

## SECTION 11. ECONOMICS

### ACCELERATION OF PROFIT AS AN INDICATOR OF COMPANY'S INVESTMENT ATTRACTIVENESS (ON THE EXAMPLE OF THE HOSPITALITY INDUSTRY)

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As the main indicator due to which it is possible to evaluate the company's economic activity [1], the company's profit is undoubtedly the object of close attention of potential investors. The main purpose of the analysis of time series is to identify the existing patterns of development of the phenomenon under study and, if possible, to predict its future behavior. Thus, the analysis of the dynamic series of profits is an important component of the company's financial results analysis. The success of an investment directly depends on the ability to predict the success (or failure) of the selected investment object in the future. From the point of view of investors, prognostic indicators that can be calculated from open financial statements are of particular value.

In this study, we consider the peculiarities of using the indicator of accelerating profit as one of the possible indicators of the company's investment attractiveness, as well as the specifics of its use in the context of using the Ukrainian companies' open financial reporting capabilities.

*Table 1*

#### **Dynamics of profit of PJSC «Ternopil-hotel» for the period 2012-2018, th. UAH**

Financial results	Financial Report Row Code	Years						
		2012	2013	2014	2015	2016	2017	2018
Gross Profit	2090 (or 2095)	3663	2890	1831	3895	4865	5595	5658
Operating Profit	2190 (or 2195)	2351	1444	433	2209	2637	3199	2728
Profit before Taxes	2290 (or 2295)	1886	133	-1518	508	1297	2230	2403
Net Profit	2350 (or 2355)	1761	133	-1649	508	1069	1972	1981

Graphic exploratory analysis (Fig. 1) allows us to draw conclusions about the uneven development of the studied phenomena over time. So, comparing gross profit and operating profit, you can see first the slowdown in operating profit growth compared to gross profit (2014-2017), and then the decline in operating profit with continued growth in gross profit (2018). The reason for this may be unfavorable trends in the management of operating income and expenses not directly related to sales.

The absolute speed of growth (decrease) of the levels of a series is expressed as an absolute increase (basic or chain).

Absolute base increment:  $\Delta y_i^{basic} = y_i - y_0$ , where  $y_i$  – value of  $i$ -th level of the time series (considered);  $y_0$  – the value of the initial (basic) level of the time series.

Absolute chain increment:  $\Delta y_i^{chain} = y_i - y_{i-1}$ , where  $y_i$  – value of  $i$ -th level of the time series (considered);  $y_{i-1}$  – value of  $(i-1)$ -th level of the time series (previous).

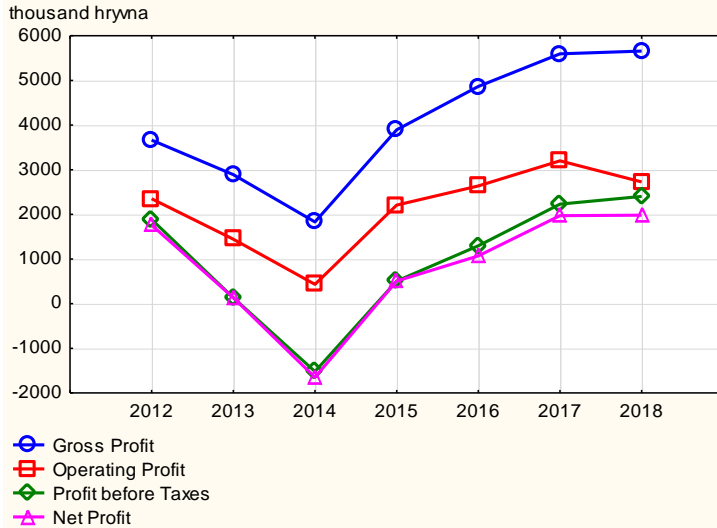


Fig. 1. Dynamics of profit of PJSC «Ternopil-hotel» for the period 2012-2018

Of interest is a comparative analysis of the rate of change in the speed of a number of levels, that is, acceleration. Absolute acceleration is the difference between the subsequent and previous absolute increments of equal duration (acceleration is calculated only by chain indicators):

$$\Delta'_{\Delta y_i} = \Delta y_i - \Delta y_{i-1} \tag{1}$$

A negative value of acceleration indicates a slowdown in growth (or an acceleration in lowering levels of a series) [2].

As indicated by S. He & G. Narayanamoorthy (2018), earnings acceleration has significant explanatory power for future excess returns. Accelerating profits is an important indicator that investors can use to increase their excess profits [3].

Table 2 and Figure 2 present data on the absolute acceleration ( $\Delta'_{\Delta y_i}$ ) of the time series for the profit of PJSC “Ternopil-Gotel” for the period 2012-2018.

Interest for analysis is the level of 2016. We see a significant slowdown in the growth of all profit indicators of PJSC «Ternopil Hotel» in 2016 (that is, a decrease

in absolute acceleration) (Table 2, Fig. 2) against the background of the continuing increase in the absolute values of these indicators this year (Table 1, Fig.1). In this case, the predictive function of absolute acceleration is clearly seen, when a slowdown in the rate of growth of the indicator signals possible problems long before they are clearly manifested. Indeed, since this period, there has been a steady slowdown in profit growth, which by 2018 in one of the indicators (operating profit) is already turning into a decline in profits in absolute values (Fig. 1).

Table 2

**Absolute accelerations ( $\Delta'_{\Delta y_i}$ ) of the time series for the profits of PJSC «Ternopil-Gotel» for the period 2012-2018, th. UAH.**

Financial results	Years						
	2012	2013	2014	2015	2016	2017	2018
Gross Profit	–	–	-286	3123	-1094	-240	-667
Operating Profit	–	–	-104	2787	-1348	134	-1033
Profit before Taxes	–	–	102	3677	-1237	144	-760
Net Profit	–	–	-154	3939	-1596	342	-894

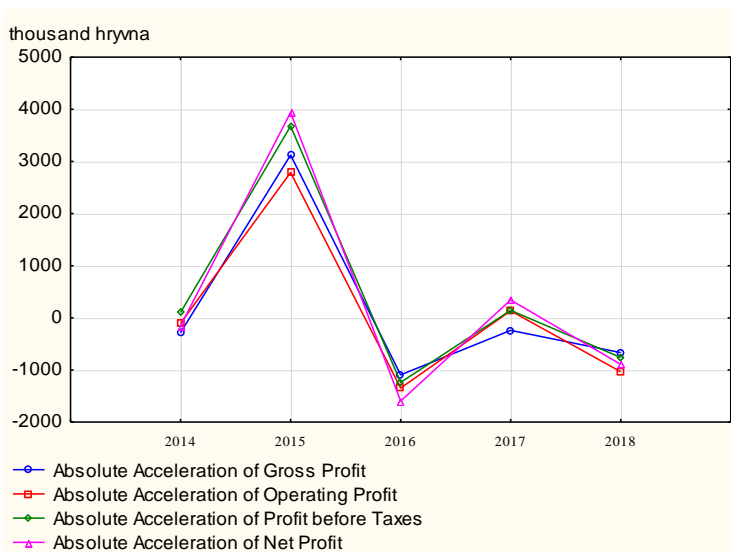


Fig. 1. Dynamics of absolute accelerations of profits of PJSC «Ternopil-Gotel» for the period 2014-2018

From the point of view of investors, the positive values of the absolute acceleration of profits are a fairly good indicator of the favorable development of the company and, therefore, the «green light» for investments. Conversely,

negative absolute acceleration is an indicator that investing in such a company should be treated with caution.

Of course, one isolated, moreover, a very simple indicator cannot be the only basis for making investment decisions. Moreover, the massive using of such an indicator in identifying investment-attractive objects is likely to be associated with a decrease in its effectiveness. As B. Ćorić (2011) points out, the effect of financial acceleration can theoretically lead to a decrease in volatility [4].

The metric, based on the calculation of the acceleration of the profit, can only be successfully used as an integral part of a balanced scorecard of investment attractiveness.

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