

Firm's Financial Performance: Case Study of the Philippine Property Sector



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ABSTRACT: This study evaluates the financial performance of Philippine property sector companies. It also aims to help these businesses make informed financing choices that may affect their financial performance. This study is based upon Alexander Wall's (1919) theory of ratio analysis. The researcher employed historical design study. Using 2015–2021 financial data, the research examined all PSE property-related companies. The panel data analysis using a random effect parameter of the Linear Mixed Model was employed to examine time series of cross-section observations. According to this study, the average return on assets (ROA) over the course of six years was 0.05, indicating that the firm earned an average of five cents in profit per peso of assets held. The mean return on equity for the entire period is 0.05. The mean capital gains yield of the companies for the 6 years ranges from 0.12 to 0.19. It can be concluded that the property sector in the Philippines has demonstrated resilience. It is recommended that the PSE listed companies under the Property Sector may find the findings of this study helpful in formulating financing strategies that account for the impact of financial structure on their financial performance.

194 words

KEYWORDS: Financial Performance, Philippine property sector

1.0 INTRODUCTION

Over the years, the Philippine property sector has made a major economic contribution to the nation. The local economy has been greatly impacted by the real estate sector, which is one of the fastest-growing in the Philippines (Bondoc, J. R., 2023). With a projected gross value added of 536 billion Philippine Pesos in 2022, the real estate sector is a major engine of the country's economy. Overseas Filipino workers (OFWs) have been sending home consistent remittances, which has led to a gradual increase in Filipinos' purchasing and investing power in real estate in recent years, since the country's middle class is expanding (Statista, 2023).

The crippling effects of the Covid-19 pandemic in 2020 and 2021 caused significant damage to the Philippine real estate market, which is now starting to recover. Although recovery rates vary amongst submarkets, there is optimism that, provided sound economic policies are put in place and macroeconomic growth is sustained, the sector will probably recover more quickly after 2024. (Bondoc, J. R., 2023).

These insights have encouraged the researcher to examine the financial performance of Philippine Stock Exchange listed firms under the property sector. It focuses on the firms' return on assets, return on equity, and capital gains yield. It tries to shed light on the landscape of the property sector from the year 2015 to 2021.

2.0 THEORETICAL AND EMPIRICAL BACKGROUND

This study on "the firm's financial performance: Case study of the Philippine property sector" is grounded on the ratio analysis theory by Alexander Wall (1919).

German scholar Alexander Wall first proposed using ratios as a tool for financial analysis back in 1919. The systematic application of ratios to interpret financial statements to ascertain a company's strengths and weaknesses, past performance, and present financial status is known as ratio analysis (Damjibhai, S., 2016). Financial performance is measured through return on assets, return on equity, and capital gains yield.

Return on equity (ROE) and return on assets (ROA) are two key measures to determine how efficient a company is at generating profits (Furhmann, R., 2021). A capital gains yield is the rise in the price of an investment such as a stock or bond, calculated as the rise in the security's price divided by the original price of the security (Chen J., 2021).

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3.0 RESEARCH OBJECTIVES

The researcher aims to examine the financial performance of the Philippine property sector in terms of return on assets, return on equity, and capital gains yield.

4.0 METHODS

The researcher conducted a historical design study. This methodology entails the systematic and impartial gathering, evaluation, and integration of data to establish historical veracity and derive conclusions. In order to demonstrate the relevance of past events to the present, a historical investigation is conducted (Mistry, S., 2021).

The data set contained all companies listed on the Philippine Stock Exchange that belong to the property sector. The researcher used the audited annual financial statements obtained from SEC I-view database and website of the company in gathering data. The analyses of the study will be based on the values of the firms' various ratios from 2016-2021 and year-end stock prices from 2015-2021 obtained from PSE Electronic Disclosure Generation Technology (EDGE).

The panel data analysis using a random effect parameter of the Linear Mixed Model was employed to examine time series of cross-section observations. Panel data are observations of some of the same subjects over a specific period of time.

The model used in this study is expressed in Equation 1-3.

$$(1) \quad \text{Return on Asset}_{i,t} = \alpha_0 + \beta_1(\text{Debt Ratio})_{i,t-1} + \beta_2(\text{Debt to Equity Ratio})_{i,t-1} + \beta_3(\text{Short Term to Total Assets})_{i,t-1} + \beta_4(\text{Long Term to Total Assets})_{i,t-1} + \mu_i + \lambda_t + u_{it}$$

$$(2) \quad \text{Return on Equity}_{i,t} = \alpha_0 + \beta_1(\text{Debt Ratio})_{i,t-1} + \beta_2(\text{Debt to Equity Ratio})_{i,t-1} + \beta_3(\text{Short Term to Total Assets})_{i,t-1} + \beta_4(\text{Long Term to Total Assets})_{i,t-1} + \mu_i + \lambda_t + u_{it}$$

$$(3) \quad \text{Capital Gains Yield}_{i,t} = \alpha_0 + \beta_1(\text{Debt Ratio})_{i,t-1} + \beta_2(\text{Debt to Equity Ratio})_{i,t-1} + \beta_3(\text{Short Term to Total Assets})_{i,t-1} + \beta_4(\text{Long Term to Total Assets})_{i,t-1} + \mu_i + \lambda_t + u_{it}$$

where $i = 1, \dots, N$; $t = 1, \dots, 6$; and u_i is referring to the unit variable and λ_t is referring to the time variable. The α_0 is constant term and u_{it} is an error term.

5.0 RESULTS AND DISCUSSION

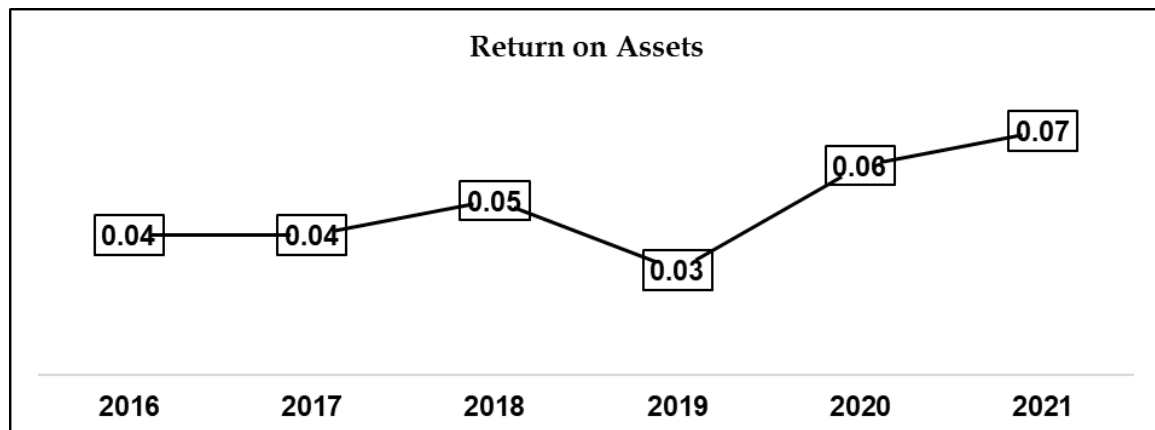


Figure 1.1 Companies' Financial Performance in Terms of Return on Assets (ROA)

Table 1.1 shows the mean ROA for each year from 2016 to 2021. The mean ROA for the six years is 0.05, which indicates that, on average, the company generated 5 cents in profit for every peso of assets it possessed. The data indicates that the mean ROA of firms has fluctuated widely over the six years. The highest mean ROA was in 2021, at 0.07, while the lowest mean ROA was in 2019, at 0.03. These fluctuations may be due to a variety of factors, such as changes in the industry, economic conditions, or internal management decisions (Kurniawan, A., 2021).

The fluctuating ROA values suggest that the companies' financial performance has been inconsistent over the six years. A company with inconsistent financial performance may have difficulty attracting investors or maintaining investor confidence. Additionally, the variability in ROA suggests that the company may be exposed to more risk than some of its competitors (Almira, N. P. A. K., & Wiagustini, N. L. P., 2020).

According to the industry leader in real estate brokerage and consulting, KMC Savills (2021), the Philippine real estate sector will recover in 2022. Additionally, real estate acquisitions and investments are anticipated to increase in 2022, assisted by rising foreign direct investments. Although a temporary setback was caused by the pandemic, the market is gradually recovering. Adapting to the new norm, developers are placing an emphasis on health-conscious and sustainable designs. The increase in consumer demand for residences featuring ample space and verdant spaces can be attributed to the change in preferences that has occurred since the end of the pandemic (Team, K., (2023)).

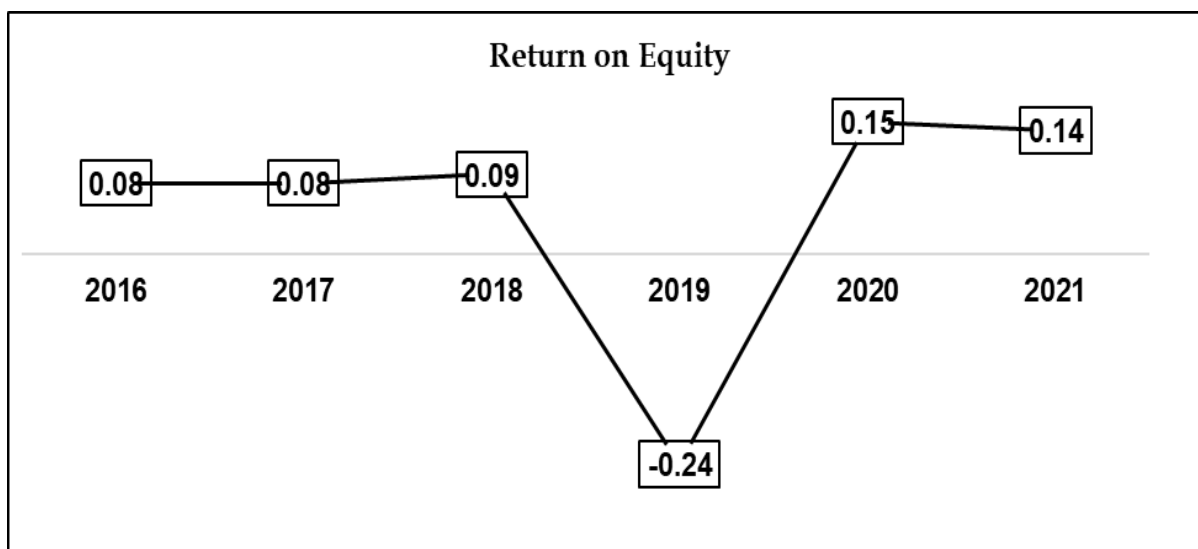


Figure 1.2 Companies' Return in Terms of Return on Equity

Figure 1.2 shows the companies' return in terms of return on equity for the 6 years from 2016 to 2021. The table presents the mean values for each year's return on equity. From the table, the results showed that the companies' return on equity has fluctuated significantly over the years, ranging from 0.08 to 0.14 in 2021. The mean return on equity for the entire period is 0.05.

One possible explanation for the fluctuating return on equity of firms could be changes in their financial and operational strategies over the years. It is also possible that external factors such as economic conditions and industry competition have played a role in shaping the company's performance (Devi, S., Warasnasih, N. M. S., & Masdiantini, P. R., 2020).

The reported financial challenges encountered by the firms during that period are corroborated by the negative return on equity of 0.24 in 2019, notably lower than the figures above for the other years. This is further supported by the findings of Loria J. (2021), which detail the substantial impact of the pandemic on the real estate sector through a decline in annual revenues in 2019 and 2020. Nevertheless, the subsequent rise in return on equity in the following years suggests that the companies have attempted to tackle their financial difficulties and enhance their performance.

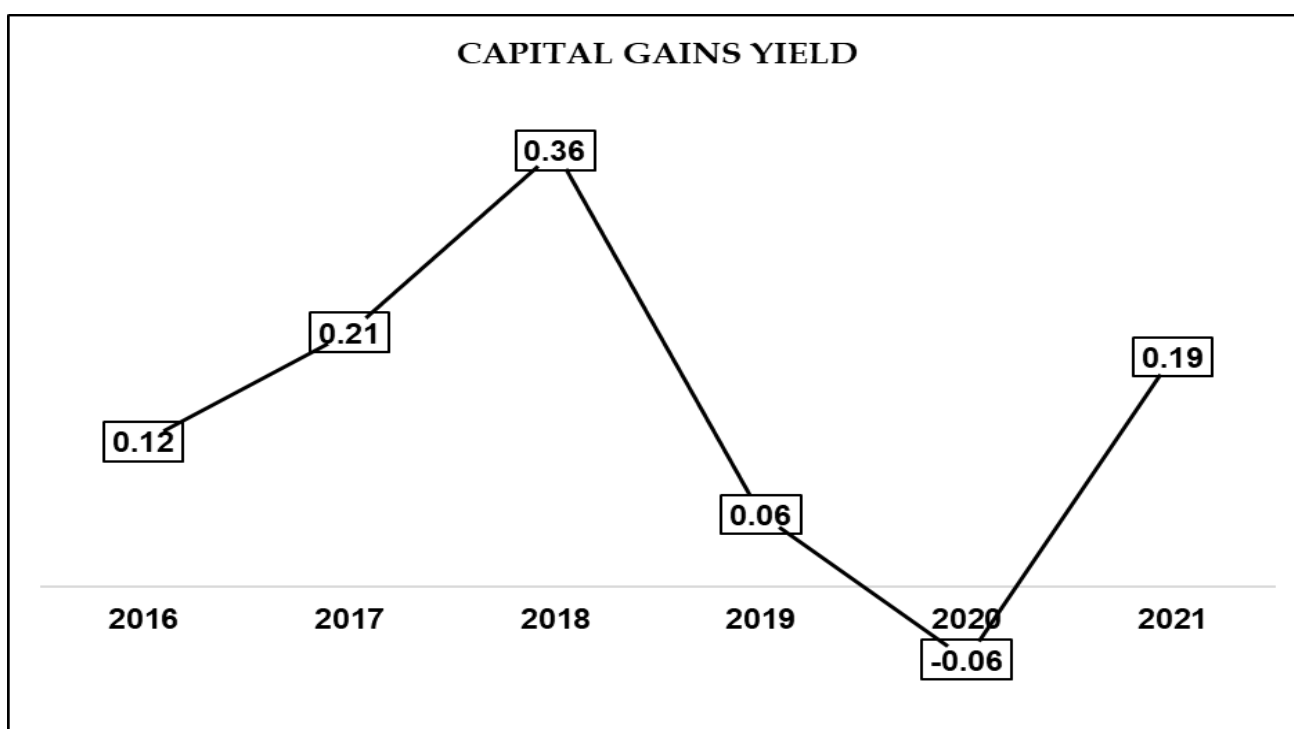


Figure 1.3. Companies' Return in Terms of Capital Gains Yield

The figure above showed the mean capital gains yield of the companies for the 6 years ranging from 0.12 to 0.19 in 2021. The capital gains yield of a company is affected by various factors such as changes in market conditions, financial performance,

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and investor sentiment. Looking at the values in the table, we can see that the capital gains yield for the companies fluctuated over the years with a mean of 0.15. The highest value was recorded in 2018 at 0.36, while the lowest was in 2019 at -0.06.

Investors rely heavily on the capital gains yield as an indicator to assess the profitability of their company investments. An increased capital gains yield signifies better returns for the investors. Many factors, including shifts in investor sentiment, changes in economic conditions, or shifts in company performance, contribute to the variability observed in the capital gains yield of firms. (Paudel, S. R., 2019).

Jake Levin (2021) posits that investments with a high added value generally generate the most substantial financial gains, whereas investments with a low-risk profile offer a steady but moderate return. Commercial real estate and office properties are two historically underperforming options that provide exceptional upside potential for gains from real estate once Covid normalizes. During a recovery, industrial real estate, data center operators, and multifamily housing providers are additional sectors where values may recover rapidly. However, the end of the pandemic is not precisely predicted, and it is difficult to predict the future of each sector within the investment real estate industry.

6.0 CONCLUSION

Property sector in the Philippines has demonstrated resilience. It has recovered from the decline in financial performance experienced throughout the COVID-19 pandemic. It is shown in the Return on equity (ROE) and return on assets (ROA) the two key measures to determine how efficient a company is at generating profits (Furhmann, R., 2021). The capital gains yield also demonstrated the appreciation in value of an investment, such as a bond or stock (Chen J., 2021).

7.0 RECOMMENDATION

PSE listed companies under the Property Sector. That they may find the findings of this study helpful in formulating financing strategies that account for the impact of financial structure on their financial performance.

Future Researchers. That they may conduct additional research on the other sectors of the economy traded on the Philippine Stock Exchange to assure consistency across industries.

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