

ESTIMATION ANALYSIS OF THE ISSUER'S POSITION ON STOCK MARKET (ESTIMAREA POZIȚIEI EMITENTUL PE PIAȚA BURSIERĂ)

MURZAC ALEXANDRU, license's student, 3 year, FB-173,
Academy of Economic Studies of Moldova
Republic of Moldova, Chișinău, str. Bănulescu-Bodoni 61
e-mail: murzac.alexandru@gmail.com

Rezumat. În prezentul articol am analizat poziția companiei Pucari pe piața bursieră, luând în calcul toate caracteristicile și toți indicatorii de performanță care atrag atenția investitorilor atunci când își aleg active pentru portofoliul lor de investiție. Rezultatul final la care noi am ajuns este determinarea valorii juste a acțiunii. Dorim să atenționăm că această lucrare nu este o recomandare de investire în entitatea menționată, ea a fost elaborată doar în scopuri educative.

Cuvinte cheie: evaluare, valoare justă, analiza fluxului de numerar

JEL CLASSIFICATION: C44, L25, M41, O21.

1. INTRODUCTION

The most important ways to measure any company's success are their performances. A common criterion for measuring performance since the 90's is to value creation. Starting from value creation, a series of economic indicators was developed for measurement: the economic value added, market value added, total shareholders return, cash-flow return on investment, return on capital employed, cost of capital. (Robu, 2010).

The stock indicators are the most relevant quantities of the performance of an entity, because they reflect the corroborated (consolidated) influence of the risk rates and financial returns (Țiruľnicova, N. Muntean, N. 2017). In order to estimate the position of a company on the stock market, it is necessary to determine the real or fair value of its shares. Market value is the price at which an asset can currently be bought or sold. Fair value is the value that would have been placed by investors if they had a complete understanding of the investment characteristics of the asset. If the stock's fair price is higher than the market price then the stock is undervalued, if the fair price is lower than market price then the stock is overvalued.

2. LITERATURE REVIEW

The returns from an investment can take many forms, including earnings, cash flows, dividends, interest payments, or capital gains (increases in value) during a period (Reilly, Brown, 2012). The economic value, as the relevant term for shareholder value creation, relates to the basic ability of an asset or a claim to provide a stream of after-tax cash flows to the holder (Helfert, 2001). Under these circumstances, only the economical and financial results are the main goal for company's surviving. In the classical approach of business performance analysis, many financial activities are investigated, such as: liquidity, profitability, solvency or performances derived from the theory of value creation for shareholders. Additionally, different valuation models are performed to uncover mispriced securities. These models are those used by fundamental analysts, those analysts who use information concerning the current and prospective profitability of a company to assess its fair market value. (Bodie, Kane, 2014).

3. METHODOLOGY

Discounted cash flow (DCF) valuation views the intrinsic value of a security as the present value of its expected future cash flows. When applied to dividends, the DCF model is the discounted dividend approach or dividend discount model (DDM). This reading extends DCF analysis to value a company and its equity securities by valuing free cash flow to the firm (FCFF) and free cash flow to equity (FCFE). For valuation of *Purcari Winery*, we have chosen the Free Cash Flow to Equity

Valuation. A relative valuation model is a business valuation method that compares a company's value to that of its competitors or industry peers to assess the firm's financial worth. In addition to that, we have analyzed the Group's earnings multiples such as EPS, P/E, P/E/G, EV/EBITDA, etc.

4. ATTRACTIVE STOCK EVOLUTION

According to our estimates, we assume the Group will have EPS of 1.60 RON per share in 2020, which implies 12% decrease compared to the same indicator in 2019 (1.82 RON per share) reported by the Group. However, we expect the company to rise on, providing a forward five-year EPS CAGR of 18% for the period of 2021-2025. At the same time, the current P/E ratio represents 11.86x, which is higher relative to 2019 P/E of 11.70x. On top of that, I have a forward five-year P/E/G of 0.67x, which means that the Group's stock is strongly underrated. Current P/E/G is lower than P/E/G calculated for 2019, which was 0.86x. The decrease of this ratio would represent a good reason for investors to invest in the Group's stock.

Table 1. Stock valuation

	2018A	2019A	2020F	2021F	2022F	2023F	2024F	2025F
Net income attributable to the members of the Group (RON mln)	37.97	36.30	32.04	45.89	52.81	58.71	64.69	70.64
Ordinary shares outstanding (mln)	19.83	19.94	20.00	20.00	20.00	20.00	20.00	20.00
EPS (RON/Sh)	1.91	1.82	1.60	2.29	2.64	2.94	3.23	3.53
EPS growth	-	-5%	-12%	43%	15%	11%	10%	9%
Stock price (RON)	18.30	21.30	19.00	21.00	24.00	26.00	28.00	30.00
P/E (x)	9.56	11.70	11.86	9.15	9.09	8.86	8.66	8.49
P/E/G 5y forward (x)	0.91	0.86	0.67					
Total equity (RON mln)	154.12	179.22	158.87	209.05	225.77	243.83	263.34	284.41
BVPS (RON)	7.71	8.96	7.94	10.45	11.29	12.19	13.17	14.22
P/B (x)	2.37	2.38	2.39	2.01	2.13	2.13	2.13	2.11
Dividends (RON/Sh)	0.95	1.05	0.89	1.40	1.76	2.12	2.52	2.95
Dividend yield	5.19%	4.93%	4.68%	6.68%	7.35%	8.17%	9.00%	9.83%

Source: Purcari Financial Statements and author's estimates

The valuation of the *Purcari Winery* stock has brought to a target price of RON 24.20 with an upside of 27.50% compared to its last trading price of RON 19.00, as of 06.04.2020, based on the *Discounted Cash Flow model*, with the analysis of the Group's *Free Cash Flow to Equity*.

Table 2. General Valuation

	2018A	2019A	2020F	2021F	2022F	2023F	2024F	2025F
EBITDA (RON mln)	54.41	65.36	53.58	72.11	85.74	95.34	105.52	116.26
Enterprise Value (RON mln)	442.00	524.20	487.42	535.49	600.13	648.11	696.00	741.61
EV/EBITDA (x)	8.12	8.02	9.10	7.43	7.00	6.80	6.60	6.38
Cash & Cash Equivalents (RON mln)	21.80	12.57	13.33	16.13	23.33	26.83	29.78	32.46
Total Debt (RON mln)	97.80	110.78	120.75	131.62	143.46	154.94	165.78	174.07
EV/Sales (x)	2.63	2.63	2.69	2.31	2.20	2.20	2.19	2.18
Net debt/EBITDA (x)	1.40	1.50	2.00	1.60	1.40	1.34	1.29	1.22
Debt/Equity (x)	0.63	0.62	0.76	0.63	0.64	0.64	0.63	0.61

Source: Purcari Financial Statements and author's estimates

5. FREE CASH FLOW TO EQUITY (FCFE)

In order to compute the DCF, we have used the free cash flow to equity. The reason why it has been used lies behind the assumptions that FCFE will increase in the next years and that the financial leverage (debt/equity) does not deviate too much. The projected CAGR FCFE margin for the next five years has been estimated to be 88%. It represents a pleasant factor for the investors of the Group, since all potential shareholders have available 88% money of net profit. The perpetual growth rate represents 3%.

Table 3. Free Cash Flow to Equity Valuation

	2020F	2021F	2022F	2023F	2024F	2025F	Terminal value
Net cash generated from operating activity	40,706,547	54,308,443	62,393,466	69,877,404	72,337,308	76,165,395	
CAPEX	39,020,909	38,240,491	32,504,418	26,003,534	18,202,474	10,921,484	
Net borrowings	8,577,637	13,984,612	15,383,074	16,921,381	18,613,519	20,474,871	
FCFE	10,263,275	30,052,564	45,272,122	60,795,251	72,748,353	85,718,781	657,333,040
CAPM	16.43%						
PV of the future cash flow		25,811,347	33,395,590	38,517,408	39,585,825	40,060,988	307,207,019
Present value of equity	484,578,178						
Intrinsic value	24.23						
Upside	27.52%						

Source: Elaborated by the author

6. COST OF EQUITY

We determined the cost of equity using the *Capital Asset Pricing Model (CAPM)*, thus, giving a result of 16.43%. For risk-free rate, we took 10-year old Romanian government bond yield, at the date of 06.04.2020, which was 5.00% (BNR). Beta of 0.68 was calculated based on the monthly correlation of the Group's stock and *Bucharest Exchange Trade Index (BET)* over the past two years. Other key points were the equity market premium of 7.37% for Romania and the country-risk premium of 6.42% for the Republic of Moldova.

7. CONCLUSION

Purcari Winery Limited is one of the leading winemakers and one of the most well-known exporters from Romania and the Republic of Moldova. The Group has 3 wine brands across wide range of price segments in the still and sparkling wine categories, as well as a brand in the popular premium brandy segment: *Purcari, Crama Ceptura, Bostavan* and *Bardar*. The Group, we believe, will show rather good results for the next 5 years (2021-2025). Although by looking at the present situation is hard to admit this but we think the Group will have high sales, because according to its current reports, it does not have any operational disruptions and that all of its major contracts has not been cancelled. There is a possibility in sales below the previous year 2019, as wine industry faces impediments with the COVID-19 outbreak, but the demand in wine has always been present during even the biggest of threats. These are the reasons why the Group will prevail the current crisis and we also issue a BUY recommendation for Purcari Winery stock.

Bibliography:

1. BODIE, KANE, MARCUS. Investments, tenth edition, ISBN 978-0-07-786167-4
2. HELFERT Erick A. Financial analysis, tools and techniques, ISBN 0-07-137834-0.
3. REILLY Frank, BROWN Keith. Investment analysis and portfolio management, tenth edition ISBN 13: 978-0-538-48238-7
4. Robu, V.; Ciora, C. (2010) Measuring Performance, Value Creation and Value-Based Management in the Context of Competitiveness and Globalization, Annals of the University of Craiova, Economic Sciences Series, Vol II

5. ȚIRIULINICOVA Natalia, MUNTEAN Neli. Financial statement analysis: course notes – Ed a 2-a. – Chișinău: ASEM, 2019. ISBN 978-9975-75-973-3
 6. <http://www.bvb.ro/>
 7. <https://asfromania.ro/>
 8. <https://finance.yahoo.com/>
 9. <https://purcari.wine/en/>
 10. <https://www.bnr.ro/>
 11. <https://www.cfainstitute.org/en>
 12. <https://www.forbes.com/#64083e3c2254>
 13. <https://www.investopedia.com/>
-

**Scientific adviser: MUNTEAN Neli, PhD, Assoc. prof.,
Academy of Economic Studies of Moldova,
Republic of Moldova, Chișinău, str. Bănulescu-Bodoni 61
e-mail: nelimuntean8@gmail.com**