ASSESSMENT OF MAIN LIST STOCKS AS AN INVESTMENT OBJECT IN THE BALTIC REGULATED MARKET

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Abstract. *The stock market, which could be seen as one of the types of securities market, is an unstructured environment in which every investor needs to understand how to invest. For a potential investor interested in shares as one of the objects of investment, it is possible to buy the shares and potentially earn despite the fact that an investment in shares is considered to be a very high-risk investment. The research aims to assess Baltic Main List stocks as an investment object in the Baltic regulated market. The research results showed that investors should assess and invest in the companies of the Baltic Main List on Nasdaq Vilnius and Nasdaq Riga if they plan to gain income from an increase in share prices and to assess and invest in the companies of the Baltic Main List on Nasdaq Tallinn and Nasdaq Riga if they plan to earn income from dividends. The author concludes that the use of an investment account has not been sufficiently popularised among individuals, which does not contribute to the development of savings culture in Latvia and in the other Baltic States. For the education of private investors and the promotion of making decisions on share purchases, it would be desirable for investors to offer summarised information on company shares and their characteristics on the Nasdaq website. The research employed general quantitative and qualitative methods for economic research, including comparative analysis and synthesis, statistical analysis and graphic analysis.*

Keywords: *stock market, investment, assessment, main list.*
JEL code: G11, O16.

Introduction

In the financial world, investment in shares is considered a very high-risk investment (Pelane, 2015), and a stock market is an unstructured environment in which every investor needs to understand how to invest (Spriņģis, 2016). If investing in financial assets, it is recommended investing the funds that are not immediately needed (Apinis, 2015) to buy shares when others want to sell them, investing no more than 5% to 10% of the savings in the shares, investing only in the companies whose field of activity is well known and making only long-term investments (10 years) (Grišins, 2018).

An analysis of the results of stock market research by foreign scientists (Zhang, 2017; Tsagkanos, 2017; Sivaramakrishnan et al., 2017; Zaremba, Shemer, 2018; Zhong, 2018) shows that the scientists focused on stock market development and the factors affecting it (stock liquidity, investor behaviour patterns, financial literacy, risks etc.). Research studies on the securities market of Latvia, including the stock market, focused on

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opportunities for agricultural companies to raise capital in the stock market of Latvia (Ķesteris – Mālkalns, 2007), trends and problems in the securities market of Latvia (Šnepste, 2011), development scenarios for the Baltic stock market (Žuka, 2009) and the effect of credibility of financial performance of Baltic companies on their share earnings (Grigorjeva, 2008).

The author believes that activity in the stock market could be raised by increasing the financial literacy of existing and potential investors. Financial literacy is a set of knowledge and skills that enables a person to understand and successfully manage their finances and take informed decisions on the choice and use of various financial services, thereby ensuring their private financial stability and sustainability (Latvijas iedzīvotāju…, 2014). Researching financial literacy (Sivaramakrishnan et al., 2017), it was concluded that the investor's behaviour was significantly influenced by unbiased financial literacy, i.e. the investor's actual knowledge.

In the author's opinion, the stock market as an investment object is undervalued. Investment in shares traded on the stock exchange could be one of the investment alternatives, which, in its turn, determines the need for financial literacy.

The Baltic regulated stock market is composed of the companies of the Main and Secondary Lists traded on all the Baltic stock exchanges: Nasdaq Tallinn, Nasdaq Riga and Nasdaq Vilnius. The author of the research has assessed the companies of the Baltic Main List that, compared with the companies of the Baltic Secondary List, are subject to quantitative requirements or restrictions on their capitalisation or the number of shares in free circulation.

The research aims to assess Baltic Main List stocks as an investment object in the Baltic regulated market.

Specific research tasks:

1. To examine changes in stock market prices in the Baltic States;
2. To assess investments in the companies of the Baltic Main List in the Baltic regulated market.

Analysis period: 2014-2018.

The research employed general quantitative and qualitative methods for economic research, including comparative analysis and synthesis, statistical analysis and graphic analysis.

Changes in stock market prices in the Baltic States

Every shareholder looks forward to the "value added" of his/her investments and to earning from two sources – share price increase or invested capital value increase and dividend payments. In the stock market,

more focus is usually placed on the shares whose price changes are the largest.

A stock market index is a measurement of the total value of the stock market or its section based on average prices. It represents a weighted average, as more expensive shares have higher weights and are more affected by the index than lower price shares. Investors use the stock index to identify the state of the market and compare gains from various investments (Capital.com, 2018).

The Nasdaq data (Figure 1) show that between 01/01/2014 and 31/12/2018, the stock market index OMX Riga increased by 101.9%, which was the best performance among the stock market indices of the Baltic States.

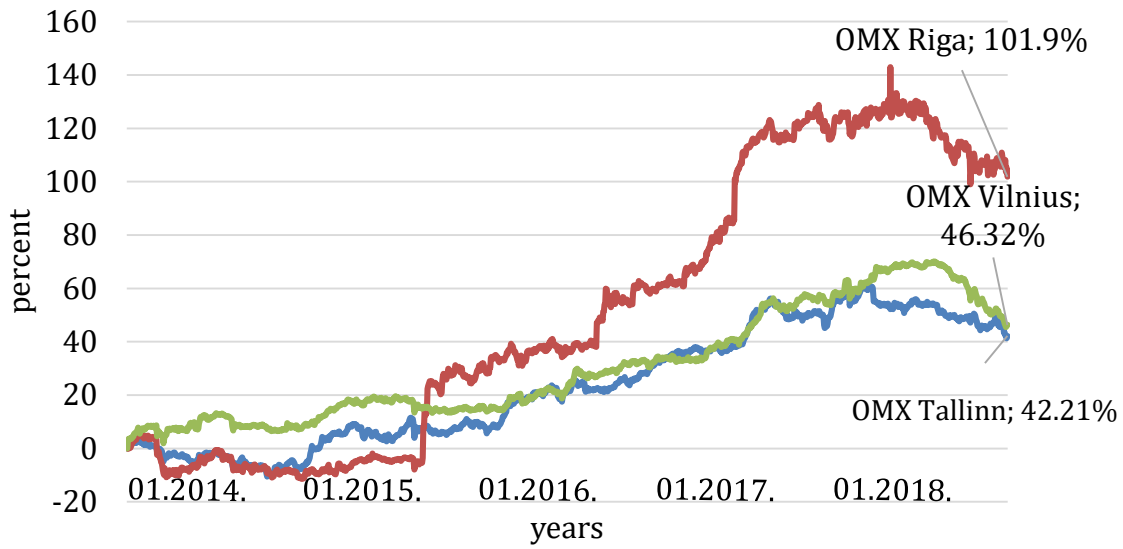

Fig.1 Changes in the Baltic stock market indices in 2014-2018, %
(compiled by the author based on Nasdaq, 2019)

In an assessment of the changes in share prices of companies in the Baltic regulated stock market in 2014-2018, the author included only the companies whose shares were traded on the stock exchange at the end of September 2019. In terms of share price increase in the period 2014-2018, the top three most liquid companies listed on Nasdaq Vilnius were as follows: JSC Šiaulių bankas, JSC AUGA group and JSC Grigeo (Table 1). In terms of share price decrease in the same period, the top three companies were JSC Baltika listed on Nasdaq Tallinn and JSC Pieno žvaigždės and JSC Panevėžio statybos trestas listed on Nasdaq Vilnius.

The author concludes that in the period 2014-2018 in the Baltic regulated stock market, the stock prices of Baltic Main List companies quoted on Nasdaq Vilnius increased the most.

Table 1 Stock prices of companies of the Baltic Main List in the Baltic regulated market in 2014-2018 (compiled by the author based on Nasdaq, 2019)

Share issuer, JSC	Share price change, %	Closing price, end of 2018	Highest price, EUR	Lowest price, EUR
Nasdaq Riga				
Grindeks	-28.62	6.5	10.5	3.96
HansaMatrix	9.66	6.5	8.83	6.05
Olainfarm	-5.06	6.7	11.5	5.5
SAF Tehnika	+1.91	2.32	7.92	1.41
Nasdaq Vilnius				
AUGA group	+100	0.4	0.645	0.195
Energijos Skirstymo Operatorius	-26.78	0.648	0.93	0.638
Grigeo	+87.41	1.325	1.585	0.675
Ignitis gamyba	+26.9	0.5	0.94	0.395
Klaipėdos nafta	+40.41	0.41	0.705	0.28
Linas Agro Group	-6.71	0.64	0.825	0.59
Novaturas	-31.03	8	12.78	7.9
Panevėžio statybos trestas	-33.45	0.752	1.34	0.75
Pieno žvaigždės	-50.27	0.93	2.13	0.91
Rokiškio sūris	+57.86	2.51	2.99	1.3
Šiaulių bankas	+205.53	0.401	0.564	0.262
Telia Lietuva	+8.05	1.105	1.17	0.7
Vilkyškių pieninė	+30.57	2.05	3.94	1.35
Nasdaq Tallinn				
Arco Vara	-19.54	1.12	1.6804	0.821
Apranga	-38.46	1.6	3	1.57
Baltika	-70.02	0.4087	1.5676	0.156
EfTEN Real Estate Fund III	+2.53	16.2	17.3	14.9
Ekspress Grupp	-8.77	1.04	1.47	0.789
Harju Elekter	+52.59	4.12	6.68	2.43
LHV Group	+34.76	9.4152	11.8437	7
Merko Ehitus	+27.78	9.2	11.8	6.7
Nordecon	-15.24	0.89	1.46	0.885
PRFoods	-12.86	0.61	0.855	0.349
Pro Kapital Grupp	-26.79	1.64	2.8	1.54
Silvano Fashion Group	-13.48	2.31	3.18	1.1
Tallink Grupp	+14.04	1.015	1.275	0.59
Tallinna Kaubamaja Grupp	+58.87	8.42	10.25	4.79
Tallinna Sadam	+5.81	2.04	2.179	1.91
Tallinna Vesi	-19.33	9.6	15.6	8.52

The Nasdaq statistical data indicate that in the period January-September 2019, the highest share price increase was reported for JSC Grindeks – 86.15% and JSC SAF Tehnika – 72.41%, whereas the lowest share

price decrease was reported for JSC Baltika – 71.5% (Nasdaq, 2019). The price fluctuation of company stocks in the analysis period was mainly determined by the microeconomic factors affecting stock prices (company financial situation, company management decisions etc.).

The author concludes that the investors who expect to gain from stock price increases should assess and invest in the companies of the Baltic Main List quoted on Nasdaq Vilnius.

In the author's opinion, if considering buying shares, a stock market price change assessment could be used to get an initial view of the company, yet a comprehensive analysis of the potential investment in the company should be performed before investing in the shares.

Assessment of investment in Baltic Main List shares in the Baltic regulated market

If an investor fails to earn on stock price increases in a short term, the investor has a chance not to make active investments in the hope of rising prices and to buy the stocks with the aim of receiving dividends. Investors whose preliminary knowledge of stock exchanges are not sufficient can buy stocks yielding high dividends (Apinis, 2015). In the period when the largest banks of Latvia are paying interest from 0.1 to 0.5% on a deposit, the acquisition of stocks of Latvian companies that pay dividends provides income from 2-3 to 8-10 percent a year, not to mention instances where the dividends sometimes reach 20% (Pavlovs, 2013).

Two groups of measures could be employed to assess investments in stocks:

- comparative measures of profit: earnings per share (EPS) and price earnings ratio (P/E);
- comparative measures of dividends: dividend per share and earnings per share (Dann, 2006).

Some researchers (Islam et al., 2014) have found that EPS is generally considered to be the most important factor in determining the price of shares and the value of a company and the majority of individual investors make individual investment decisions based directly on the EPS. Kumar (2017) pointed out that EPS is a strong predictor of share prices, while the P/E ratio can considerably affect forecasts of share prices of particular companies. Another researcher (Cochrane, 2011) believes that fluctuations in dividends relate to expected profits rather than expected increases in dividends.

EPS (Kumar, 2017) shows net profit per common share (Equation 1).

$$\text{EPS} = \frac{\text{reporting period net profit}}{\text{number of common shares issued}} \tag{1}$$

The P/E ratio (Kumar, 2017) indicates how much shareholders are willing to pay per unit of the company's net profit (Equation 2).

$$\mathrm{P/E} = \frac{\text{share price}}{\text{earnings per share (EPS)}} \tag{2}$$

Dividend yield (Investing Answers, 2019) is a measure of return on share investment or an "interest rate" (Equation 3).

$$Dividend\ yield, \% = \frac{\text{dividend per share}}{\text{share price}}\ x\ 100 \tag{3}$$

By buying the shares of a company, shareholders look forward to improvement in the financial position of the company and higher share yields. The author identified the dividends paid by the companies of the Baltic Main List in the Baltic regulated market in 2018 as an initial prerequisite for assessing investment in stocks (Table 2).

Table 2 Assessment of investment in the stocks of companies of the Baltic Main List in the Baltic regulated market at the end of 2018
(compiled and calculated by the author based on Nasdaq, 2019)

Share issuer, JSC	Share price, EUR	Dividend per share, EUR	EPS, EUR	Dividend yield, %	P/E
Grindeks	6.5	0.15	1.2	2.31	5.42
HansaMatrix	6.5	0.08	0.92	1.23	7.07
Silvano Fashion Group	2.31	0.5	0.30	21.65	7.7
Tallink Grupp	1.015	0.03	0.06	2.96	16.92
Ekspress Grupp	1.04	0.07	0.00	6.73	-
Tallinna Vesi	9.6	0.36	1.21	3.75	7.93
Nordecon	0.89	0.06	0.11	6.74	8.09
Merko Ehitus	9.2	1	1.09	10.87	8.44
Arco Vara	1.12	0.01	-0.06	0.89	-18.66
Harju Elekter	4.12	0.24	0.09	5.83	45.78
LHV Group	9.42	0.16	0.97	1.70	9.71
EfTEN Real Estate Fund III	16.2	0.68	1.96	4.20	8.27
Tallinna Kaubamaja Grupp	8.42	0.69	0.75	8.19	11.23
Pro Kapital Grupp	1.64	0.015	0.30	0.91	5.45

As shown in Table 2, an opportunity to earn dividends was provided by only 14 out of 33 companies of the Baltic Main List, which were quoted on the stock exchange at the end of September 2019, in the Baltic regulated market (at the end of 2018, 39 companies were quoted on the stock exchange). It has to be noted that the stock prices of companies included in

Table 2 were not among those included in Table 1 that performed the best or the worst. An analysis reveals that at the end of 2018, JSC EfTEN Real Estate Fund III had the highest share price, at EUR 16.20. Shareholders received the highest dividends from JSC Merko Ehitus; JSC EfTEN Real Estate Fund III had the highest EPS, while JSC Silvano Fashion Group had the highest dividend yield.

When making investments, investors often pay attention to the P/E ratio. According to the data on companies for 2018, a longer payback period for an investment at a given stock market price and current profit could be observed for JSC Harju Elekter – 45.78 years. JSC Arco Vara suffered losses in 2018; therefore, its EPS was negative. A payback period for an investment in the shares of JSC Grindeks at a given stock market price and current profit could be 5.42 years. The longer the payback period for an investment, the more expensive the shares of a given company could be considered.

As shown in Table 2, investors whose preliminary knowledge of stock exchanges are not sufficient could buy the shares of JSC Silvano Fashion Group (high earnings) and JSC Grindeks (short payback period for an investment). The share prices of JSC Grindeks increased the most in January-September 2019, which was determined by the dividends paid by this company that were the highest for the Baltic Main List in the Baltic States until the end of Septermber 2019, at EUR 1.28 per share. It has to be added that in 2019, one Nasdaq Tallinn company – JSC Šiaulių bankas – also paid dividends – EUR 0.029 per share. The author concludes that shareholders expecting to earn dividend income should assess and invest in the companies of the Baltic Main List on Nasdaq Tallinn and Nasdaq Riga.

From 1 January 2018 onwards, amendments to the law of the Republic of Latvia "On Personal Income Tax" (PIT) stipulate the investment account regime that makes it substantially easier for the natural persons who make transactions in financial instruments to calculate and declare the tax. According to the new investment account regime, PIT is not applicable if the amount of funds paid out of the account does not exceed the amount of funds paid in. The administrative burden for taxpayers is reduced in relation to transaction accounting and filing tax returns. However, if a person makes transactions in financial instruments but does not have a declared investment account, the regular procedure of PIT taxation is applicable to that person, which requires the person to quarterly or annually declare capital gains and to pay the PIT (Lasmane, 2018). In the author's opinion, the use of an investment account is not sufficiently popularised, which does not contribute to the formation of investment culture in Latvia and in the other Baltic States.

Experts admit that large and liquid companies are needed for faster development of the securities market of Latvia (Hāka, 2017). There are

considered opportunities to improve the situation in the capital market of Latvia and effectively employ "fintech" experience: lowering costs for holding/trading securities; lowering costs for share issuers and disclosing information (Kaužēns, 2018).

The activity of private investors in the domestic securities market, including the stock market, is very important and can significantly contribute to the development of the capital market as a whole. In the author's opinion, it would be desirable for investors to offer summarised information on company stocks and their characteristics to educate private investors and to facilitate their decision-making on the purchase of stocks.

Conclusions and suggestions

In terms of share price increase in the period 2014-2018, the top three most liquid companies of the Baltic Main List were quoted on Nasdaq Vilnius: JSC Šiaulių bankas, JSC AUGA group and JSC Grigeo. In terms of share price decrease in the same period, the top three companies of the Baltic Main List were JSC Baltika quoted on Nasdaq Tallinn and JSC Pieno žvaigždės and JSC Panevėžio statybos trestas quoted on Nasdaq Vilnius. In the period 2014-2018, the largest increase or decrease in stock prices or an increase or decrease in the value of invested capital was observed for the Baltic Main List of Nasdaq Vilnius. The fluctuation of stock prices in the analysis period was mainly determined by the microeconomic factors which affected the stock prices.

An analysis of the companies that paid dividends at the end of 2018 shows that the highest share price was reported for JSC EfTEN Real Estate Fund III, at EUR 16.20 per share. Shareholders received the highest dividends from JSC Merko Ehitus; JSC EfTEN Real Estate Fund III had the highest EPS, while JSC Silvano Fashion Group had the highest dividend yield. A payback period for an investment in the shares of JSC Grindeks at a given stock market price and current profit could be 5.42 years. Investors whose preliminary knowledge of stock exchanges are not sufficient could buy the shares of JSC Silvano Fashion Group and JSC Grindeks.

Based on an assessment of changes in stock prices and of dividends paid by the companies of the Baltic Main List in the Baltic regulated market in 2014-2018 and January-September 2019, investors should consider and invest in:

- the Baltic Main List on Nasdaq Vilnius and Nasdaq Riga if they plan to gain income from an increase in stock prices;
- the Baltic Main List on Nasdaq Tallinn and Nasdaq Riga if they intend to earn income from dividends.

The use of an investment account has not been sufficiently popularised among individuals, which does not contribute to the development of savings culture in Latvia and in the other Baltic States.

For the education of private investors and the promotion of making decisions on share purchases, it would be desirable for investors to offer summarised information on company shares and their characteristics on the Nasdaq website.

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