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Research Article

Financial Resiliency of the Top Three Listed Companies in the Philippine Stock Exchange

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ABSTRACT

The adverse effects of the ongoing pandemic caused big corporations to incur financial losses, which resulted in shrinkage of sales, increasing costs, and retrenchment. The entities' financial resilience was questioned, challenged, and business operations were paralyzed during the pandemic. Based on their market capitalization, this paper examined the top three listed companies in the Philippine Stock Exchange's selected financial ratios if there were significant differences before and during the pandemic. Quantitative research using secondary data was used to quantify the mean and paired t-test based on the selected financial ratios. The results revealed that the current ratio, quick ratio, debt ratio, debt to equity, asset to equity, net profit margin, and return on assets had no significant effect on financial performance before and during the pandemic. Eventually, the return on equity showed a significant effect in the study. Therefore, presenting the findings, the study concluded that these companies were inefficient in generating profits and had a significantly high level of debt during the Covid-19 pandemic. Furthermore, a discussion about the benefits for the policymakers, potential and existing investors, and future researchers was also provided.

Keywords*: Financial resiliency, Philippine stock exchange, Quantitative research, Secondary data, Top three listed companies*

Introduction

The global economy suffered tremendously due to the economic shock brought by the Coronavirus 2019 (COVID-19), which infected millions of people worldwide, caused a significant loss of jobs, caused numerous firms to declare bankruptcy, and worsened the economic situation.

Central banks have been the first line of defense to maintain the integrity of the global financial system and support the global economy. International Monetary Fund (2020).

First, they have significantly loosened monetary policy by reducing policy rates, which have fallen to a historic low in industrialized economies. Second, Central Banks have added

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more liquidity to the financial system through open market operations. Third, several Central Banks have agreed to increase the provision of U.S. dollar liquidity through swap line agreements. Fourth, Central Banks have reactivated programs used during the global financial crisis.

The COVID-19 pandemic impacted many companies, affecting their financial performance in business operations and global manufacturing and supply chains. The challenges brought by the supply chains improved export activities and international transportation. The author argued that business has alternative ways to protect financial performance stability during operations (Nguyen, 2022).

Companies efficiently deploy their remaining financial resources and investment to maintain and reconstruct their strategies to accelerate recovery, which is how a company becomes financially resilient. The author contends that companies must adopt new technology to avoid losing profits (Sahebi et al., 2022).

During COVID-19, the Islamic banking financial sector showed evidence that it was unaffected. The author realized how resilient financial performance happens before and during the COVID-19 pandemic without experiencing a reduction compared to other business sectors (Candera and Indah, 2022).

The researchers further argued that the financial performance results might encounter decreasing or increasing ratios if they had healthy financial conditions before and during the pandemic (Candera et al., 2021)

During COVID-19, the pandemic reduced the general growth level of economic activity in many businesses. Individuals tend to avoid investment and cut losses by withdrawing investments from all industrial sectors worldwide. In addition, companies must try to protect their financial performance by making a comprehensive policy, especially for those affected by COVID-19 (Rababah et.al., 2020).

The current economic shock was brought on by forces unrelated to the economy. In other words, during the financial crisis, the company's concerns about information asymmetry made the company's critical information accurate. Although resources are scarce and national lockdowns have diminished value, innovative resource distribution is of the utmost significance during the COVID-19 pandemic (Hwang et al., 2021).

Two theories were raised concerning how companies are resilient to their financial performance: capital structure and inconclusive evidence theories that distinguish between capital structure and profitability (Mbahijona, 2016).

Capital structure describes the company's debt-to-equity or debt-to-capital ratio used to finance operations and assets (CFI, 2022).

The author will show the differences among the top three listed companies in the Philippine Stock Exchange and how their financial performance becomes resilient.

This study will also oppose two capital structure theories, the Trade-off, and the Pecking order theory.

The trade-off theory is determined by balancing benefits and the cost of debt (Khemiri et al., 2018, as cited in Bradley et al., 1984). In other words, companies should accumulate enough debt to maximize the benefits of debt tax shielding and reduce the risk of insolvency (Kraus, Lintzenberger, 1973; Scott, 1977; Kim, 1978). Serrasqueiro & Caetano (2014).

The Pecking Order Theory (as cited in Myers,1984; Myers, Majluf,1984) states that companies do not have a defined capital structure. To determine which theory provided the best foundation for capital structure decisions, the trade-off and pecking order theories have frequently been pitted against one another.

The Tenants of significant, publicly traded corporations have been the subject of numerous empirical research (Serrasqueiro & Caetano, 2014). Inconclusive evidence had no evidence of which of these top three listed companies in the Philippine Stock Exchange was resilient in its financial performance.

The principal author investigated the top three listed companies in the Philippine Stock Exchange affected by COVID-19 in their financial performance. The basis for the selection of the companies was their market capitalization. The investigation analyzed the selected financial ratios from two years before (i.e., the key performance indicators of 2018 and 2019) and two years during the COVID-19 pandemic (i.e., the key performance indicators of 2020 and 2021), using the annual report data disclosed by these companies.

Research Objectives

This paper sought to scrutinize the effects of the Covid-19 pandemic on the top three companies based on their market capitalization listed in the Philippine Stock Exchange before and during the pandemic, where the selected financial ratios were used. The collated financial ratios from 2018 to 2019 represented the pre-pandemic status, and 2020 to 2021 financial data served as the pandemic condition. The comparison results were further examined by testing whether there was a significant difference in the meaning of each variable before and during the pandemic and concluded if these top companies were financially resilient amidst the pandemic.

Moreover, the findings contributed to investors in the stock market and business owners, particularly owners of micro, small, and medium enterprises.

Methods

The study used a quantitative research approach with secondary data as the primary analysis source. According to Johnston's (2014) study, secondary data are gathered from various sources for a principal goal and are considered a suitable strategy during the inquiry.

This study was gathered manually from the Philippine Stock Exchange from 2018 to 2021 disclosures of annual reports after listing the top three listed companies from the PSE's website and its respective company websites. According to PSE edge, these companies were the top three with the highest market capitalization as of November 9, 2022, namely: SM Investment Corporation (SM), Banco De Oro (BDO), and SM Prime Holdings (SMPH), and hence, these mentioned companies were the focal source of data in this study.

This study employed accounting performance to measure the overall financial resiliency among the top three listed companies in the Philippine Stock Exchange. The comprehensive analysis of the financial performance was based on financial ratios in the study, such as Current Ratio (CR), Quick Ratio, Solvency Ratio, Debt ratio (DR), Debt-to-Equity Ratio (D/E), Interest Coverage, Asset to Equity Ratio (A/E), Net Profit Margin (NPM), Return on Assets (ROA), Return on Equity (ROE).

Table 1. Market Capitalization of the Top Three Companies Listed in the Philippine Stock Exchange as of November 9, 2022.

Company	Market Capitalization
SM	1,107,945,457,214.00
BDO	1,002,109,339,781.80
SMPH	580,622,866,022.50

Result and Discussion

This study examined the financial resiliency among the top three listed companies in the Philippine Stock Exchange from 2018 to 2021. Financial performance indicators were measured using the selected financial ratios.

Comparison Before Pandemic and During Pandemic's Financial Ratio

Table 2 below used a paired t-test to determine the difference between the mean of the Before Pandemic and During Pandemic Financial Ratios of the top three companies, where $v = 2$ as the degree of freedom and one-tailed test using $\alpha = 0.05$ based on their meaning in terms of the following components: Current Ratio, Quick Ratio,

Debt Ratio, Debt to Equity Ratio, Asset Ratio, Net Profit Margin, Return on Assets, and Return on Equity.

Table 2. Difference between Before the Pandemic and During the Pandemic's Financial Ratio

Financial Ratio		
Current Ratio	Before Pandemic	
	During Pandemic	0.0717
	t-statistic	**0.74**
Quick Ratio	Before Pandemic	
	During Pandemic	-0.027
	t-statistic	**-0.12**
Debt Ratio	Before Pandemic	
	During Pandemic	2.31
	t-statistic	**0.70**
Debt to Equity Ratio	Before Pandemic	
	During Pandemic	0.138
	t-statistic	**1.04**
Asset to Equity Ratio	Before Pandemic	
	During Pandemic	0.042
	t-statistic	**0.27**
Net Profit Margin	Before Pandemic	
	During Pandemic	4.15
	t-statistic	**2.45**
Return on Assets	Before Pandemic	
	During Pandemic	1.815
	t-statistic	**2.14**
Return on Equity	Before Pandemic	
	During Pandemic	3.59
	t-statistic	**2.96**

From the table, the current ratio had a difference between means of 0.0717 in favor of before the pandemic with a t-statistic of 0.74, which was less than the table value of 2.920. These values were not statistically significant; hence, the pandemic had no significant effect on the current ratio.

The quick ratio had a difference between means of -0.027 in favor of during the pandemic and had a t-statistic of -0.12, which was also less than the table value of 2.920. Though the increase in mean during the pandemic was evident in the data, the result of the t-statistic concluded that the change was not significant. Thus, the pandemic did not have a significant effect in terms of quick ratio.

The debt ratio also showed no significant effect before and during the pandemic, with a difference between a mean of 2.31 and a t-statistic of 0.70, less than the table value of 2.920.

Similarly, the debt-to-equity ratio with a difference between the mean of 0.138 and a t-statistic of 1.04, asset to equity ratio with a difference between a mean of 0.042 with a t-statistic of 0.27, net profit margin with a difference between the mean of 4.15 and t-statistic of 2.45, and the return on assets with a difference between the mean of 1.815 with t-statistic of 2.14 where their difference between means was in favor before the pandemic. The data also showed no significant effect before and during the pandemic since the computed t-statistics were less than the table value.

This implied that the pandemic did not bring substantial consequences regarding the current ratio, quick ratio, debt ratio, debt-to-equity ratio, asset-equity ratio, net profit margin, and return on assets. However, in terms of return on equity, a difference between the mean of 3.59 in favor before the pandemic and t-statistics of 2.96, which was greater than the table value of 2.920, showed a significant effect before the pandemic and during the pandemic. This showed that the top three listed companies were significantly affected by their profitability and efficiency in generating profits.

In summary, the result showed that the top three listed companies exhibited resiliency and stability even during the pandemic in terms of current ratio, quick ratio, debt ratio, debt to equity ratio, asset to equity ratio, net profit margin, and return on assets. Nevertheless, in terms of return on equity, the pandemic brought a statistically significant effect.

The study of Achim et al. (2022) shared the same findings concerning the return on equity ratio. They revealed empirical evidence from Romania that businesses showed significant reductions in the return on equity due to the increase in the degree of indebtedness. This implied that the pandemic's adverse effect hindered corporations from generating good returns of money and created negative perceptions of the investors towards utilizing the firm's equity. Another research finding corroborated the study's findings concerning return on equity. Limbong (2022) found that among 12 pharmaceutical companies studied, six companies obtained a decrease in return on equity; on average, the decrease in return on equity was 5%.

In contrast with the previous results, the result of the paper of Demirham and Sakin (2021) indicated that the listed non-manufacturing companies in Turkey resulted in a return on equity to be affected positively, which could be a signal that these companies were better at maximizing the equity that remained them financially resilient amidst the pandemic. Another published paper conducted a comparative analysis that compared the financial ratios of several construction companies in India before and during the pandemic (Daryanto et al., 2021). As indicated in the result, return on equity was revealed as one of the financial ratios with no significant difference. It meant that companies included in the analysis were not significantly affected in converting their equity financing into profits. Moreover, several scholarly reports indicated that return on equity was not significantly affected during the pandemic compared to before the pandemic (Purba & Nasuton, 2021; Aldomy et al., 2022; Dharmawn & Bisamala, 2022; Pramono et al., 2022).

Conclusion

Based on their market capitalization, the top three listed companies in the Philippine Stock Exchange can be concluded as financially resilient in terms of current ratio, quick ratio, debt ratio, debt to equity ratio, asset to equity ratio, net profit margin, and return on assets. The two years before the pandemic and two years during the pandemic were the bases of the analysis made by the researchers. The difference in the figures calculated using paired t-tests revealed no significance. It implied that these companies could withstand the ongoing pandemic. Moreover, based on the findings, it was evident that these companies had a strong foundation that quickly adapted to the disruptions brought by the pandemic while maintaining focus on their organizational objectives and goals.

On the other hand, among all selected financial ratios utilized in the study, the return on equity significantly differed between the data from two years before and two years during the pandemic. It signified that these companies were significantly affected to generate a substantial income using the firm's equity. Moreover, during the pandemic, it was typical for a company, regardless of size and industry, to increase its indebtedness since companies were not just prioritizing how to generate income but also protecting the welfare of their employees as well. Furthermore, it can be concluded that these companies were inefficient in generating profits and had a high level of debt during the covid-19 pandemic.

From this study, the findings were relevant to policymakers of a company, such as in the top or middle management. The findings will further guide them in what areas of a company's financial performance need to be addressed to execute a sound financial resiliency plan. The findings will benefit potential and existing investors of these companies because it would help them in their investment decisions if they wanted to invest in them; for potential investors or remain loyal to them for existing investors. Furthermore, future researchers could utilize this study to make it the primary reference in researching companies' financial performance before and during the pandemic. Finally, they could replicate this study and modify the companies, variables, and methodology.

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