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Measuring the Immediate Impact of COVID-19 on the Financial Performances of the Listed Companies in Bangladesh

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ABSTRACT

The global economy has been severely affected by a deadly disease called COVID-19. All the ramifications of the world economy have been impacted significantly by this pandemic. The main objective of this study is to measure the effect that the COVID-19 outbreak has drawn on the financial performances of the listed companies in Bangladesh. Paired sample t-test has been used as the statistical tool in this study to compare the financial performance of the listed companies before and after COVID-19. The financial performance before COVID-19 is measured for the first two quarters of the last five years from 2015 to 2019 and then compared with the first two quarters' data of 2020 as the financial performance after COVID-19. The results indicate that all the sectors, including cement, engineering and steel, power and energy, textile and RMG, pharmaceuticals, and ICT, have been affected. The earnings of these sectors have been reduced significantly as the immediate effect of COVID-19. The banking and finance sector has also observed a decrease in earning though it is not statistically significant. This study will help the government and the policymakers by explaining the immediate impact of COVID-19 and providing relevant information for decision making regarding the way-out from this financial crisis.

Keywords: Bangladesh, COVID-19, EPS, Financial Performance, Listed Companies

1. INTRODUCTION

The world is currently going under a devastating threat of a deadly disease called COVID-19. It has been estimated that this virus has spread to about 210 countries since its first outbreak in Wuhan, which resulted in killing more than 240000 people and infecting more than 3.4 million people around the world (Mohiuddin, 2020). The World Health Organization (WHO) has officially declared this virus as 'Global Pandemic' (Hughes, 2020). On the other hand, the US Center for Disease Control and Prevention has named it 'Epidemic'. Countries around the world have been enforcing lockdown to prevent the outbreak of COVID-19, which in turn is hampering the global economy significantly, mainly by disrupting the global supply chain. Many experts have expressed that the COVID-19 crisis has turned to become a global economic crisis, although initially, it seemed like a worldwide health crisis (McKeever, 2020). Every single financial sector has been affected drastically; almost all the international economic activities from manufacturing to distribution of the goods to final consumers are being interrupted because of the ongoing countrywide shutdown (Macksoud et al., 2020). This situation is becoming even more alarming and dangerous day by day, and it is going to continue until any effective vaccine for this deadly virus comes into the market. Considering this challenging situation, many international investors and experts like Guy Ryder, Director-General of the International Labor Organization, are assuming that this pandemic may lead the whole world to another global financial crisis like the one faced by the world in 2008 (Farrer, 2020).

If we turn our concentration toward Bangladesh, it is seen that the government has enforced countrywide lockdown and is encouraging everyone to avoid all kinds of gathering to control this

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outbreak. Meanwhile, this circumstance starts hampering the country's economy. The lockdown has badly impacted all the major economic indicators including export-import, revenue collection by the government and privet sector investment (Mohiuddin, 2020). Furthermore, a survey jointly conducted by Power and Participation Research Center and BRAC Institute of Governance and Development represents that per capita daily income of the low-income class in Bangladesh has dropped by 80% because of the ongoing lockdown across the country (Mohiuddin, 2020). The earnings from export businesses are experiencing a downward trend as the export-oriented companies in the country are sitting idle. The flow of remittance from foreign countries has also been decreasing because of COVID-19 outbreak (Bhuiyan, 2020).
Considering the importance of taking proper initiatives to meet the challenges of the financial impact of COVID-19, it is essential to identify the way it has affected the firms engaged in different activities. Thus, this research is an attempt to explain the impact of COVID-19 on the financial performances of the listed companies in Bangladesh.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 Concept and Indicators of Financial Performances

Financial performance of a company refers to the ability of a firm to deal with its economic activities which include collection and allocation of the business fund and managing the existing resources in the best possible way to maximize the profit (Fathiudin et al., 2018). This issue has been at the top of hot topics among the managements, financial experts and researchers (Omondi & Muturi, 2013). However, the way to measure the financial performance is a subject of debate among several disciplines (Liargovas & Skandalis, 2008). Omondi and Muturi (2013) stated that the financial performance of an organization can be measured based on the growth of dividend, the base of assets, profitability, sales turnover and the amount of capital employed in the business. On the other hand, Almajali et al. (2012) opined that the financial performances of an organization could be measured by applying a different type of measures like Return on Assets (ROA), Return on Sales, and the Return on Equity (ROE) etc.

Another financial performance measure is Earnings per Share (EPS) (Dehmirhan & Anwar, 2014). EPS refer to the number of net profits which is available during a fiscal period against each of the outstanding share of common stock (Gitman & Zutter, 2013). All the investors look at the EPS of a firm whenever they think of its profitability. In short, the higher the EPS of a firm, the better the profitability of the firm is. In turn, higher profitability represents the better performance of the firms. There are many studies in which EPS was used as a measure of financial performance (e.g. Saeedi & Mahmoodi, 2011; Salim & Yadav, 2012; Hasan & Gupta, 2013; Dey et al., 2018). The EPS measure was also used by Altman (1968) in his study to compare the financial performance between bankrupt and non–bankrupt organizations. EPS can be used in evaluating the profitability of an organization which plays a vital role in attracting the investors (Gitman & Zutter, 2013).

Considering the literature discussed above, the EPS was selected as a measure of financial performance in this study. The reason for choosing EPS as the only measure of this research is the unavailability of other data like ROA and ROE. We want to measure the immediate impact of COVID-19 on the financial performance of the listed companies in Bangladesh, and only the quarterly EPS of those firms are available for comparison.

2.2 Sector-wise Financial Performances and Research Hypotheses

Many companies listed in the stock markets in Bangladesh are passing through some critical financial problems, including revenue deficit, losing net income and liquidity problem. It has been reported by Mahmud (2020) that the listed companies from manufacturing and service sectors are witnessing an adverse effect of COVID-19 on their revenue and net income. Mahmud (2020) also claimed that 125 listed companies in Bangladesh's stock market had expressed a fear of heavy losses because of this COVID-19 crisis. Many of those companies listed in the stock market in Bangladesh have decided to abandon production as they are facing plenty of serious obstacles like low demand and disruption in the supply chain caused by this ongoing countrywide shutdown to contain the COVID-19 outbreak in the country.

The ready-made garments (RMG) sector is one of the major benefactors for the Bangladesh economy. Even the RMG sector of Bangladesh is now undergoing some critical challenges. Many international buyers such as H&M, GAP, Zara, Primark and Marks & Spencer etc., are cancelling their order or some are postponing the orders as all of them have shut their stores down because of the ongoing worldwide lockdown (Amit, 2020). Besides the RMG sector, the banking sector in Bangladesh also seems to be the most vulnerable in this pandemic situation. The finance and banking sector and other financial institutions in Bangladesh have been suffering from a problem of a significant amount of non-performing loan for a long time. It is being expected to be even more due to this pandemic. This high growth of non-performing loan, in turn, may reduce the capacity of the banks to maintain the minimum capital requirement as specified in BASEL-3 (Lalon, 2020). On the other hand, there might be a possibility that if there is anything wrong with the RMG sector of Bangladesh and its related business, it would undoubtedly have a direct impact on the banking sector in Bangladesh because, as of today, 59 commercial banks and other general insurance companies in Bangladesh have a heavy dependency on the RMG sector (Bhuiyan, 2020).

Although the production level in agriculture and food sector in Bangladesh has not been affected seriously by the COVID-19, the marketing and distribution processes of these products have been hampered significantly. The Bangladesh Poultry Industries Central Council says that there has been less demand of chicken meat and eggs in the market due to lockdown imposed by the government throughout the country (Hossain, 2020). Many dairy farmers, poultry farmers and hatchery owners are struggling to sell their goods so that they can cover at least their cost of production, leave aside the profit (Hossain, 2020). Besides these, there are other sectors and industries, which have been affected due to this pandemic. Several companies in Bangladesh have been unable to generate enough operating revenues from their daily operation. Mahmud (2020) has noted that companies in all the sectors are suffering from a negative impact of COVID-19 on their revenue and net income. As a result, they are struggling with liquidity problem, which in turn is hampering their day to day business operation and finally affecting their earnings.

Based on the above literature, the following seven sets of hypotheses have been constructed to test by applying the 'Paired sample t-test'.

Hypothesis 1: COVID-19 has a significant impact on the financial performance of the listed finance and banking companies in Bangladesh.
Hypothesis 2: COVID-19 has a significant impact on the financial performance of the listed cement, engineering and steel companies in Bangladesh.
Hypothesis 3: COVID-19 has a significant impact on the financial performance of the listed power and energy companies in Bangladesh.
Hypothesis 4: COVID-19 has a significant impact on the financial performance of the listed Textile and RMG firms in Bangladesh.
Hypothesis 5: COVID-19 has a significant impact on the financial performance of the listed Pharmaceutical companies in Bangladesh.
Hypothesis 6: COVID-19 has a significant impact on the financial performance of the ICT firms listed in the stock exchanges of Bangladesh.
Hypothesis 7: COVID-19 has a significant impact on the financial performance of the listed companies in Bangladesh.

3. RESEARCH METHODOLOGY

This research is meant to explore the influence of COVID-19 on the financial performances of the listed firms in Bangladesh by comparing the pre COVID-19 quarterly EPS and the quarterly EPS after the COVID-19 outbreak. Hence a descriptive research design has been adapted to serve the purpose of this study. In addition to that, a quantitative approach to research has been used for analyzing the research data.

3.1 Research Data and Methods of Data Collection

This study used secondary data to determine the impact of COVID-19 on the financial performances of the listed companies. All the secondary data have been extracted from the websites of Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) and annual reports of the listed sample companies. Two sets of secondary data were collected; one set represents the before COVID 19 EPS, and another set represents the EPS after the COVID-19 outbreak.

3.2 Sampling Technique and Sample Size

A sampling technique called 'Randomized Block Sampling' has been used to determine the sample size. Following this approach of sampling, first, the total population under the study was divided, i.e., all the listed companies in Bangladesh's stock market, into six homogeneous blocks based on some common characteristics they possess. It is to be noted that the samples consist of those companies listed in the stock exchanges of Bangladesh before 2015. The reason for selecting those companies as the population is to ensure that the required data are available. It is further mentioned that the average quarterly EPS of the first two quarters of the last five years were needed for the analysis. After dividing the population into homogeneous blocks, samples from each block were randomly selected and thus a total of 142 pairs of samples were collected for running the 'Paired t-test' to determine the overall financial impact on the listed companies due to COVID-19 crises. In contrast, according to the rule of the thumb, having more than 30 pairs of samples is good enough to conduct 'Pair sample t-test'. In addition to that, Beaver (1966) used 79 pairs of samples in his study to apply the 'Paired t-test'. Table 1 highlights the number of companies in each block and the sample size form each block and in total.

Table 1 Blocks and Sample Size in Each Block

Blocks	Bank and Finance	Cement, Engineering and Steel	Power and Energy	ICT	Pharmaceutical	Textiles & RMG	Total
Number of Companies in each block till 2015.	53	24	17	6	22	38	160
Number of Sample Companies.	49	21	15	5	19	33	142

3.3 Data Analysis

A statistical tool called 'Paired sample t-test' has been used for analyzing the numerical research data collected through the data collection procedure. The average quarterly EPS of first two quarters of the last five years (2015-2019) have been compared with the average EPS of the first two quarters of 2020 to understand whether there is any significant impact of COVID-19 on the performances of the listed companies.

4. RESULTS AND DISCUSSIONS

The way COVID-19 pandemic has affected the financial performance of the listed firms in Bangladesh has been measured. 'Paired t-test' was applied considering pre and post COVID-19 quarterly EPS of banking and finance, cement, engineering and steel, power and energy, textile and RMG, pharmaceutical and ICT industries. The p-value for two-tail test [i.e. P (T<=t) two tail] was used to test hypotheses specified in the earlier segment.

4.1 Financial Impact of COVID 19 on the Banking and Finance Industry

From Table 2, it is evident that the average quarterly EPS of the listed banks and financial institutions after the COVID-19 outbreak (M= 0.4988) is lower than the average quarterly EPS before the COVID-19 outbreak (M = 2.3138). Hence, there is a decrease in EPS immediately after the COVID-19 outbreak. However, the 'T-Statistics' (i.e. t = 1.0153) and p-value at 5% level of significance (0.3261) indicate that the change in quarterly EPS is not significant statistically, which suggests that the COVID-19 does not have any immediate significant impact on the finance and banking companies' financial performances in Bangladesh.

4.2 Financial Impact on Cement, Engineering and Steel Industry

Table 2 shows that the average EPS in the first two quarters of 2020 is 0.0913 compared to that of before COVID-19 period of 0.8833. From this observation, it is evident that the average EPS of the listed firms has been affected negatively due to COVID-19. Furthermore, the 'T-Statistics' (i.e. t = 2.153) indicates that there is a negative influence of COVID-19 on the performances of the Cement, Engineering and Steel Industry in Bangladesh. P-value at 5% level of significance (i.e., p = 0.048) indicates that the hypothesis that COVID-19 has a significant impact on the financial performances of the Cement, Engineering and Steel Industry is accepted.

Table 2 Paired Samples Test

		Pearson Correlation	Variance	Mean Quarterly EPS		$\|T\|$	Sig. (2 tailed)	Decision
				After	Before			
Pair 1	Before and after COVID Quarterly EPS of Banks	-0.0530	0.1345	0.4988	2.3138	1.0153	0.3261	Hypothesis not Supported.
Pair 2	Before and after COVID Quarterly EPS of Cement, Engineering and Steel Industry	.0.0927	0.5896	0.0917	0.8833	2.1530	0.0480	Hypothesis Supported.
Pair 3	Before and after COVID Quarterly EPS of Power and Energy Industry	0.9412	1.0502	0.5008	0.9242	2.9324	0.0136	Hypothesis Supported.
Pair 4	Before and after COVID Quarterly EPS of Textile and Clothing Industry	0.0128	0.3523	-0.0825	0.3922	2.8354	0.0080	Hypothesis Supported.

Pair 5	Before and after COVID Quarterly EPS of Pharmaceuticals Industry	0.8713	0.3523	0.5253	0.7847	2.9256	0.0111	Hypothesis Supported.
Pair 6	Before and after COVID Quarterly EPS of ICT Industry	0.9922	0.0545	0.3333	0.5667	2.8511	0.0358	Hypothesis Supported.
Pair 7	Before and after COVID Quarterly EPS of All Industries	0.1899	1.0965	0.1389	0.8340	3.2263	0.0016	Hypothesis Supported.

Source: Authors' calculation based on data from the website of Chittagong Stock Exchange

4.2 Financial Impact on the Energy Industry

From Table 2, the average EPS reported immediately after the COVID-19 outbreak in 2020 (M = 0.5008) by the companies from power and energy industry of Bangladesh is comparatively lower than what they reported before COVID-19 (M = 0.9242). Furthermore, the critical values (i.e. p = 0.0136 and t = 2.9324) at 5% level of significance ensures that COVID-19 has a significant immediate negative impact on the performances of power and energy industry in Bangladesh.

4.3 Financial Impact on the Textile & RMG Industry

Table 2 also presents the output of the 'Paired t-test' applied on two sets of EPS of the listed textile companies in Bangladesh to explore the influence of COVID-19 on the FP of the Textile and RMG sector in Bangladesh. It shows that the listed textile and RMG companies experienced losses immediately after the COVID-19 outbreak on an average with a mean EPS of (0.0825) in the first two quarters of 2020 against the average EPS of the same quarters before COVID-19 (M = 0.3922). Besides, it is evident from the output that the critical values (i.e. p = 0.008 and t = 2.8354) at 5% level of significance are the indicators to conclude that the hypothesis is accepted. Hence, COVID-19 has a significant negative influence on the earnings of the Textile and RMG sector in Bangladesh.

4.4 Financial Impact on the Pharmaceutical Industry

The results in Table 2 shows that the average quarterly EPS reported by the listed pharmaceutical companies before and after COVID-19 outbreak were 0.7847 and 0.5253, respectively. Furthermore, the t-value is 2.9256 and the p-value is 0.011. Hence, the hypothesis is supported at 5% level of significance, indicating that COVID-19 has a significant negative impact on the financial performance of the pharmaceutical industry in Bangladesh.

4.5 Financial Impact on the ICT Industry

The output in the Table 2 shows that the average quarterly EPS of the listed ICT firms in the first two quarters of 2020 is 0.3333 while it was 0.5667 before COVID 19 showing a significant decrease at 5% level of significance with the p-value of 0.0358 and t value of 2.851. Hence, it can be concluded that the hypothesis is accepted and COVID-19 has a significant negative influence on the performances of the listed firms in Bangladesh.

4.6 Financial Impact on the Listed Companies in All the Industries

From Table 2, it is seen that the average EPS of the listed firms in the first two quarters of 2020 (M = 0.1389) is lower than the average EPS in the first two quarters before COVID-19 (M = 0.8340). Both the p-value (p = 0.0016) and t-value (t = 3.2263) at 5% level of significance conclude that COVID-19 has a significant negative impact on the financial performances of the listed firms across all the industries in Bangladesh.

5. CONCLUSION

This study aimed to determine the immediate impact of COVID-19 on the financial performances of the listed firms in Bangladesh considering quarterly EPS as the representative of financial performances in the absence of other economic measures like ROA, ROE which are not available yet after the COVID-19 outbreak.

The findings of this study conclude that COVID-19 has a significant impact on the overall financial performances of the listed companies in Bangladesh. It is also revealed in this study that industries such as cement, engineering and steel, power and energy, textile and RMG, pharmaceutical, and ICT have experienced a significant negative impact of COVID-19 on their performances. Though the finance and banking industry in Bangladesh has also experienced an adverse effect of COVID-19, it is not significant statistically. Other side effects of COVID-19 might have caused such a downturn. For instance, a study by Forbes (2002) reported that the low-income level of people during pandemic might have a negative influence on the firm's financial performance. The organizational culture in meeting challenges and crisis might be a reason for poor performances of the listed companies immediately after the COVID-19 as reported in many studies (e.g. Kotrba et al., 2012; Ogbonna and Harris, 2000). The consumers' buying pattern is also thought to be a reason for these negative earnings. It is perceived that people spend less during a crisis as compared to the normal situation because of the threat of an uncertain future.

6. RECOMMENDATIONS, POLICY IMPLICATIONS AND SCOPE FOR FUTURE RESEARCH

It is recommended that the firms in Bangladesh should implement new strategies to cut their unnecessary costs and simultaneously increase their revenue so that they can survive this worst economic situation caused by COVID-19. The government should provide some sorts of subsidies to those listed companies which have been affected very badly by this pandemic. This research may help the policymakers to understand the immediate financial impact of COVID-19 and to initiate policies as per the need of each sector of the economy so that the listed companies survive in the current economic situation and make a contribution later in the further improvement of the economy.

During this pandemic, the income level of general people has reduced severely, which in turn is influencing the firms' financial performance significantly in the negative direction. In this case, the government may arrange a crisis fund and disburse it to those whose income has been reduced very severely during this pandemic. The businesses should ensure and practice good culture in the organization where employees are always motivated to face new challenges, handle a critical situation, generate a new idea of doing business and find solutions to the problems. The export of Bangladesh, especially RMG, has been severely affected as the immediate consequences of COVID-19. The government, along with the relevant bodies, should take diplomatic measures to ensure the receivables from the foreign buyers are converted into cash and the cancelled shipment and orders are restored. Special incentives for the export-oriented listed companies and tax waiver for the other companies may also help survive and prosper in the near future.

The study has some limitations which might help conduct future research related to the impact of COVID-19. First, this research is conducted with the listed companies only. A more comprehensive study can be done with the purpose of exploring the impact of COVID-19 on the financial performance of all the listed and non-listed companies. A comparison between listed and non-listed companies can be performed as well. Second, the study measures the immediate impact of COVID-19 covering the first and second quarters of the year 2020 as the yearly data are not available. The long-term impact of COVID-19 on firms' performances needs to be researched for proper policy formulation. Finally, only EPS is considered as a measure of financial performance because of the unavailability of other criteria. Hence, studies can be initiated considering performance indicators like ROA, ROE, Liquidity Ratio and Debt Ratio when the data would be available.

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