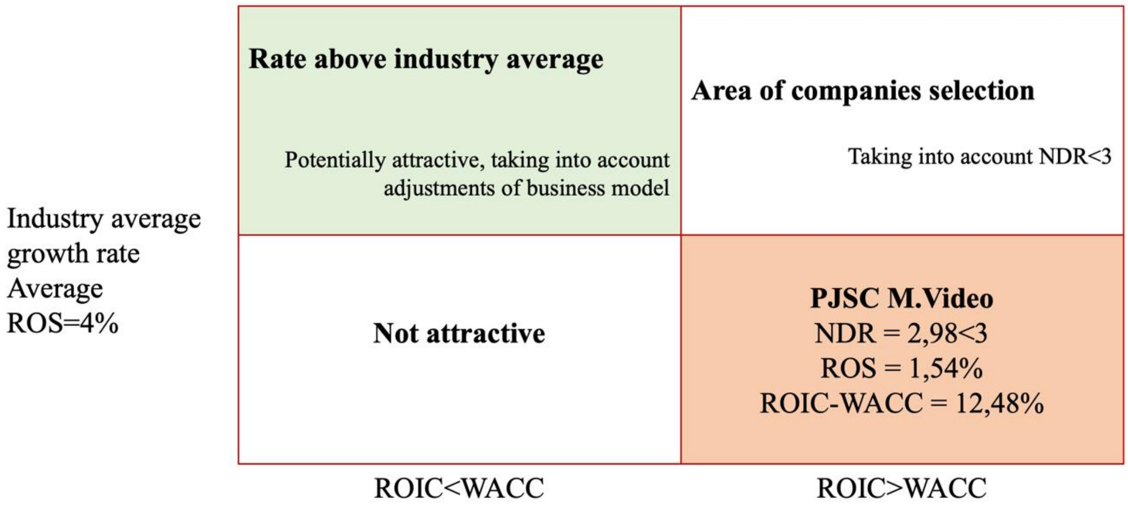

Fig. 3. Construction of investment attractiveness of PJSC M.Video based on Teplova’s Model

Input data for calculation in these relative indicators are the book value of assets, the dynamics of which is represented in Figure 4.

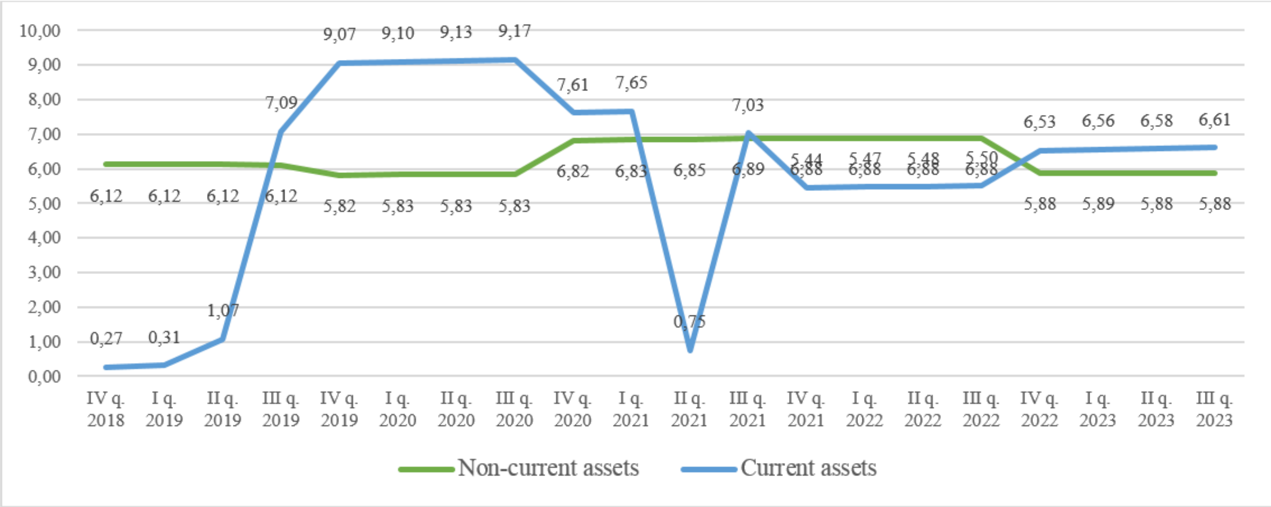

Fig. 4. Dynamics of PJSC M.Video Current and Non-current assets quarterly, trillion rub

Source: [7].

Therefore, it can be concluded that according to Ivanova's model, PJSC M.Video is not an attractive company for potential investors, as its growth rates are not higher than the industry level. Nevertheless, the company shows quite good results and with proper management and competent allocation and attraction of borrowed funds, it will be able to improve its performance, thereby increasing its investment attractiveness.

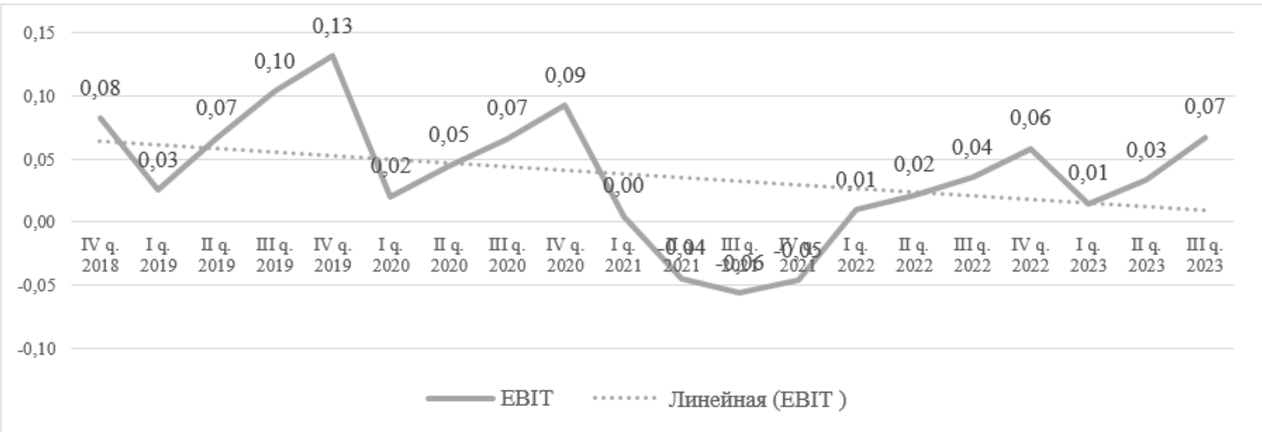

Fig. 5. Dynamics of PJSC M.Video EBIT quarterly, trillion rub

Source: [7].

Based on the data presented in Figure 5 it can be concluded that the PJSC M.Video has a chance to significantly reduce its debt load due to the ratio of debt to EBIT due to the growth of the latter. Consequently, the company has a chance to increase its performance and investment attractiveness.

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