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Relationship between profitability indicators and maximization market value added and intrinsic for the industrial companies

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Author's Photos





Author's short biographies

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Research interest:

• Advanced corporate financial management with emphasis on Investors' financial behavior, the investigations include contributions & latest theories in this field.

Work Experiences:

During the period 2012 to Present time, I have been involved in teaching Financial Management, Financial Mathematics, and Financial institution management to undergraduate and postgraduate students.

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I have supervised several graduate students' projects at Master's &(Ph.D.) levels in both the College of Administration and Economics.

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Secretary of the Academic Promotion Committee at the Islamic University, Department of Scientific Affairs.

Introduction

In this study, the relationship between indicators of profitability and maximizing the added market value and the real value of the industrial companies is examined, through the use of a number of indicators of profitability and measures of maximizing the added and real market value by relying on the financial statements and annual reports published in Iraq Stock Exchange.

Introduction

Value maximization is also a major goal for achieving other financial goals for the enterprise and maximizing the value of the company means maximizing shareholders' wealth by maximizing the market value of the share, as well as maximizing the real (intrinsic) value of the company Refers to the value of a company, stock, currency, or product as determined through fundamental analysis without reference to its market value and is It is usually calculated by adding the discounted future income generated by that company, stock or product to get its present value.

The Literature Review

A- profitability indicators

Profitability indicators are ratios used as a measure for the company to achieve a percentage profit at an acceptable level and the most important of these used indicators are the following:

1- Net profit margin

The net profit margin equation is:

$$NPM = \frac{EAT}{Net\ Sales} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 1$$

2- Basic earning power

The basic earning power equation is:

$$BEP = (EBIT)/(Total\ assets) \ldots\ldots\ldots\ldots\ldots\ldots\ldots 2$$

The Literature Review

3- Return on assets

It can be found through the following equation:

$$ROA = \frac{Net\ Income}{Total\ assets} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 3$$

4- Return on equity

The equation for return on equity is:

$$ROE = \frac{Net\ Income}{Common\ equity} \ldots\ldots\ldots\ldots\ldots\ldots 4$$

B- Added market value

The market value MVA can be expressed through the value of the shares minus the shareholders' capital), and it represents the difference between the company's market value and the total invested capital of the company, It is calculated by using the following equation:

MVA= Market value of shares- Equity capital provided by shareholders……5

The Literature Review

C- The real value

The real (intrinsic) is defined as the actual value of the company that will be compared later with the share price in the market to determine whether the company's share price is overvalued, undervalued, or fair value, using the following equation:

IC = Value of operations + Short term investments…….6

D- Hypotheses

H1: There is an effect of profitability indicators on maximizing the added market value of companies.

H2: There is an effect of profitability indicators on maximizing the real value of companies.

H3: There is an impact of profitability indicators on companies' value maximization.

The Study

A comparative analytical study of a sample of Iraqi companies listed in the Iraq Stock Exchange.

Research Question(s)

- Do positive profitability indicators affect maximizing the added market value of the researched companies?
- Do positive profitability indicators affect maximizing the real value of the researched companies?

Methodology

a. Research Type

The current research aims to study and test hypotheses related to the effect of a number of variables that express the independent variable, which is (profitability indicators) on two dependent variables (added market value and real value).

Methodology

B. research Community and sample

The community included industrial companies operating in Iraq and listed in the financial market, and samples were taken by taking a set of published financial statements for fourteen companies 2011-2022.

Methodology

c. Data collection technique

The primary data obtained in this research are historical financial data covering the period 2011-2022, and the researchers obtained them directly through the data published in Iraq Stock Exchange, as well as the financial reports of the researched companies.

Results

1- Testing research hypotheses

A. Testing the nature of the data

The data normal distribution test was used to ensure that the research variables follow the normal distribution or not? In order to be able to include it later within the regression model, Through the results, we notice that the value of (Asymp) is not significant for the two variables, indicators of profitability and maximizing the added market value, as it amounted to (0.875) and (0.150), respectively. As for the real value variable, it was significant, as it amounted to (0.003), because the value of (Sig <0.05) and from these results it can be concluded that most of the data are normally distributed.

Results

B. Testing the Multiple linearity

In order to ascertain whether the regression model between the independent variables has resulted in a close correlation, in this paragraph the multiple linear relationship test was resorted to because the lack of a strong correlation between the independent variables within the regression model with the dependent variable is considered statistically acceptable, and from Table (3) we note the results mentioned in it indicate that the value of the variance inflation factor (VIF) for the variables (X1, X2, X3, X4) is smaller than (5), so it can be said that there is no multiple linear problem between the independent and dependent variables.

Results

c. Testing Correlation

By conducting the correlation test, we note that the correlation between profitability indicators and maximizing the total value of industrial companies (added and real market) was moderately direct with a value of (24.3%).

Results

2- Regression Analysis

a. Testing Determination coefficient

The statistical tool (R2) of the coefficient of determination shows the extent of the model's ability to explain the variation of the dependent variable, we note that the value of (R Square) amounted to (0.059), meaning that the indicators of financial profitability explain what its value is ((5.9%) of the value maximization of the research sample companies, as (94.1%) of the influences are due to other variables not included in our research model.

Results

B. Hypothesis testing

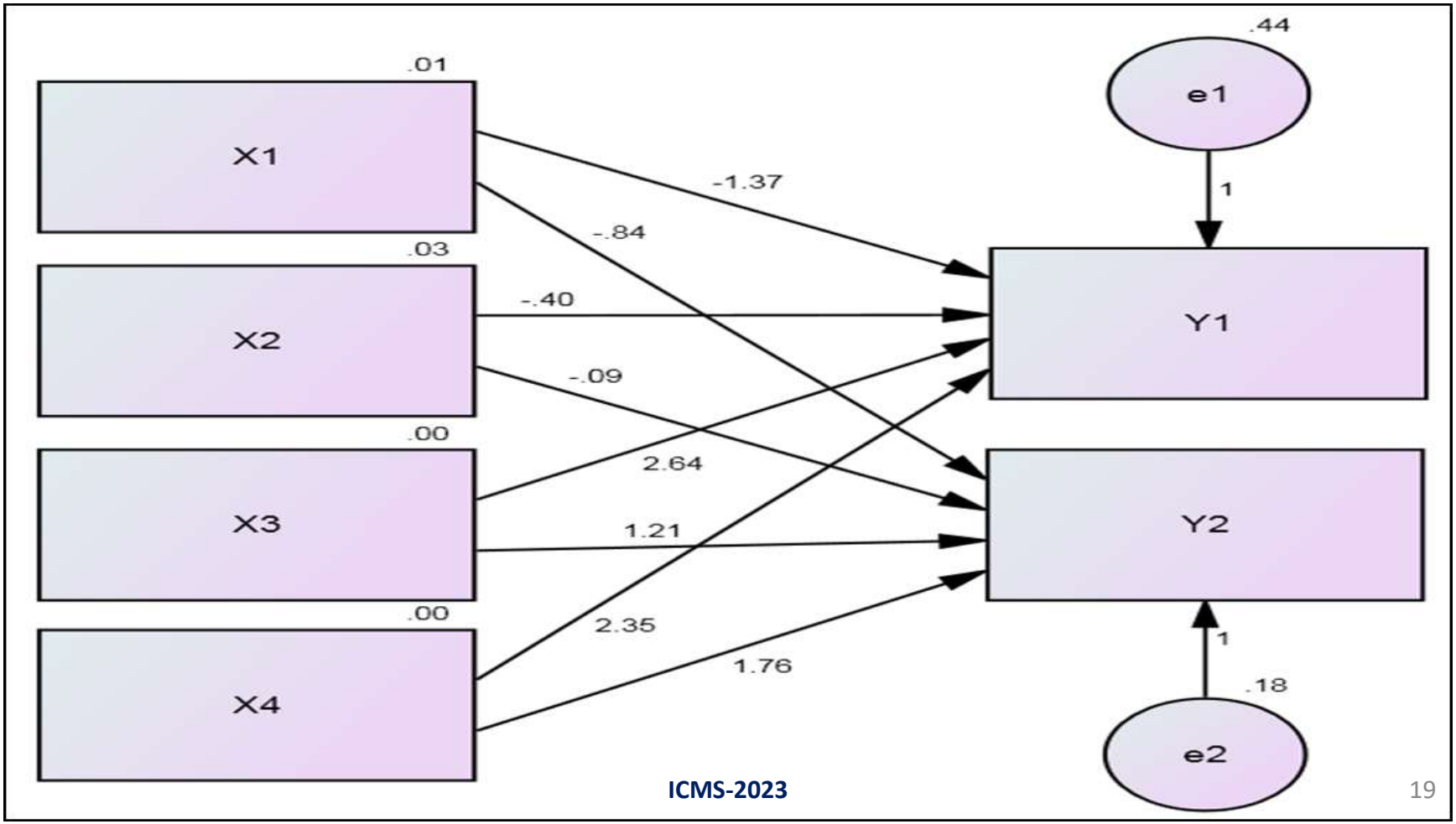
In order to test the reliability of the independent variable statistics, a (t-test) was conducted, It can be seen that the value (t) of the Net Profit Margin amounted to (-2.023), and also that the value of (t) for the Basic Earning Power Ratio amounted to (-1.294), as well as the value of (t) for the rate of return on Assets (ROA) amounted to (2.037), and finally the value (t) of the rate of return on equity (ROE) amounted to (1.425), and when comparing these values with the tabular value, we find that some are less and others are greater, and on the basis of that; formulating the regression model for the first dependent variable is as follows:

$$Y1=9.359-1.370X1-0.402X2+2.637X3+2.353X4+e$$

$$Y2=8.884-0.841X1-0.089X2+1.207X3+1.763X4+e$$

Results

The multiple relationships between the independent variable, the profitability indicators and its different dimensions on the two dependent variables, the market value added and real, can be expressed through the following figure:



Results

3- Testing Reliability by Simultaneous Statistic

In this section, an analysis of variance test (F-Statistics - ANOVA) is performed, which was obtained by conducting the (F) test, we find that the calculated value (F-Calculate > F-Table) using a confidence level (95%), and thus (H:0) is rejected, and this means that there is an effect between indicators Profitability, market value added. The real value of industrial companies in the research sample, and the alternative hypothesis (H:1) is accepted because (Sig ≤5%).

Discussion

From the results of this research, we conclude that researched companies, trending to which they tend to maximize the value of any of the two types that have been studied, which are (added market and real value), and the reason for this may be attributed to financial indicators that have a direct relationship with investors, which is reflected in management decisions, in contrast to the real value variable, which is directly related to the value of operations of the surveyed companies and the nature of their investments.

Implications

- The profitability indicators adopted by the researched companies have varying effects on maximizing the market value or maximizing the real value.
- The focus was on the rate of return on assets when maximizing the added market value, and relying on the rate of return on property rights when maximizing the value.

Suggestions for Further Research

- As more studies must be done to discover more variables that affect the added market value and maximize the real value of industrial companies.
- It is also necessary to pay attention to the indicators of profitability that work on the clear impact on the variables of the study, specifically the rate of return on assets and the rate of return on equity.

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