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Performance of publicly listed companies in 1999

This article discusses the operations and financial position of publicly listed companies in Iceland. Finance and insurance companies are excluded from the survey, which covers all the other 53 companies listed on Iceland Stock Exchange (ISE) at the end of 1999. The profitability picture is similar to last year, only slighter less favourable. There is a more marked difference in performance among companies than before, and also in sectoral performance. External conditions in general were less favourable last year than in 1998. It is interesting to note that financial cost decreased substantially between 1998 and 1999, despite relative growth in companies' long-term debt.

The external environment of business changed considerably last year. Continuing high growth during 1999, for the fourth consecutive year, fuelled demand for goods and services supplied by domestic companies. However, inflation accelerated in the course of the year. The Central Bank responded to this development with fairly large rises in its policy interest rates which caused the króna to appreciate by 2.8% from the beginning to the end of the year. Short-term domestic market interest rates subsequently rose, resulting in higher financial costs among businesses with domestic-denominated current liabilities. Offsetting this was the fact that companies could earn higher interest than before on their liquid assets and bank deposits. The stronger exchange rate created a somewhat tighter position for companies competing against imported goods and services. The real exchange rate, measured in unit labour cost, rose by 1.2% between the annual averages for 1998 and 1999, and in terms of relative consumer prices by 2.1%.

Prices of major foreign inputs rose sharply last year. Imported commodities other than oil began to rise in spring 1999 after successive decreases since spring 1997. Oil prices, however, started to rise before other commodities, at the end of 1998. World market prices of fuel and petroleum products spiralled last year, with crude oil increasing by 150% and petrol by 125%. Such rises have particularly large consequences for Iceland's fisheries and transportation companies and have a significant impact on their profitability. Elsewhere in the commodities market, rising aluminium prices had a positive effect on the profitability of aluminium manufacturing companies. The price of ferrosilicon remained low during the year.

Icelandic companies have clearly had to absorb substantial cost increases recently in the form of higher wages, material input costs and other production costs, along with higher interest rates. The stronger króna has also constricted operating conditions, especially for businesses engaged in foreign competition, and they have responded with ongoing operational streamlining, restructuring and gains in productivity. Another factor at work is the stringent demands for profitability and operational results that Iceland's active equities market makes towards companies listed on it.

Total turnover of companies listed on ISE

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Table 1 From financial statements of publicly listed companies on ISE 1998-1999

All plc companies except finance & insurance companies	*1999 m.kr.*	*1998 m.kr.*	*% ch. 98/99*
Turnover	286,922	251,662	14.0
Profit before financial expenses and depreciation (Gross profit)	20,293	21,988	-7.7
Profit before financial expenses (Operating profit)	6,530	9,839	-33.6
Profit on regular operations	5,369	4,901	9.6
Net profit after tax	6,648	6,805	-2.3
Total assets	295,999	234,951	26.0
Equity	97,942	82,503	18.7
Long-term debt	99,555	79,209	25.7
Cash flow	15,098	16,653	-9.3
Financial ratios			
Gross profit/turnover (%)	7.1	8.7	.
Operating profit/turnover (%)	2.3	3.9	.
Profit on reg. operat./turnover (%)	1.9	1.9	.
Net profit/turnover (%)	3.2	3.4	.
Return on total (%)	2.2	4.2	.
Equity ratio (%)	33.1	35.1	.
Return on equity (%)	6.8	8.2	.
Turnover/total assets	0.97	1.07	.

amounted to 287 b.kr. in 1999, an increase of 14% from 1998. Profit before financial expenses declined somewhat relative to turnover, while the ratio of profit on regular operations to turnover remained unchanged between the years at 1.9%. The ratio of net profit after tax decreased slightly between the years, as did the ratio of cash generated by operating activities (working capital provided by operating activities), from 6.6% to 5.3% in 1999. This marginal decline in profitability last year, coupled with a large rise in assets (26%), caused return on capital employed ratios to fall: return on total capital (operating profit/total assets) dropped, as did return on equity, which decreased from 8.2% to 6.8%. The equity ratio decreased from 35.1% in 1998 to 33.1% last year. Gearing rose somewhat at these companies, with the ratio of long-term debt to equity rising from 0.96 in 1998 to 1.02 in 1999.

All the above shows a rather less favourable total profitability picture than in 1998, although no radical change is involved. Primarily, the difference lies in a lower gross profit to turnover and operating profit. The main factor at work is that three major fisheries companies and one industrial manufacturing company in this group produced much poorer operating results last year than in 1998, down by almost 3 b.kr. On the other hand, financial expenses fell sharply compared with 1998. Net financial expenses amounted to just under 5 b.kr. in 1998 but only 1.2 b.kr. last year. This reduction of three-quarters between the years is a very interesting outcome given that long-term borrowing rose by 26% at the same time. The explanation is that the króna appreciated by 2.8% in the course of the year, and a substantial amount of the companies' long-term borrowing is denominated in foreign currencies, combined with the fact that they clearly applied active and successful management of their monetary assets and liabilities. Total depreciation amounted to 12 b.kr. in 1998 but 13.8 b.kr. last year, which is unchanged as a proportion of turnover.

Of the 53 companies covered in this survey, 32 produced an improved performance last year compared with 1998. Performance varied widely from one company to another, spanning the range from a 20% ratio of profit to turnover, to a loss of more than 35%. This is the widest spectrum ever recorded in performance on companies listed on ISE.

Some difference occurred in the profitability of individual sectors last year. As a whole, fisheries companies were around the break-even point, as were the seafood export companies while other sectors produced fairly good and improving results. The ratio of profit on regular operations to turnover (with 1998 figures in parentheses) was highest among the oil companies at 5.9% (4.1%), 3.5% in manufacturing (5.2% excluding Icelandic Alloys, and 3.9% 1998), 3.5% in transportation (1.1%), 3.2% in software (2.2%) and 2.1% among various retail and service companies (0.1%).

Fisheries companies

A total of 19 fisheries companies are currently publicly listed, one fewer than at the end of 1998. Their total turnover amounted to just under 53 b.kr. in 1999, down by 7.4%. This figure is equivalent to 51% of the total export turnover of Iceland's entire fisheries sector last year. The decrease between the years is largely explained by much lower turnover by

Table 2 Publicly listed fisheries companies 1999

	1999 m.kr.	*1998 m.kr.*	*% ch. 98/99*
Turnover	52,719	56,958	-7.4
Profit before financial expenses and depreciation (Gross profit)	7,234	10,112	-28.5
Profit before financial expenses (Operating profit)	520	4,323	-88.0
Profit on regular operations	-287	1,799	-115.9
Net profit after tax	-29	2,705	-101.1
Total assets	102,324	86,764	17.9
Equity	33,442	31,525	6.1
Long-term debt	46,270	38,259	20.9
Cash flow	4,222	7,306	-42.2
Financial ratios			
Gross profit/turnover (%)	13.7	17.8	.
Operating profit/turnover (%)	1.0	7.6	.
Profit on reg. operat./turnover (%)	-0.5	3.2	.
Net profit/turnover (%)	-0.1	4.7	.
Return on total (%)	0.5	5.0	.
Equity ratio (%)	32.7	36.3	.
Return on equity (%)	-0.1	8.6	.
Turnover/total assets	0.52	0.66	.

companies engaged in fishing and processing of pelagics, with average prices of fish meal and fish oil plummeting by 46% between 1998 and 1998. Prices of other marine products, such as demersal fish products, were 5.8% higher on average in 1999, but the average price of all marine products was almost 5% lower. Falling average prices had a very marked impact on the whole fisheries sector operating environment, despite a 1% increase in catch value. The rise in fuel prices also had a negative impact on fisheries companies' operations during the year. Deteriorating external conditions are the main reason that gross profit decreased by 28.5% in króna terms between the years, and profit before financial items by even more, or 88%. After increasing from 16% to just under 18% over the period 1996-98, gross profit to turnover at listed fisheries companies shrank considerably last year, to 13.7%. Fisheries companies have been investing heavily over the past four years and the sector's fixed assets grew by almost 17% in 1999. Asset formation was particularly large in fishing vessels, venture capital and quotas. The book value of fishing quotas amounted to 15.6 b.kr. at the end of 1999, having increased by 29% between the years. Greater fixed assets naturally lead to higher depreciation relative to other expense items. Depreciation volume has been growing steadily in recent years and was equivalent to 10.2% of turnover in 1998 but had risen to 12.7% last year. Net financial expenses, on the other hand, dropped sharply from 3.8% of turnover to 1.3%. The decreasing contribution margin combined with the greater weight of depreciation caused profit on regular operations to contract sharply between the years, by 116%, and as a ratio of turnover from 3.2% in 1998 to -0.5% last year. Likewise, net profit to turnover contracted from 4.7% to -0.1%. This in turn led to a severe drop in return on capital and return on equity. The gearing ratio (ratio of long-term liabilities to equity) had been falling in recent years, but this trend was reversed last year and rose to 1.38, from 1.21 in 1998.

The equity ratio of listed fisheries companies also dropped for the first time in many years, to 32.7% at the end of 1999 from 36.3% at end-1998.

On the whole, the performance of listed fisheries companies was much worse than in the immediately preceding years. The cause of this downturn can largely be traced to losses at two of the 19 fisheries companies included in this sample, amounting to a combined 1.8 b.kr. Furthermore, the slump in fish meal and fish oil prices brought about heavy income losses for companies which base their operations on processing of pelagics. Companies which are mainly engaged in demersal fishing and processing performed much better, although not quite as well as in 1998. Demersal fisheries companies recorded a 2.9% ratio of profit on regular operations to turnover in 1999, compared with 3.7% the previous year, and net profit to turnover of 3.1% as against 5.7% in 1998.

It is important that these companies take advantage of the opportunities which have been created through investments and streamlining in recent years to turn their operations around; however, only 8 of the 19 fisheries companies in this sample produced a better performance in 1999 than the year before. More extensive mergers and collaboration are necessary between these companies in order to level out the operational risk in this sector, which is partly the result of fluctuations in product prices.

Manufacturing companies

A significant change took place last year in the character and basis of operations among listed manufacturing companies. Export activities and international expansion through overseas subsidiaries are becoming increasingly prominent features of their operations. Today, eight of the 14 manufacturing companies in question have established themselves in other countries to a lesser or greater extent, through exports or production overseas. Secondly, manufacturing companies involved in knowledge-based high-tech production have a high profile in this sector. Because of the nature of production at many of these companies, especially those based on high-tech, product development and research for export activities, they are much less prone to competitive factors which are reflected in the real exchange rate of the króna than companies that manufacture solely for the domestic market.

Turnover increased by just over 15% at manufacturing companies last year, or by 19% if Icelandic Alloys is excluded. The negative performance of Icelandic Alloys, caused by power curtailments and low ferrosilicon prices, had a marked impact on the overall performance of the manufacturing sector companies last year. The ratio of turnover to gross profit decreased somewhat for all companies, from 9.4% in 1998 to 7.1% in 1999, while turnover to profit on regular operations also fell between the years, from 3.9% to 3.5%. The cost of inputs rose slightly relative to total turnover, from 47.1% in 1998 to 49.7% in 1999, in part because of the rise in commodity prices. Wage expenses, however, rose in pace with turnover, so that as a rule they have not proved to be an added burden on operations. Depreciation increased somewhat, since permanent fixed assets grew sharply last year, or by almost 32%. As a whole, book asset value rose by 32%, which gives some indication of the asset formation and growth among the companies in question. Long-term liabilities also increased substantially, or by 49%, at the same time as the long-term debt to equity ratio showed a considerable rise, from 0.58 to 0.70. The equity ratio decreased from 47.6% to 43.8%. Excluding the strong impact that the poor performance of Icelandic Alloys had on the manufacturing sector as a whole, these companies' performance improved noticeably between 1998 and 1999. The ratio of profit on regular operations to turnover rose from 3.8% in 1998 to 5.2% last year and net profit from 2.9% to 3.5%.

Clearly, the manufacturing industries listed on ISE do not give a very representative picture of the operating performance of the manufacturing sector as a whole. Thus it is inadvisable to draw too sweeping conclusions from the profitability picture that the listed manufacturers give. However, the figures give a definite sign that external operating conditions and the competitive environment did not seriously overburden these companies last year, as shown by factors such as wage developments, which remain unchanged, rising turnover and net gains on financial items. On the whole, then, operations of listed manufacturing companies flourished last year. In all, eight of the 14 manufacturing companies in the sample recorded an improvement in profitability in 1999. It is interesting to note that the companies which have established themselves overseas in new technology- and knowhow-based industries all show

Table 3 Publicly listed manufacturing companies 1999

	1999 m.kr.	*1998 m.kr.*	*% ch. 98/99*
Turnover	26,289	22,832	15.1
Profit before financial expenses and depreciation (Gross profit)	1,872	2,140	-12.5
Profit before financial expenses (Operating profit)	736	1,196	-38.5
Profit on regular operations	915	895	2.3
Net profit after tax	468	847	-44.8
Total assets	31,104	23,562	32.0
Equity	13,612	11,223	21.3
Long-term debt	9,629	6,482	48.6
Cash flow	1,072	1,502	-28.6
Financial ratios			
Gross profit/turnover (%)	7.1	9.4	.
Operating profit/turnover (%)	2.8	5.2	.
Profit on reg. operat./turnover (%)	3.5	3.9	.
Net profit/turnover (%)	1.8	3.7	.
Return on total (%)	2.4	5.1	.
Equity ratio (%)	43.8	47.6	.
Return on equity (%)	3.4	7.6	.
Turnover/total assets	0.85	0.97	.

greater turnover growth and profitability than those engaged in traditional manufacturing

Other companies

The software companies listed on ISE typically produced successful operating results last year. Turnover at these five companies grew by just under 18% between the years, profit on regular operations by 69% and net profit by 120%. The ratio of profit to turnover also rose significantly. Profit on regular operations to turnover rose from 2.2% in 1998 to 3.2% last year, and net profit to turnover from 2.3% to 4.3%. Their balance sheet strengthened considerably too, with return on equity rising from 16% in 1998 to 22%, the highest figure for any individual sector on ISE. Cash generated by operating activities also rose by one-quarter during the year

The main characteristic of the oil companies' operations in 1999 was a large increase in the price of inputs, with the US$ buying price of petrol rising by 125% from the beginning to the end of 1999. In spite of this massive rise in prices, oil company turnover increased by only 15% last year. Performance and profitability were much better in 1999 than the year before. Gross profit rose by 22% between the years As a ratio of turnover, the cost price of inputs remained unchanged between the years at 70.5%. Both profit on regular operations and net profit showed large growth, and so did return on capital employed. As a proportion of turnover, profit on regular operations increased from 4.1% in 1998 to 5.9%, and net profit from 3.5% to 4.8%. Improved profitability and higher returns are largely explained by greater operational efficiency, with a sharp drop in relative sales and distribution costs between the years, and net gains on financial items. Fixed assets have always represented a high proportion of the oil companies' assets, but this ratio decreased last year and was reflected in lower depreciation levels. The equity ratio remained unchanged while long-term liabilities to equity decreased. Return on capital employed increased from 5% in 1998 to 5.7% last year and return on equity from 8.6% to 11.5%. These figures show that oil companies apparently did not capitalize on soaring oil and petrol prices, but instead achieved higher profitability and returns through improved operational efficiency and more effective management of assets and debts.

Table 4 Publicly listed software companies

	1999 m.kr.	*1998 m.kr.*	*% ch 98/99*
Turnover	13,082	11,121	17.6
Profit on regular operations	415	246	69.0
Net profit after tax	563	255	120.3
Cash flow	665	535	24.4
Financial ratios			
Profit on reg. operat./turnover (%)	3.2	2.2	.
Net profit/turnover (%)	4.3	2.3	.
Equity ratio (%)	34.4	26.3	.
Return on equity (%)	21.8	15.8	.

Table 5 Publicly listed oil companies

	1999 m.kr.	*1998 m.kr.*	*% ch. 98/99*
Turnover	29,892	26,039	14.8
Profit on regular operations	1,774	1,079	64.4
Net profit after tax	1,439	919	56.7
Cash flow	1,992	1,642	21.3
Financial ratios			
Profit on reg. operat./turnover (%)	5.9	4.1	.
Net profit/turnover (%)	4.8	3.5	.
Equity ratio (%)	44.7	44.5	.
Return on equity (%)	11.5	8.6	.