

A Financial Analysis of a Selected Company

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ABSTRAKT

Tato bakalářská práce provádí finanční analýzu společnosti Pražská energetika a.s. v letech 2021 až 2023 s cílem posoudit její finanční zdraví a celkovou finanční situaci. Bakalářská práce je rozdělena na dvě části, teoretickou a navazující praktickou část. V teoretické části je provedena rešerše relevantní literatury týkající se metod a ukazatelů finanční analýzy. V praktické části se po představení vybrané společnosti vedle bankrotního modelu používá vertikální, horizontální a poměrová analýza k posouzení finančního zdraví společnosti. Analýza porovnává výsledky se stanovenými ukazateli, aby bylo možné zhodnotit finanční situaci společnosti. V závěru práce je zhodnocena finanční stabilita společnosti, uvedeny klíčové poznatky a navržena doporučení pro zlepšení její finanční situace.

Klíčová slova: Pražská energetika, finanční analýza, finanční zdraví, účetní výkazy, absolutní ukazatele, poměrové ukazatele

ABSTRACT

This bachelor's thesis conducts a financial analysis of the company Pražská energetika a.s. from 2021 to 2023 to assess its financial health and overall condition. The bachelor's thesis is divided into two parts, the theoretical and the subsequent practical part. The theoretical section reviews relevant literature on financial analysis methods and indicators. The practical section introduces the company and applies vertical, horizontal, and ratio analysis alongside bankruptcy models to assess financial health of the company. The analysis compares results with established benchmarks to evaluate the company's standing. In conclusion, the thesis evaluates the company's stability, highlights key findings, and proposes recommendations for improving its financial situation.

Keywords: Pražská energetika, financial analysis, financial health, financial statements, absolute indicators, ratio indicators

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INTRODUCTION

The year 2021 was a turning point for Czechia as it was hit by a massive energy crisis. As economies reopened after COVID-19 lockdowns, demand for energy spiked. This, along with the higher demand and limited supply due to the supply chain disruptions caused by the lockdowns, resulted in a massive rise in energy prices. This led to the bankruptcy of Bohemia Energy, a major electricity and gas supplier, in late 2021, which left over half a million households without an energy supplier. The situation worsened in early 2022 with Russia's full-scale invasion of Ukraine. Skyrocketing electricity and gas prices, driven by supply fears and actual shortages, along with the country's reliance on fossil fuels, created unprecedented challenges for businesses and households. In order to shield consumers and companies from extreme price volatility, the Czech government imposed energy price caps in 2022, thus affecting the potential revenues of energy suppliers.

The aim of this thesis is to conduct a financial analysis of Pražská energetika throughout the energy crisis. This study will examine the company's financial health and performance during this period affected by price volatility and regulatory changes. Based on the findings, the thesis will offer recommendations for Pražská energetika's financial strategies.

This thesis is divided into two main parts. The theoretical part introduces financial analysis, its purpose, users, and its limitations. It further explores the core financial statements, including the balance sheet, income statement, cash flow statement, and statement of shareholders' equity, thus defining the sources necessary to conduct a financial analysis. The section then explores methods of financial analysis, including absolute indicators, ratio indicators, and bankruptcy models, that are vital for predicting financial distress.

The practical part begins by introducing the selected company, Pražská energetika, providing its description, brief history, information about its structure, and industry classification. Following this introduction, the analysis examines the absolute indicators discussed in the theoretical part through vertical and horizontal analysis of the company's assets, liabilities, and income statement. The practical section then proceeds with an analysis of ratio indicators and the application of bankruptcy models. The practical part concludes with an assessment of the financial health of Pražská energetika and the formulation of recommendations for future periods.

I THEORY

1 FINANCIAL ANALYSIS

Financial analysis is the basic method of examining the financial situation of a company by studying its financial statements and other relevant data. This process helps to assess key aspects such as profitability, asset utilization, capital structure, and solvency. By analyzing past performance, financial analysis also assists in predicting future trends and making informed decisions. For managers, understanding a company's financial position is essential when determining the optimal capital structure, allocating resources, securing financing, and making other strategic choices. Additionally, financial analysis allows for comparisons with previous years, enabling a thorough evaluation of progress and finding areas for improvement. Therefore, the purpose of financial analysis lies in enabling finance professionals to make educated conclusions and provide recommendations, supporting the right decision-making, whether in profit distribution, approving loans, or planning for long-term growth. (Knápková et al. 2017, 17-18)

Effective financial analysis requires a deep understanding and acts as a key advising role. The analyst must understand the complexities involved in the company's operations, the dynamics of its various parts, and the potential consequences of suggested actions. With a detailed understanding, the analyst can make informed recommendations for ongoing improvements, hence maximizing the company's competitive advantage. (Bragg 2017) Financial analysis includes pointing out both the weaknesses and strengths of a company's financial situation. Identifying weaknesses helps in anticipating future problems, while recognizing strengths highlights areas for potential asset growth. This dual perspective provides a clearer understanding of the company's financial future. (Růčková 2019, 9-11)

1.1 Users of financial analysis

Financial data serves as critical information for both internal and external stakeholders associated with an organization. Such groups of users, ranging from management to investors and regulators, depend on accurate financial data to perform evaluations and make informed strategic decisions. The primary role of financial reporting is to present the stakeholders with factual information necessary to carry out effective administration and make decisions that drive value creation. (Holečková 2008, 13)

1.1.1 Internal users

Internal users of financial information include managers, employees, shareholders, and other parties directly involved with the business. Managers need financial analysis in making strategic decisions to evaluate capital structure, investments, and profit distribution, while employees and top management use it to assess operational performance and financial health. (Holečková 2008, 14)

Owners

Business owners utilize financial analysis to evaluate key performance indicators that influence their decision-making. Their primary focus is in assessing capital appreciation, management effectiveness, and overall company value, particularly through profitability indicators, cash flow stability, and efficiency of asset utilization. Owners analyze revenue trends, market performance, and long-term financial health to determine profit distribution strategies and investment returns. (Růčková 2019, 12)

Management

Management's main concern is the company's ability to meet its short-term obligations, solvency, but long-term profitability is also important, as they are accountable to the owners for the company's performance. While profitability shows sustainable performance for owners, it is still necessary to monitor liquidity in order to keep suppliers and creditors' confidence. These financial indicators go directly into strategic planning, enabling management to establish realistic operational objectives and evidence-based growth initiatives. (Růčková 2019, 11-12)

Employees

Employees are primarily interested in the company's financial stability and profitability, since these factors directly impact job security, salary payments on time, and employee benefits. Their main concerns are whether the firm is able to generate consistent profits and maintain operations, which guarantees long-term employment stability and workplace comfort. (Vochozka 2011, 12)

1.1.2 External users

External users rely on financial analysis to assess the creditworthiness of a company by interpreting its financial statements. They include such parties as investors, banks and lenders, business partners, government agencies, and even competitors, who often compare

financial data across different companies. These analyses form the basis for external stakeholders' financial decisions. (Holečková 2008, 13)

Creditors

Creditors evaluate the feasibility of loans by the financial statements of borrowers in order to understand their need for funds, existing debts, and ability to repay. Thus, credit analysis examines the reasons for borrowing, the existing capital structure and debt repayment history, and also the anticipated sources of repayment, such as working capital and cash generation from operations. By analyzing the borrower's historical financial statements, the creditor aims to predict their future ability to meet cash demands and debt obligations. (Fraser and Ormiston 2010, 181)

Investors

Investors study financial statements to predict the future profitability of a company as a basis for valuing its securities for potential future trading. This includes reviewing past performance and future projections regarding earnings, cash flow, and stability. They also consider the risks associated with the company's debt and return potential, along with its standing relative to competitors in the industry. By projecting from historical data, investors try to determine if an investment is viable. (Fraser and Ormiston 2010, 181)

Business partners

Business partners, meaning suppliers and customers, analyze financial statements for different reasons. Suppliers check short-term liquidity and solvency to be able to make credit decisions, as well as long-term stability for ongoing relationships. Customers assess long-term viability to ensure supply continuity. This dual approach helps both parties: suppliers minimize credit risk while customers secure their supply chain continuity. Financial statements then serve as critical decision-making tools for maintaining stable business relationships. (Holečková 2008, 16)

Government

Government bodies and tax authorities share a similar interest in verifying the reliability of tax reporting made by companies within their financial reports, particularly earnings. Besides taxation, the state utilizes financial analysis information for varied purposes. These purposes include making statistical surveys, making subsidies distribution decisions, and gathering data on companies involved in public tenders or other government-related matters. (Vochozka 2011, 13)

Competition

Companies analyze the financial information of their competitors, such as profitability, profit margins, and pricing strategies, to benchmark their own performance. Even though there is no disclosure required for this information outside the company, failure to disclose it can damage a company's reputation or attract new investors and customers. Therefore, managers must provide up-to-date financial information to outsiders. Understanding competitors' financial health and strategies enables a company to make informed decisions and choose effective competitive strategies. (Holečková 2008, 16)

2 FINANCIAL STATEMENTS

Effective financial analysis depends on using complete and accurate data to measure the health of a company. The main source of this information is financial statements, which different users utilize. External statements, which are publicly available, provide general information. Internal statements, prepared more frequently and in greater detail, help to increase accuracy. Without the quality information, the analysis can produce misleading conclusions. (Růčková 2019, 21)

Bragg (2017) defines the four essential financial statements: the balance sheet showing assets, liabilities, and equity, the income statement reporting revenues and expenses, the cash flow statement, and the statement of shareholders' equity reporting on changes in ownership interests. Together, these documents provide a comprehensive view of a company's financial position and performance.

A thorough financial statement analysis should always include a detailed review of the accompanying notes. Additionally, complementing this with information from the annual report and other external sources can provide valuable context and improve the overall evaluation. (Fraser and Ormiston 2010, 181)

2.1 Balance sheet

The balance sheet, or statement of financial position, provides a snapshot of a company's assets (resources) and the claims against them (liabilities and shareholders' equity) at a specific time. It is based on the principle that **Assets = Liabilities + Shareholders' Equity**. This statement reflects the company's assets and liabilities along with the ownership interest. The asset side reflects both the operations of the firm on a daily basis in producing goods and services and its investment activities in producing returns on financial assets. (Wahlen et al. 2018, 20-21)

2.1.1 Assets

Assets, usually displayed on the left side of the balance sheet, are property belonging to a company, classified into fixed, current, and other assets, according to their function and the ability with which they can be converted into cash (liquidity). Fixed assets, which are held for more than a year and typically go through depreciation, are divided into tangible assets like land, buildings, and equipment, intangible assets like software and licenses, and long-term financial assets like bonds and long-term deposits. (Knápková et al. 2017, 25-30)

Non-current or long-term assets, which reflect long-term investment, consist of tangible assets such as real property, natural resources, and technological advancements. It also consists of intangible assets such as software, research results, and intellectual property rights. Additionally, this category includes financial assets held for over a year, such as securities and shares. (Vochozka 2011, 14)

Current assets consist of cash and assets that will likely be converted into cash within one year or the firm's operating cycle. The operating cycle is the time it takes to purchase inventory and receive cash from sales. Current assets are essentially the assets that are being used and replaced on a daily basis during business operations. The term "working capital" or "net working capital" refers to the difference between a company's current assets and its current liabilities. (Fraser and Ormiston 2010, 40-41)

2.1.2 Liabilities and shareholders' equity

The liabilities side of the balance sheet, typically on the right-hand side, shows how a company funds its assets. Unlike the asset side's liquidity-oriented ordering, liabilities are categorized by source of funds, differentiating internal sources (equity) from external sources (liabilities). Equity consists of the owners' investment and retained earnings. Liabilities account for the company's obligations to external parties, such as provisions, and short-term and long-term payables. (Růčková 2019, 27-28)

Total liabilities are a company's present responsibilities to transfer economic resources or provide services in the future due to past events. These obligations, reflecting anticipated future expenditures, are usually categorized as current or non-current. Most liabilities are future cash payments, valued at their expected amount or present value for longer time periods. Other liabilities are the delivery of goods or services, valued at their expected cost. Deferred revenue, resulting from customer prepayments, represents obligations to provide future goods or services. (Wahlen et al. 2018, 24-25)

Total equity is the total ownership stake in a firm consisting of the net assets belonging to shareholders. The value to equity holders is primarily due to the operating activities of the firm and not market-based equity financing activities, such as issuing or buying back shares. This includes retained earnings, capital investment, and other adjustments impacting shareholders' claims. By tracking these components, investors can identify true operating value growth from simple accounting entries, ensuring a more accurate estimate of a firm's long-term financial health. (Penman 2013, 258-259)

2.2 Income statement

The income statement, or profit and loss statement, shows a company's revenues, expenses, and net income over a period, usually a year, and also earnings per share. It is essential to understand a company's earnings, even though these figures are affected by accounting choices and do not equal cash flow. Presented in either consolidated or detailed format, the report provides critical but incomplete performance metrics, as the results are influenced by accounting policies and estimates. It is linked with the balance sheet through the statement of stockholders' equity, which tracks changes in ownership. (Fraser and Ormiston 2010, 79)

The income statement begins with total revenues from sales, minus direct costs, such as production, selling, and general expenses. It deducts non-cash charges like depreciation to arrive at earnings before interest and taxes (EBIT). After adjusting for interest and taxes, the net income that is left is either distributed as dividends or reinvested. In contrast to the balance sheet, the income statement shows dynamic financial performance. (Brealey et al. 2020, 747)

Revenue is the price of goods sold and services by a company during a specific accounting period. It is recognized when the earning process is almost complete and there has been an exchange, typically at the point of sale or when the rights to the goods move to the buyer.

Expense is defined as the cost of the goods and services expended in the process of generating that revenue. It is necessary that the revenues are matched with expenses in order to calculate the net income or loss of the company for that period. It is not always possible to precisely match, but the goal is to reasonably link the incurred costs to the revenues earned during the same period. (Griffin 2015, 28-29)

Earnings are defined by using several terms. Net income or **EAT** is total revenue minus all costs. Operating income is profit from core operations, often called **EBIT**, or earnings before interest and taxes. **EBT** is short for earnings before taxes, and **EBITDA** stands for earnings before interest, taxes, depreciation, and amortization. These different earnings figures are used to calculate different financial indicators. (Bragg 2017)

2.3 Cash flow statement

The cash flow statement tracks cash inflows and outflows under operating, investing, and financing activities and gives critical information about the liquidity of a company. Unlike

net income, which is accrual-based, cash flow shows the real generation of cash, which is required to pay obligations such as debt or wages. It is prepared by analyzing balance sheet changes from one period to another and connecting profit with the flow of cash, which is an essential tool for measuring financial health. (Fraser and Ormiston 2010, 107-108) With this statement, managers are able to study the past finance and investment decisions and forecast the future finance and investment activities. (Griffin 2015, 34)

Operating activities describe the capacity of a firm to generate liquidity from its primary business operations, such as sales and services. Operating cash flow trends over several years indicate whether a company finances operations using funds generated internally or if it needs to use external sources of financing to support operations.

Investing activities involve large cash outflows in the acquisition of long-term productive assets such as property, plant, and equipment. Companies need to constantly replace depreciated assets and purchase new ones to support growth. Although proceeds from the sale of assets offer partial financing, these kinds of inflows usually are not large enough to fully fund new capital expenditures.

Financing activities of a company involve borrowing of funds both on a short-term and long-term basis and issuing of preferred stock and common stock. Companies use cash inflows to pay loans, give dividends to stockholders, and purchase outstanding stock as part of managing their finances. (Wahlen et al. 2018, 33)

There are two methods of preparing cash flow statements. Using **the direct method**, cash inflows from revenues are specifically mentioned, and cash payments for operating expenses are subtracted. **The indirect method** begins with the net profit reported on the income statement. Then it adjusts this figure to show the actual cash generated from operations by accounting for non-cash items, such as depreciation and changes in working capital. (Vochozka 2011, 18)

2.4 Statement of shareholders' equity

The statement of changes in equity tracks movements in a company's net worth over a period, reflecting increases or decreases caused by two primary reasons: owner transactions, such as capital contributions or withdrawals and operations, such as funding or retained earnings adjustments. It is required by accounting standards to have complete disclosure of these changes in equity to promote transparency. External users will then be aware of

financial activity that would not be apparent in other financial statements. Although this statement provides useful insights into specific equity movements, its overall impact on financial analysis is limited because shareholders' equity is just one component of the broader balance sheet. (Knápková et al. 2017, 62)

2.5 Notes to the financial statements

Financial statement notes are critical for analysis, offering valuable information beyond just numbers. They disclose accounting policies, contingent liabilities, post-balance sheet events, and transactions with related parties. As required by the full-disclosure principle, notes provide essential context about operations, commitments, and risks and, therefore, help users make informed decisions. (Griffin 2015, 34)

Because amounts in financial statements are management's judgments, estimates, and decisions regarding accounting methods, the notes describe how each figure reported was determined. For example, the notes specify the accounting methods for inventory valuations, cost of goods sold, methods of property, plant, and equipment valuation and depreciation. Therefore, notes provide valuable insights into significant estimates like investment valuations and intangible asset valuations. (Wahlen et al. 2018, 35)

2.6 Limitations of financial analysis

Financial analysis, while valuable, faces significant limitations as it is based on accounting data that may not capture the true economic situation. Key issues arise from this reliance on accounting data, which may not always accurately reflect the economic reality. Different accounting practices, the influence of extraordinary events, and the need for comparisons with other businesses can all affect the interpretation of financial results.

Knápková et al. (2017, 139-140) present examples of certain limitations:

- accounting data limitations – historical accounting ignores inflation and market value changes,
- subjectivity in reporting – depreciation policies and reserve creation can artificially inflate profits,
- external factors – extraordinary and seasonal events can distort short-term results,
- non-financial oversights – fails to account for technological impacts or opportunity costs.

3 METHODS OF FINANCIAL ANALYSIS

Financial analysis uses two main methods: horizontal and vertical analysis. Both of these methods examine financial statements from specific perspectives. Vertical analysis provides a snapshot of a single period, showing each item as a percentage of a base figure in that statement. In contrast, horizontal analysis looks at multiple periods, comparing financial data and results across these reports aim to identify trends and changes over time. (Knápková et al. 2017, 65)

Another fundamental approach in financial statement analysis is ratio analysis. In this type of analysis, specific ratios are calculated for a given period of time and then compared to earlier periods to determine whether the performance of the company meets expectations and achieves established benchmarks. Essentially, these ratios help us understand the relative relationship between different figures of the financial statements. (Bragg 2017)

Advanced financial analysis techniques often use complex quantitative methods, such as variance analysis, regression modeling, and statistical hypothesis testing. These are done by qualitative expert systems and predictive models like Altman's Z-Score, which uses multivariate analysis to measure bankruptcy risk. (Knápková et al. 2017, 65)

3.1 Absolute indicators

Absolute indicators are the direct figures from financial statements. Vertical analysis presents each item as a percentage of a base during a single period, showing its relative size. Horizontal analysis compares absolute indicators across multiple periods to identify trends and growth over time.

3.1.1 Horizontal analysis

Horizontal analysis is a vital tool for trend detection in a company's financial performance and position over time periods. By establishing a base period and then expressing the financial statement items of subsequent periods as percentages, this method provides a clear visualization of either an increase or a decrease in specific accounts over different reporting periods. Horizontal analysis of these percentage changes indicates important trends and movements that may be hidden when examining only absolute amounts. (Griffin 2015, 106)

3.1.2 Vertical analysis

Vertical analysis is a method of examining financial statements where each item in the statement is expressed as a percentage of some base figure found within the same statement. This proportional method is mainly used to comprehend the relative size and importance of various accounts at a specific point in time. Calculating these percentages makes it easy to observe the variation of financial statement composition over different periods, therefore enabling chronological analysis of proportions in a particular period. (Bragg 2017)

3.2 Ratio indicators

Ratio analysis is a fundamental financial assessment tool that evaluates the performance of a company by using quantitative relationships between key items of financial statements. This widely used method assists in evaluation of financial health by calculating and comparing various metrics such as profitability, liquidity, activity, and leverage. (Knápková et al. 2017, 87)

3.2.1 Profitability ratios

Profitability ratios measure the capacity of a firm to generate returns on invested capital. It is calculated from the income statement and balance sheet figures, measuring profitability efficiency, which is a key concern of shareholders and investors. Despite the lack of universal benchmarks for these indicators, their progressive improvement over time indicates positive performance. Profitability ratios typically relate profit figures to corresponding capital investments or sales, thus giving an insight into the effectiveness of operations and potential returns. (Růčková 2019, 60)

Return on assets (ROA)

Return on assets evaluates a company's efficiency at using all its resources to generate profit, independent of financing with debt or equity. The calculation adjusts net income by adding back after-tax interest expense and noncontrolling interest and dividing it by average total assets. A higher ROA suggests better asset utilization in producing earnings. (Wahlen et al. 2018, 201)

$$ROA = \frac{EBIT}{Total\ Assets}$$

Return on equity (ROE)

Return on equity calculates the rate of return generated on the shareholders' equity. It represents how effectively a company is using the money invested by its owners to generate net income. It is calculated by dividing the net income available to common shareholders by the average shareholders' equity. ROE essentially shows the profit that has been made for each currency unit of shareholders' investment. A higher ROE typically signals higher efficiency in utilizing equity to generate profits for the owners. (Knápková et al. 2017, 102-103)

$$ROE = \frac{EAT}{Total\ Assets}$$

Return on sales (ROS)

Return on sales, also called profit margin, is a profitability ratio that measures a company's operating efficiency by indicating how much revenue is converted into profit. It is calculated by dividing net profit by net sales. ROS shows the percentage of revenue that is left after covering all operating expenses, interest, and taxes. A higher ROS suggests that the company is more efficient at turning its sales into profit. (Růčková 2019, 65-66)

$$ROS = \frac{EAT}{Net\ Sales}$$

3.2.2 Liquidity ratios

Liquidity ratios assess a company's ability to pay short-term obligations by measuring its capacity to convert assets into cash quickly. These ratios focus on those liquid assets, such as accounts receivable and inventories, which can be readily converted to cash, rather than non-liquid assets such as property. While these ratios are helpful to creditors in evaluating repayment risk, excessive liquidity can indicate inefficient use of capital, since efficient operations will try to minimize excess cash and inventory. (Brealey et al. 2020, 758-759)

Current ratio measures the short-run liquidity of a company by dividing its current assets by its current liabilities. Although this measure helps evaluate solvency risk, it is not as reliable because it contains less liquid assets such as inventory. According to Knápková et al. (2017, 94) the recommended value of this benchmark is between 1.5 and 2.5.

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

Quick ratio evaluates a company's ability to meet its short-term obligations using only its most liquid assets, excluding the inventory. Inventory is excluded because it might not be easily or quickly converted into cash. Unlike the current ratio, the quick ratio provides an assessment of immediate solvency, thus being quite relevant for creditors. Knápková et al. (2017, 95) suggest the value to range from 1 to 1.5.

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

Cash ratio measures a firm's immediate liquidity by comparing its most liquid assets to current liabilities, this time excluding receivables and inventory. This is especially useful for assessing extreme short-term solvency risk. Knápková et al. (2017, 95) consider a cash ratio between 0.2 and 0.5 to be generally considered ideal. Values above this range can show inefficient utilization of financial resources, suggesting that excessive cash could otherwise be used for growth or investment.

$$\text{Cash Ratio} = \frac{\text{Cash} + \text{Cash Equivalents}}{\text{Current Liabilities}}$$

3.2.3 Solvency ratios

Solvency ratios evaluate a company's long-term financial health based on debt relative to equity and earnings. They determine if a business can sustainably pay obligations without excessive borrowing. These metrics show financial flexibility, making it possible to analyze stability and risk exposure in the long term. Strong solvency ratios indicate reduced dependence on external financing. (Penman 2013, 686)

Debt to equity ratio calculates a firm's financial leverage by comparing its total liabilities and shareholders' equity. Higher debt financing and higher solvency risk are indicated by higher ratios, while lower values indicate conservative capital structure and better equity-based financial stability. (Bragg 2017)

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Debt ratio measures a company's total liabilities as a percentage of its total assets, thus reflecting its overall debt burden. A higher ratio shows greater financial leverage and potential risks regarding solvency, while lower values suggest stronger asset coverage and a lower reliance on borrowed capital. (Růčková 2019, 68)

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Equity ratio assesses a firm's financial strength by comparing shareholders' equity to total assets, thus reflecting its capital independence. A higher ratio indicates lower leverage and greater stability, while a lower ratio suggests higher reliance on debt financing and potential vulnerability to financial stress. (Vochozka 2011, 26)

$$\text{Equity Ratio} = \frac{\text{Total Equity}}{\text{Total Assets}}$$

3.2.4 Efficiency ratios

Efficiency ratios, also called activity ratios, measure how well a company manages its resources to generate revenue. Important metrics such as inventory turnover, receivables turnover, and asset turnover provide information about operational strengths and weaknesses. Analyzing these ratios helps businesses to optimize performance, minimize waste, and maximize profitability. (Růčková 2019, 70)

Asset turnover ratio evaluates how efficiently a company makes sales from its total assets, reflecting operational effectiveness. A higher value of this ratio indicates better asset utilization. (Brealey 2020, 753) Knápková et al. (2017, 107) suggest the value of this indicator to be 1 or higher. However, the recommended value may vary across industries.

$$\text{Asset Turnover Ratio} = \frac{\text{Net Sales}}{\text{Total Assets}}$$

Fixed asset turnover ratio indicates how effectively a firm generates sales from using its property, plant, and equipment. A higher ratio shows optimal use of assets, while declines may signal over-investment or underperformance, though strategic expansions can justify short-term dips. (Fraser and Ormiston 2010, 193-194)

$$\text{Fixed Asset Turnover Ratio} = \frac{\text{Net Sales}}{\text{Fixed Assets}}$$

Inventory turnover ratio calculates how efficiently a company converts its inventory into sales. A high ratio indicates effective management of inventory, reflecting stronger sales performance and reduced holding costs, while a low turnover may signal overstocking or weak demand. (Griffin 2015, 100)

$$\text{Inventory Turnover Ratio} = \frac{\text{Net Sales}}{\text{Inventory}}$$

Accounts payable turnover ratio measures how quickly a firm pays its suppliers. A higher ratio shows timely payments, while a lower ratio may suggest cash flow issues or extended credit terms. (Wahlen et al. 2018, 297-298)

$$\text{Accounts Payable Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Accounts Payable}}$$

Accounts receivable turnover ratio quantifies the efficiency of a company to manage its accounts receivable. The higher the ratio and the faster the cash conversion, the better the accounts receivable management. A declining trend may indicate collection difficulties or lax credit policies. (Griffin 2015, 99)

$$\text{Accounts Receivable Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Accounts Receivable}}$$

3.2.5 Market ratios

Capital market ratios assess a company's market value and investment attractiveness by comparing the stock price to financial fundamentals. These ratios reflect investor expectations about growth, risk, and profitability and are essential tools for equity analysis and relative market position. (Růčková 2019, 71)

Earnings per share measure profitability on a per-share basis of a company, reflecting its ability to generate returns to common shareholders. While widely used by investors, EPS is limited by accounting choices that can misrepresent the quality of earnings. Despite these flaws, it is still a key metric influencing market sentiment and stock valuations. (Fraser and Ormiston 2010, 199)

$$\text{Earnings per Share} = \frac{EAT}{\text{Average Shares Outstanding}}$$

Price-to-earnings ratio reflects investor expectations by comparing a company's stock price to its earnings per share. A high P/E suggests either optimism for growth or overvaluation, while a low P/E may indicate undervaluation or risks. (Fraser and Ormiston 2010, 199-200)

$$P/E = \frac{\text{Market Price per Share}}{\text{Earnings per Share}}$$

Dividend payout ratio indicates the proportion of a firm's net earnings distributed to shareholders as dividends. It explains the company's dividend policy, showing how much of

its profits are returned to investors versus being reinvested into the business for future growth. A higher ratio suggests a greater focus on distributing current income to shareholders. (Růčková 2019, 72)

$$\text{Divident Payout Ratio} = \frac{\text{Dividends per Share}}{\text{Earnings per Share}}$$

Dividend yield is the annual dividend payment as a percentage of the current stock price. It quantifies the cash return that an investor gets every year for each currency unit invested in the stock, based on dividend payouts. It is mostly important to income-oriented investors looking for consistent cash flow from the investment. (Fraser and Ormiston 2010, 200)

$$\text{Divident Yield} = \frac{\text{Dividends per Share}}{\text{Market Price per Share}}$$

3.3 Altman Z-Score model

Altman's Z-Score model remains a prevalent bankruptcy prediction tool. Formulated by Edward Altman, the model utilizes multiple discriminant analyses to come up with a credit score. Through statistical examination, the model considers several financial variables as potential indicators of financial distress, which can predict which firm is likely to face bankruptcy. Unlike structural models that focus on the relationship between asset value and debt obligations, Altman's approach identifies predictive variables, such as working capital or retained earnings, to statistically categorize firms based on their probability of bankruptcy. (Brealey et al. 2020, 626)

The Altman's Z-Score formula for joint-stock companies goes as follows:

$$Z = 1.2 \left(\frac{\text{Net Working Capital}}{\text{Total Assets}} \right) + 1.4 \left(\frac{\text{Retained Earnings}}{\text{Total Assets}} \right) + 3.3 \left(\frac{\text{EBIT}}{\text{Total Assets}} \right) + 0.6 \left(\frac{\text{Market Value of Equity}}{\text{Total Liabilities}} \right) + 1.0 \left(\frac{\text{Sales}}{\text{Total Assets}} \right)$$

(Wahlen et al. 2018, 311)

A Z-Score **above 2.9** indicates a financially stable company with low bankruptcy risk, being in the “safe zone”. Scores ranging **between 1.8 and 2.9** fall in a “grey zone,” where there is no certainty of good financial health, therefore bankruptcy risk cannot be definitively assessed. A score **below 1.8** signals significant financial distress and a high probability of bankruptcy, referred to as the “distress zone”. (Růčková 2019, 81)

3.4 Index IN analysis

The Index IN model is a quantitative finance model with the purpose of estimating corporate bankruptcy risk through the analysis of financial ratios and operating metrics. The Index IN model uses a complex scoring system that uses variables such as liquidity ratios, profitability margins, leverage levels, and operating efficiency into one index. (Vochozka 2011, 237)

Throughout the years, various versions of the IN index have been developed to predict bankruptcy, four of which are IN95, IN99, IN01, and IN05. (Růčková 2019, 83) This research will focus on the IN05 model since it is a more recent upgrade of its predecessor, the IN01 index.

Index IN05 formula goes as follows:

$$IN05 = 0.13 \left(\frac{Total\ Assets}{Total\ Liabilities} \right) + 0.04 \left(\frac{EBIT}{Interest\ Expenses} \right) + 3.97 \left(\frac{EBIT}{Total\ Assets} \right) \\ + 0.21 \left(\frac{Revenues}{Total\ Assets} \right) + 0.09 \left(\frac{Current\ Assets}{Short - term\ Liabilities} \right)$$

Knápková et al. (2017, 134) define a score **exceeding 1.6** as a stable financial position for the company. While values within the **1.6–0.9** range signal a transitional “grey” zone of moderate risk.

II ANALYSIS

4 INTRODUCTION OF THE SELECTED COMPANY

This section introduces Pražská energetika (PRE), a major player in the Czech energy sector, and the third-largest distributor and fourth-largest supplier of electricity in the country.

4.1 Description of the company

The company selected for this analysis, Pražská energetika, is one of the Czech Republic's most significant energy distribution companies, with a primary focus on the city of Prague and its surrounding regions. The firm manages an extensive electrical grid infrastructure that powers everything from Prague's historic center to its expanding metropolitan areas. PRE thus serves as the lifeline to the daily functioning of one of Central Europe's most important urban centers. As a significant regional energy provider, PRE manages the important link between national grid systems and end consumers. The company complements wholesale electricity and gas purchases from producers with retail supply, by which it optimizes grid stability and affordability. PRE is also involved in e-mobility initiatives, promotes photovoltaic technology for electricity generation, and offers a range of energy-related products.

PRE's main activities include:

- electricity distribution – operation and maintenance of the local electricity grid,
- electricity supply – sale of electricity to households, businesses, and institutions,
- gas supply – purchasing and sale of natural gas to customers,
- energy services – energy consulting, installation of energy-saving technologies,
- metering services – providing and managing electricity meters for customers,
- customer services – providing customer support, billing, contracts, and pricing plans,
- e-mobility – development and operation of charging stations for electric vehicles,
- photovoltaic systems – installation of solar power systems for homes and businesses,
- energy efficiency solutions – use of energy-saving technologies and smart metering,
- sales of energy-related products – cooling, water heating, smart home equipment, etc.

4.2 History of Pražská energetika

Pražská energetika has a rich history of more than 120 years, which started when the Elektrické podniky královského hlavního města Prahy (Electric Enterprises of the Royal Capital City of Prague) were founded on September 1, 1897. At the beginning, the company was involved in electricity supply, installation of street lighting, and the running of trams. Over the years, it developed into a modern integrated energy group, becoming the third largest electricity distributor in the Czech Republic, with more than 700,000 customers in Prague. (Doležálek and Ruta 2016)

In recent years, the company has continued to innovate and adapt to the changing energy landscape. It has invested in renewable sources of energy, improved its infrastructure, and expanded its range of services to meet the needs of a growing and environmentally conscious customer base. The company has also embraced digitalization by implementing advanced information systems to improve operational efficiency and customer service.

4.3 Ownership structure of the company

The ownership structure of Pražská energetika is characterized by a two-shareholder model, where Pražská energetika Holding, a.s. is the major stakeholder with 58.05% of the company's total shares. The remaining shares are mainly held by EnBW Central and Eastern Europe Holding GmbH, with a significant ownership of 41.4%. Such a substantial minority ownership indicates a strong external involvement and influence on the company's operational processes and strategic orientations. A small percentage, 0.55%, is distributed between different smaller entities. (Annual report 2023)

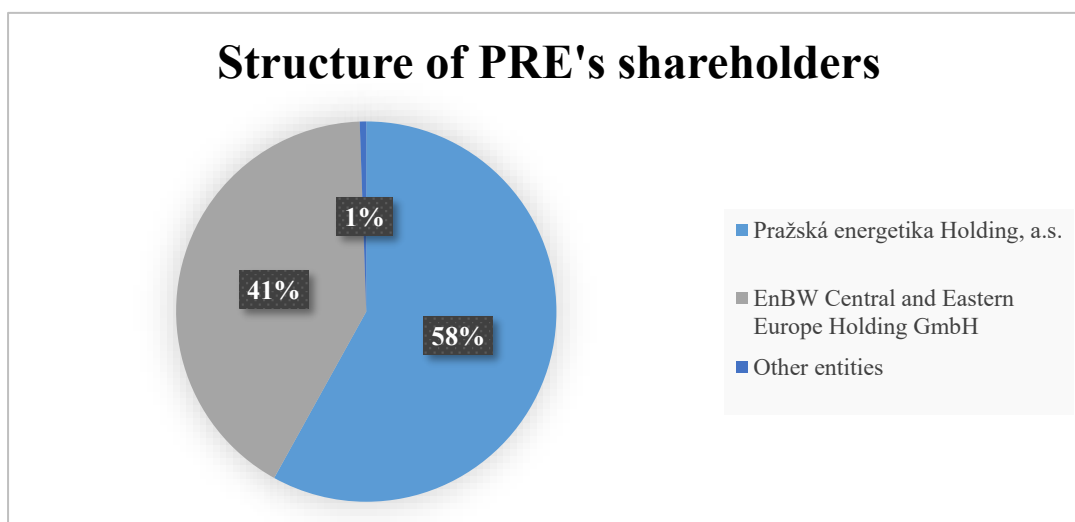


Figure 1 Structure of Pražská energetika's shareholders (own creation)

4.4 Subsidiary companies

Pražská energetika operates through a network of subsidiaries, each specializing in distinct aspects of energy distribution, customer service, infrastructure, and renewable energy.

The PRE Group comprises these key subsidiaries and their respective functions:

- **PREdistribuce, a.s.** – operates, manages, and maintains the electricity distribution network in Prague and Roztoky; handles the construction and restoration of grid infrastructure,
- **PREměření, a.s.** – provides energy services and repairs to customers; handles the installation and reading of electricity meters,
- **eYello CZ, k.s.** – trades in electricity and gas in areas outside the capital city,
- **KORMAK Praha, a.s.** – delivers engineering, project management, and construction for energy networks and transformer stations,
- **PREservisní, s.r.o.** – provides complete engineering, project, and construction work for energy network structures,
- **PREzákaznická, a.s.** – manages all customer services for clients of PRE and eYello,
- **PREnetcom, a.s.** – focuses on the implementation of the smart network concept,
- **SOLARINVEST - GREEN ENERGY, s.r.o.** – installs solar systems, heat pumps, and air-conditioning units,
- **FRONTIER TECHNOLOGIES, s.r.o.** – engages in the development, production, and delivery of intelligent lighting solutions,
- **VOLTCOM, spol. s.r.o.** – specializes in constructing and modernizing transformer and switching stations. (pre.cz)

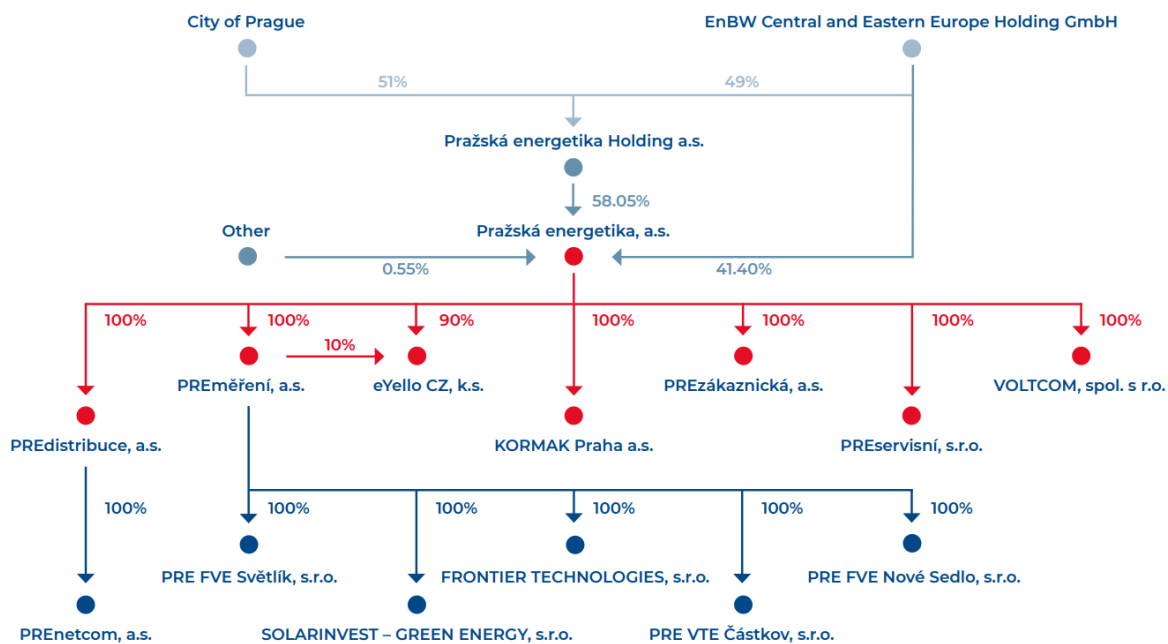


Figure 2 Structure of the relations between PRE and other entities (annual report 2023)

4.5 Industry classification

In the Czech Republic, economic activities are systematically organized using a standardized administrative register known as CZ-NACE. Pražská energetika is categorized as part of the institutional sector number 11003 – Non-financial enterprises under foreign control.

The company's main economic activity is classified under the code 35140 – Distribution of electricity. Other notable economic activities include:

- 461 – Wholesale on a fee or contract basis
- 35230 – Trade of gas through mains
- 43210 – Electrical installation

According to the CZ-NACE classification system, where companies are categorized by the number of employees, Pražská energetika falls under code 330 and employs between 250 and 499 workers. (Český statistický úřad 2025)

5 ANALYSIS OF ABSOLUTE INDICATORS

This section deals with the analysis of the financial condition of Pražská energetika from the years 2021 to 2023. This will be achieved through vertical and horizontal analyses of its balance sheet and income statement. The financial data were gathered from the annual reports of the company, utilizing figures from both the balance sheet and income statement, along with other financial documents. Please note that for the horizontal analysis, the year 2021 has been established as the base year.

5.1 Vertical analysis of assets

The vertical analysis of assets reveals significant changes in the asset composition over the three-year period. A significant portion of the company's asset base is largely made up of fixed assets. In 2021, total fixed assets represented 72.31% of all assets, then dropped to 68.57% in 2022 before rising again to 74.51% in 2023. This suggests a capital-intensive business model due to the extensive infrastructure required for electricity distribution and supply. Tangible assets show noticeable consistency, confirming the infrastructure's central role. The temporary 2022 decline can be a sign of asset disposals or accelerated depreciation during infrastructure upgrades.

Long-term financial assets have an upward trend, increasing from 5.96% in 2021 to 8.01% in 2023. This could mean that the company is investing strategically in other companies or making investments in renewable energy projects with the aim of holding them for a period of more than one year.

The relatively low levels of inventory are typical for an electricity distributor. Electricity distributors, unlike manufacturing or retail companies, do not hold large physical inventories. The changes in receivables suggest potential shifts in credit management or customer payment patterns. The increasing cash and cash equivalents indicate a strengthening liquidity position for Czechia's third biggest energy distributor.

Table 1 Vertical analysis of assets

TOTAL ASSETS	2021	2022	2023
	100%	100%	100%
Total fixed assets	72.31%	68.57%	74.51%
Tangible fixed assets	65.03%	61.13%	65.13%
Intangible fixed assets	1.32%	1.24%	1.37%

Long-term financial assets	5.96%	6.20%	8.01%
Total current assets	27.69%	31.43%	25.49%
Inventory	0.87%	2.44%	1.05%
Receivables	21.81%	23.66%	18.48%
Cash and cash equivalents	5.01%	5.33%	5.96%

5.2 Vertical analysis of liabilities

The vertical analysis of liabilities reveals shifts in sources of funds, liquidity risk, and capital management in the years 2021 and 2023. A notable trend is the decreasing percentage of equity in the capital structure of the firm. Equity represented 54.81% of total liabilities and equity in 2021, falling to 52.11% in 2022 and later to 44.41% in 2023. This trend indicates an increasing reliance on external financing compared to internal funding.

The most dramatic shift within equity is the significant decrease in reserves, turning negative in 2023 (-7.97%). Reserves typically refer to retained earnings that have not been distributed in the form of dividends or other elements influencing equity.

The proportion of non-current liabilities decreased progressively from 25.08% in 2021 to 17.78% in 2023. This could suggest a repayment of long-term debt, a lack of significant new long-term borrowings, or a shift towards short-term financing.

Table 2 Vertical analysis of liabilities

TOTAL LIABILITIES	2021	2022	2023
	100%	100%	100%
Equity	54.81%	52.11%	44.41%
Share capital	9.77%	8.92%	9.21%
Reserves	6.73%	4.51%	-7.97%
Retained earnings	38.31%	38.68%	43.18%
Liabilities	45.19%	47.89%	55.59%
Non-current liabilities	25.08%	21.94%	17.78%
Current liabilities	20.11%	25.95%	37.81%

5.3 Vertical analysis of the income statement

The vertical analysis of the company's income statement from 2021 to 2023 shows a concerning trend in decreasing profitability, rising cost pressures, and changing operational

expenses for Pražská energetika. Even though the company has been able to improve its operating efficiency, this was outweighed by an increase in the cost of goods sold. This situation was driven by rising energy acquisition costs during the energy crisis in Europe and price capping issued by the government that followed.

The gross profit margin has shown a consistent decline over the period, decreasing from 30.48% in 2021 to 22.11% in 2022 and further down to 20.63% in 2023. This indicates that the direct costs associated with delivering electricity consume a growing part of the revenue generated from sales. Therefore, the cost of goods sold as a percentage of net sales has increased significantly from 69.52% in 2021 to 79.37% in 2023. For an electricity supplier, the cost of goods is essentially the cost of the power purchased.

Table 3 Vertical analysis of the income statement

NET SALES	2021	2022	2023
	100.00%	100.00%	100.00%
Cost of goods sold	-69.52%	-77.89%	-79.37%
Gross profit	30.48%	22.11%	20.63%
Operating expenses	-21.25%	-13.92%	-12.59%
Other income	4.01%	3.46%	3.21%
Other expenses	-0.39%	-0.37%	-0.31%
Profit/loss before tax	13.75%	11.11%	10.83%
Income tax	-2.66%	-2.17%	-4.23%
Net profit after tax	11.09%	8.94%	6.61%

5.4 Horizontal analysis of assets

The horizontal analysis of assets shows a company managing energy transition pressures by strategic reallocation of assets, where there is significant working capital volatility, which is typical of the industry. The trends indicate conservative investment in infrastructure combined with increasing financial flexibility to participate in future energy markets.

Total assets experienced a slight overall increase of 6.08% between 2021 and 2023. This suggests a period of expansion that was followed by some consolidation or asset disposal. Intangible fixed assets experienced a decrease of -6.06% between 2021 and 2022 but then increased significantly by 10.48% between 2022 and 2023, resulting in an overall growth of 3.79%. This shows that investments in software, licenses, or goodwill resulting from acquisitions, which are becoming more important for managing a modern electricity

grid. There was also considerable growth in long-term financial assets, with a total increase of 34.40%.

Total current assets increased by 13.51% from 2021 to 2022 but then sharply decreased by -18.90% from 2022 to 2023, resulting in an overall decrease of -7.94% over the three-year period. Inventory levels show extreme fluctuations, increasing by 180.46% from 2021 to 2022 before plummeting by -56.97% from 2022 to 2023. This can be explained by a major change in accounting for certain operational supplies. A decline in receivables may reflect changes in credit policies or a decrease in sales towards the end of the analyzed period. Cash and cash equivalents showed consistent growth, indicating an improvement in the liquidity position of Pražská energetika.

Table 4 Horizontal analysis of assets

TOTAL ASSETS	2021 - 2022	2022 - 2023	2021 - 2023
	9.44%	-3.07%	6.08%
Total fixed assets	-5.17%	8.66%	3.04%
Tangible fixed assets	-6.00%	6.54%	0.15%
Intangible fixed assets	-6.06%	10.48%	3.79%
Long-term financial assets	4.03%	29.19%	34.40%
Total current assets	13.51%	-18.90%	-7.94%
Inventory	180.46%	-56.97%	20.69%
Receivables	8.48%	-21.89%	-15.27%
Cash and cash equivalents	6.39%	11.82%	19.00%

5.5 Horizontal analysis of liabilities

The horizontal analysis of liabilities and equity for the period reveals that retained earnings have gone up, although the substantial decrease in reserves has led to a fall in overall equity.

Total equity experienced a significant decrease of -14.08% between 2021 and 2023. However, this decline was not consistent, with a smaller increase of 4.02% from 2021 to 2022, followed by a big decrease of -17.39% from 2022 to 2023.

Reserves experienced a dramatic decline, falling by -26.67% from 2021 to 2022 and then by -271.46% from 2022 to 2023, leading to an overall decrease of -225.73%. This could be a consequence of the energetic crisis, which impacted not only Pražská energetika but also other suppliers in the energy sector.

Retained earnings showed consistent growth, increasing by 10.46% from 2021 to 2022 and by 8.20% from 2022 to 2023, resulting in a healthy overall increase of 19.51%. This indicates that the company has been able to generate profits that have been retained within the business. However, this growth was not enough to offset the considerable decline in reserves and the slight decrease in share capital, leading to an overall decline in equity. Current liabilities experienced a substantial increase, which can impact PRE's short-term liquidity and working capital management.

Table 5 Horizontal analysis of liabilities

TOTAL LIABILITIES	2021 - 2022	2022 - 2023	2021 - 2023
	9.44%	-3.07%	6.08%
Equity	4.02%	-17.39%	-14.08%
Share capital	-0.08%	0.05%	-0.03%
Reserves	-26.67%	-271.46%	-225.73%
Retained earnings	10.46%	8.20%	19.51%
Liabilities	16.02%	12.51%	30.52%
Non-current liabilities	-4.26%	-21.44%	-24.79%
Current liabilities	41.31%	41.19%	99.51%

5.6 Horizontal analysis of the income statement

The horizontal analysis of the income statement shows a period of significant revenue growth for Pražská energetika, driven mainly by rising energy prices. However, the cost of goods increased at an even faster rate, putting pressure on gross margins. Although operating expenses also increased, the company was still able to achieve substantial growth in profit before tax.

Net sales experienced significant growth, increasing by 63.86% from 2021 to 2022 and further by 26.59% from 2022 to 2023, resulting in a cumulative increase of 107.48% over the three years. This indicates a substantial expansion in the company's revenue generation.

The cost of goods sold saw even larger increases, going up by 83.59% from 2021 to 2022 and by 29.01% from 2022 to 2023, leading to an overall surge of 136.84%. The expenses directly associated with supplying electricity climbed at a higher rate, therefore putting pressure on gross profitability.

Despite the rising cost of goods sold, gross profit increased overall by 40.40%. However, the rate of increase in gross profit was considerably lower than the one of net sales, indicating a reduction in gross profit margin, as seen in the vertical analysis.

Table 6 Horizontal analysis of the income statement

NET SALES	2021 - 2022	2022 - 2023	2021 - 2023
	63.86%	26.59%	107.48%
Cost of goods sold	83.59%	29.01%	136.84%
Gross profit	18.87%	18.10%	40.40%
Operating expenses	7.56%	14.45%	23.11%
Other income	41.29%	17.44%	65.94%
Other expenses	53.93%	6.57%	64.04%
Profit/loss before tax	31.35%	24.14%	63.06%
Income tax	33.72%	146.60%	229.75%
Net profit after tax	30.79%	-5.80%	23.28%

6 ANALYSIS OF RATIO INDICATORS

This section is dedicated to financial ratio analysis, which offers more precise insights into a company's performance than horizontal or vertical analyses by connecting core financial figures. These indicators reveal important characteristics when it comes to liquidity, debt, and profitability, and therefore assist management, investors, and creditors in their decision-making.

6.1 Profitability ratios

Profitability ratios, including ROA (Return on assets), ROE (Return on equity), and ROS (Return on sales), show a company's ability to generate earnings relative to its revenue, assets, and equity.

The **ROA**, which measures how efficiently the company is using its assets to generate profit, shows an improved efficiency in the utilization of assets, starting at 6.37% in 2021 and then increasing to 7.69% in 2022. However, the coming year reflects a marginal fall in the profitability of PRE's assets, as shown in the decline of the ROA to 7.42% in 2023. This performance shows the company's capacity to maintain a healthy return on its investments despite market fluctuations between 2022 and 2023.

Table 7 Return on assets

ROA (%)	2021	2022	2023
	6.37%	7.69%	7.42%

The company's **ROE** exhibited a consistent positive trend throughout the analyzed period. Starting at 11.62% in 2021, the ROE steadily increased to 14.76% in 2022 and rose further to 16.71% in 2023. This increasing trend demonstrates an improving ability of shareholders to generate profit from investment. The increasing ROE demonstrates the increasing financial leverage and profitability to equity holders and demonstrates an improving trend in the financial performance of the company from the owners' perspective.

Table 8 Return on equity

ROE (%)	2021	2022	2023
	11.62%	14.76%	16.71%

The **ROS** showed a declining trend from 2021 to 2023. The ROS decreased from 11.09% in 2021 to 8.94% in 2022 and further down to 6.60% in 2023. This consistent decrease suggests a diminishing profit margin generated from each unit of sales revenue over the period due to the capping of energy prices. Even though the PRE was profitable, the falling ROS indicates that a smaller percentage of each sale was retained as profit in the later years compared to the beginning of the observed period.

Table 9 Return on sales

ROS (%)	2021	2022	2023
	11.09%	8.94%	6.60%

6.2 Liquidity ratios

Liquidity ratios are significant metrics for evaluating the capacity of a company to fulfill its short-term financial commitments by comparing its liquid assets with its short-term liabilities. A good level of liquidity ratios typically indicates that a company possesses adequate liquid assets to manage its short-term liabilities, thereby offering a cushion against unexpected cash flow problems.

PRE's **current ratio** displays a downward trend from 2021 to 2023. Starting at 1.38 in 2021, it decreased to 1.21 in 2022 and further declined to 0.67 in 2023. As the ideal benchmark for the current ratio is typically in the range of 1.5 to 2.5, the firm's current ratio consistently stayed lower than the desired range. This consistent deviation below the recommended range indicates that Pražská energetika has been experiencing ongoing difficulties in holding enough liquid assets to cover its short-term obligations comfortably.

Table 10 Current ratio

Current ratio	2021	2022	2023
	1.38	1.21	0.67

The **quick ratio** also shows a similar trend, as companies in the energy sector do not hold large inventories. In 2021 and 2022, the ratio was in or just above the lower end of the recommended range of 1 to 1.5. Furthermore, the significant drop in 2023 to below 1 suggests a weakening in the short-term liquidity position, which reflects decreased capacity to pay short-term obligations with its most liquid assets aside from inventory.

Table 11 Quick ratio

Quick ratio	2021	2022	2023
	1.33	1.12	0.65

The company's **cash ratio** displayed a consistent decline from 0.25 in 2021 to 0.21 in 2022, and further to 0.16 in 2023. Though the cash ratios in 2021 and 2022 were at the lower end of the ideal range of 0.20 to 0.5, the decline below 0.20 in 2023 reveals a reduction in the percentage of the most liquid assets available to cover short-term obligations. This suggests short-term liquidity decrease and an expected greater reliance on other current assets or cash flow sources to finance its short-term liabilities over the last year.

Table 12 Cash ratio

Cash ratio	2021	2022	2023
	0.25	0.21	0.16

6.3 Solvency ratios

Solvency ratios are financial metrics that examine an organization's capability to fulfill long-term commitments, projecting its chances of long-term survivability over the long term. In contrast to liquidity ratios, these ratios deal with the overall capital structure of an entity, both debt and equity, in order to evaluate its long-term financial health.

The **debt-to-equity** ratio shows a clear upward trend. Starting at 0.82 in 2021, the ratio increased to 0.92 in 2022 and further climbed to 1.25 by 2023. The trend indicates increasing dependence on debt financing relative to equity. Increasing debt-to-equity can mean higher financial leverage, which will enhance returns during favorable times. But it also makes the company more vulnerable to financial risk and sensitive to economic downturns or changes in interest rates.

Table 13 Debt-to-equity ratio

Debt-to-equity ratio	2021	2022	2023
	0.82	0.92	1.25

The **debt ratio** shows a consistent increase over the observed period. It rose from 45% in 2021 to 48% in 2022 and further reached 56% in 2023. This increasing trend shows that

there has been a growing reliance on external financing to finance PRE's assets. If this trajectory continues, it could put excessive pressure on the company's ability to service its debt, particularly in a period of high interest rates.

Table 14 Debt ratio

Debt ratio (%)	2021	2022	2023
	45%	48%	56%

The **equity ratio**, which represents the percentage of a firm's assets that are funded by the shareholders' equity, demonstrates a steady decrease over a period of three years. From a high of 55% in 2021, the ratio decreased to 52% in 2022 before dropping further to 44% in 2023. This pattern is consistent with the increasing debt levels noted in previous analyses, thereby increasing concerns about the company's increasing leverage.

Table 15 Equity ratio

Equity ratio (%)	2021	2022	2023
	55%	52%	44%

6.4 Efficiency ratios

The efficiency ratios assess a company's ability to manage operating expenses in relation to its revenues, with lower values indicating better cost control and operational performance. A comparison of such efficiency ratios helps stakeholders to identify areas where a firm's productivity and general financial well-being can be improved.

The **asset turnover ratio** increased steadily from 0.57 in 2021 to 1.12 in 2023, reflecting significantly greater efficiency in generating revenue from its asset base. This shows better utilization of infrastructure and higher energy sales volumes compared to asset size.

Table 16 Asset turnover ratio

Asset turnover ratio	2021	2022	2023
	0.57	0.86	1.12

The **fixed asset turnover ratio** shows a strong upward trend, increasing from 0.88 in 2021 to 1.72 in 2023. This trend indicates a growing efficiency in generating revenue from

the company's long-term assets, with significant gains observed each year. The consistent rise suggests improved asset productivity and operational effectiveness.

Table 17 Fixed asset turnover ratio

Fixed asset turnover ratio	2021	2022	2023
	0.88	1.41	1.72

The **inventory turnover ratio** fluctuated significantly, peaking at 84.96 in 2023 after falling to 27.40 in 2022. Inventory ratios are irrelevant for energy distributors and suppliers, as electricity cannot be stored. Fluctuations are due to accounting treatments of spare parts and do not indicate operating performance.

Table 18 Inventory turnover ratio

Inventory turnover ratio	2021	2022	2023
	45.96	27.40	84.96

The **accounts payable turnover ratio** showed a steady increase from 8.56 in 2021 to 9.37 in 2023. This pattern indicates a trend towards paying suppliers more frequently relative to the cost of goods sold, which can imply increased liquidity or shorter payment periods.

Table 19 Accounts payable turnover ratio

Accounts payable turnover ratio	2021	2022	2023
	8.56	9.10	9.37

The accounts receivable turnover ratio improved consistently from 6.19 in 2021 to 9.09 in 2023, indicating much faster collection of payments from customers. This 47% increase suggests either stricter credit policies, improved billing procedures, or improved payment practices for commercial customers.

Table 20 Accounts receivable turnover ratio

Accounts receivable turnover ratio	2021	2022	2023
	6.19	7.78	9.09

6.5 Market ratios

Market ratios provide important insights into how the market values a company's value compared to its financial performance and shareholder returns.

From 2021 to 2022, **earnings per share** rose substantially, indicating positive performance. However, in 2023, there was a small decrease, suggesting a potential shift in trend, but the EPS remained strong compared to 2021.

Table 21 Earnings per share

Earnings per share	2021	2022	2023
	652 CZK	862 CZK	806 CZK

The **P/E ratio** decreased from 2021 to 2022, suggesting lower valuation relative to earnings, but rose again in 2023, indicating a partial recovery in investor sentiment. The 2023 rebound indicates a partial recovery in market confidence despite lower EPS.

Table 22 Price-to-earnings ratio

P/E ratio	2021	2022	2023
	26.76	21.29	23.08

The **dividend payout ratio** decreased from 0.67 in 2021 to 0.51 in 2022, indicating a smaller proportion of earnings paid out as dividends. The stable DPS of 440 CZK confirms a rigid dividend policy, while changes in the payout ratio were caused by variable earnings.

Table 23 Dividend payout ratio

Dividend payout ratio	2021	2022	2023
	0.67	0.51	0.55

With a constant DPS, the declining **dividend yield** from 2.52% in 2021 to 2.37% in 2023 shows an increasing market price per share, as investors are paying more for every unit of dividend income. This shows gradual stock price appreciation outpacing dividend growth.

Table 24 Dividend yield

Dividend yield (%)	2021	2022	2023
	2.52%	2.40%	2.37%

7 APPLICATION OF BANKRUPTCY MODELS

This section applies two established bankruptcy prediction methods, Altman's Z-score and the Index IN05 model, to evaluate the financial stability of Pražská energetika.

7.1 Altman Z-Score analysis

The Altman Z-scores calculated for Pražská energetika during the three-year period position it within the "safe zone," showing a low probability of bankruptcy. With scores of 3.73 in 2021, increasing to 3.83 in 2022, and later to 3.84 in 2023, all values are significantly above the benchmark of 2.9. This continuing placement in the safe zone suggests a strong and stable financial condition with a minimal risk of financial distress. The small increase in the Z-score over the analyzed period further reinforces the positive outlook on the company's long-term financial health and solvency.

For the estimation of the total market value of equity, it was necessary to find out the total number of issued shares, which can be found in the annual reports. This total share count was then multiplied by the average market price per share for the years 2021, 2022, and 2023, obtained from the website kurzy.cz.

Table 25 Altman Z-Score

Z-Score	2021	2022	2023
	3.73	3.83	3.84

7.2 Index IN05 analysis

The IN05 index values for Pražská energetika over the period 2021 to 2023 consistently indicate a stable financial position. The scores of 2.32 for 2021, 2.20 for 2022, and 2.49 for 2023 are all way higher than the threshold of 1.6, which is defined as a benchmark of a satisfactory financial situation. This suggests that, based on the IN05 model, the company has maintained a robust financial standing throughout the analyzed period, exhibiting a low probability of financial distress. The slight fluctuations between the years do not represent a significant deviation from this stable zone.

Table 26 Index IN05

Index IN05	2021	2022	2023
	2.32	2.20	2.49

8 EVALUATION AND RECOMMENDATIONS

During the years 2021 to 2023, Pražská energetika's finances showed an ability to withstand difficulties, but also faced some problems. The company reflected the expansion of revenues driven by the rise in energy prices and improved its operating efficiency. However, profitability was pressured by increasing energy acquisition costs and government price caps, leading to reduced profit margins. Even though significant cash investments were channeled into the upgrading of the grid infrastructure, Pražská energetika showed improvements in asset management effectiveness.

Profitability ratios of Pražská energetika present a mixed picture. ROA remained stable, showing a good return on investment. However, ROS declined, showing declining profit margins due to the facts mentioned above. On the other hand, ROE increased, showing increased profit for shareholders. In summary, the company managed to maintain returns to shareholders but was not efficient in turning sales into profit.

PRE's liquidity ratios indicate a weakening short-term financial position. The current ratio, quick ratio, and cash ratio all demonstrate a downward trend during the analyzed period. This pattern shows a concerning decline in the company's ability to meet its short-term obligations and a higher dependence on other current assets or even cash flow sources.

The solvency ratios indicate a growing dependence on borrowed funds. The debt-to-equity and debt ratios increased, and the equity ratio decreased. This suggests a higher financial leverage. Though this can boost returns, it also increases financial risk and sensitivity to economic downturns. The high leverage may weaken the company's ability to pay its debt.

Pražská energetika's efficiency ratios generally reflect positively on its operational management. The asset turnover and fixed asset turnover ratios increased, indicating more effective revenue generation from assets. The company also showed improvements in managing its working capital, with quicker collection of receivables and faster payment to suppliers.

The values of market ratios present a mixed view. The earnings per share increased from 2021 to 2022 but slightly decreased in 2023, though it remained strong compared to 2021. The price-to-earnings ratio decreased initially and then increased, indicating some fluctuation in market valuation. The dividend payout ratio decreased, reflecting a reduced percentage of earnings used for dividend payment.

The bankruptcy models put Pražská energetika in a situation of financial stability, as all the calculated values were well above critical thresholds. This indicates a low risk of bankruptcy, proving the company's strong solvency and good financial management. The results show sustained stability, thereby confirming its resilience and long-term viability.

To improve its financial health and ensure long-term sustainability, PRE should implement a comprehensive set of strategic financial and operational measures. To begin with, the firm should resolve its declining profitability, especially the pressures caused by rising energy acquisition costs. This can be done by investing in renewable energy projects, which could reduce dependence on regulated pricing while benefiting from the transition to sustainable energy. Also, a cost optimization program, focusing on digitization and automation, could significantly reduce operational expenses and improve overall margins.

To enhance liquidity management, Pražská energetika needs to improve its working capital strategies through faster collection of receivables and by negotiating extended payment terms with suppliers. Regarding solvency and debt structure, the company should consider refinancing high-cost debt at lower interest rates and issuing corporate bonds under favorable market conditions. When it comes to assets, investments in smart grid technologies and predictive maintenance will further increase operational efficiency and revenue generation from existing assets. By implementing these comprehensive strategies, Pražská energetika can reinforce its financial resilience, sustain profitability, and secure its competitive advantage in the energy sector.

CONCLUSION

The main goal of this thesis was to analyze the financial position of Pražská energetika during the energy crisis by examining the company's financial health and performance based on the information gathered from its annual reports. In the end, the study suggested recommendations for Pražská energetika's financial strategies.

The analysis conducted using the methods introduced in the theoretical section shows that Pražská energetika maintained stable financial performance during the analyzed period. The results indicate the company remains financially healthy and competitive in the energy market despite the harsh challenges it faced over the years. These findings are supported by multiple financial indicators that confirm PRE's continued stability and strong market position.

However, there is still room for improvement. PRE should address declining profitability through renewable energy investment and cost optimization. Working capital strategies should be improved to enhance liquidity, and solvency could be enhanced by refinancing debt. Further investment in smart grid technologies is also recommended to increase efficiency.

Conducting this research helped me learn a lot about the company I worked for during the last year. By methodical approach, I was able to successfully deduct this analysis and interpret the findings, thus garnering a lot of experience not only in the field of economics but also in the ability to synthesize information into relevant conclusions.

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LIST OF ABBREVIATIONS

DPS	Dividends per share
EAT	Earnings after taxes
EBT	Earnings before taxes
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EPS	Earnings per share
P/E	Price-to-earnings
PRE	Pražská energetika
ROA	Return on assets
ROE	Return on equity
ROS	Return on sales

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APPENDIX 1: BALANCE SHEET 2021

Consolidated statement of financial position (balance sheet) (TCZK)

		2021	2020
Assets	Note		Adjusted*
Property, plant and equipment	(15)	25,763,401	25,136,698
Intangible assets	(16)	522,848	491,329
Right-of-use	(17)	1,731,964	1,595,025
Trade and other receivables	(21)	172,157	270,014
Receivables from the revaluation of derivatives	(20)	411,803	66,387
Deferred tax asset	(12)	45,736	44,270
Non-current assets		28,647,909	27,603,723
Inventories	(22)	344,214	115,171
Contract assets	(19)	674,102	484,258
Tax assets	(12)	100,455	61,786
Receivables from the revaluation of derivatives	(20)	3,676,383	460,476
Trade and other receivables	(21)	4,189,842	1,798,698
Cash and cash equivalents	(23)	1,984,827	1,895,661
Current assets		10,969,823	4,816,050
Total assets		39,617,732	32,419,773
Equity and liabilities			
Share capital	(29)	3,869,443	3,869,443
Reserves	(30)	2,663,983	1,173,510
Retained earnings		15,178,666	14,328,599
Equity attributable to the parent company's shareholders		21,712,092	19,371,552
Loans	(24)	3,100,000	3,100,000
Contract liabilities	(25)	1,648,095	1,640,464
Payables from the revaluation of derivatives	(26)	636,149	112,937
Trade and other payables	(27)	9,932	166,056
Lease liabilities	(17)	1,608,916	1,507,575
Provisions	(28)	322,886	370,984
Deferred tax liability	(12)	2,610,545	2,157,949
Non-current liabilities		9,936,523	9,055,965
Loans	(24)	1,236,667	671,738
Contract liabilities	(25)	1,393,175	1,111,825
Tax liabilities	(12)	13,344	3,301
Payables from the revaluation of derivatives	(26)	3,103,882	419,830
Trade and other payables	(27)	1,846,363	1,450,696
Lease liabilities	(17)	181,935	128,420
Provisions	(28)	193,751	206,446
Current liabilities		7,969,117	3,992,256
Total liabilities		39,617,732	32,419,773

APPENDIX 2: INCOME STATEMENT 2021

Consolidated income statement (TCZK)

	Note	2021	2020
Revenue from electricity produced		444,368	442,235
Revenue from electricity and gas sold		22,312,516	20,884,949
Cost of electricity and gas sold		(15,819,628)	(14,358,241)
Gross profit from the sale of commodities	(4)	6,937,256	6,968,943
Other operating revenue	(4)	586,118	581,623
Personnel expenses	(6)	(1,683,084)	(1,607,550)
Amortisation and depreciation	(15, 16)	(1,379,411)	(1,315,987)
Amortisation of the right-of-use	(17)	(154,943)	(151,998)
Cost of purchased services, material and energy	(7)	(1,419,174)	(1,419,571)
Borrowing costs	(8)	(87,808)	(108,401)
Capitalisation	(9)	284,374	331,525
Impairment gains (losses) for financial assets	(10)	40,777	(112,409)
Other gains and losses	(11)	4,570	(4,966)
Profit before tax		3,128,675	3,161,209
Income tax	(12)	(605,830)	(613,012)
Profit after tax		2,522,845	2,548,197
Basic and diluted earnings per share attributable to ordinary shares (CZK)	(14)	652	659

APPENDIX 3: BALANCE SHEET 2022

Consolidated statement of financial position (balance sheet) (MCZK)

Assets	Note	2022	2021
Property, plant and equipment	(15)	26,507	25,763
Intangible assets	(16)	537	523
Share in joint venture		1	--
Right-of-use	(17)	1,694	1,732
Trade and other receivables	(21)	231	172
Receivables from revaluation of derivatives	(20)	716	412
Deferred tax asset	(12)	45	46
Non-current assets		29,731	28,648
Inventories	(22)	1,060	344
Contract assets	(19)	753	674
Tax assets	(12)	14	101
Receivables from revaluation of derivatives	(20)	4,701	3,676
Trade and other receivables	(21)	4,791	4,190
Cash and cash equivalents	(23)	2,309	1,985
Current assets		13,628	10,970
Total assets		43,359	39,618
Equity and liabilities			
Share capital	(29)	3,869	3,869
Reserves	(30)	1,955	2,664
Retained earnings		16,771	15,179
Equity attributable to the parent company's shareholders		22,595	21,712
Loans	(24)	3,100	3,100
Contract liabilities	(25)	1,778	1,648
Payables from revaluation of derivatives	(26)	390	636
Trade and other payables	(27)	10	10
Lease liabilities	(17)	1,580	1,609
Provisions	(28)	259	323
Deferred tax liability	(12)	2,394	2,611
Non-current liabilities		9,511	9,937
Loans	(24)	67	1,237
Contract liabilities	(25)	2,584	1,393
Tax liabilities	(12)	330	13
Payables from revaluation of derivatives	(26)	4,642	3,104
Trade and other payables	(27)	3,191	1,846
Lease liabilities	(17)	192	182
Provisions	(28)	247	194
Current liabilities		11,253	7,969
Total liabilities		43,359	39,618

APPENDIX 4: INCOME STATEMENT 2022

Consolidated income statement (MCZK)

	Note	2022	2021
Revenue from electricity produced		431	444
Revenue from electricity and gas sold		36,858	22,313
Cost of electricity and gas sold		(29,043)	(15,820)
Gross profit from the sale of commodities	(4)	8,246	6,937
Other operating revenue	(4)	806	586
Personnel expenses	(6)	(1,847)	(1,683)
Amortisation and depreciation	(15, 16)	(1,383)	(1,379)
Depreciation of the right-of-use	(17)	(161)	(155)
Cost of purchased services, material and energy	(7)	(1,801)	(1,419)
Borrowing costs	(8)	(137)	(88)
Capitalisation	(9)	336	284
Impairment losses (gains) for financial assets	(10)	(66)	41
Other gains and losses	(11)	150	5
Profit before tax		4,143	3,129
Income tax	(12)	(808)	(606)
Profit after tax		3,335	2,523
Basic and diluted earnings per share attributable to ordinary shares (CZK)	(14)	862	652

APPENDIX 5: BALANCE SHEET 2023

Consolidated statement of financial position (balance sheet) (MCZK)

Assets	Note	2023	2022
Property, plant and equipment	(15)	27,371	26,507
Intangible assets	(16)	577	537
Share in joint venture		19	1
Right-of-use	(17)	1,589	1,694
Trade and other receivables	(21)	268	231
Receivables from revaluation of derivatives	(20)	245	716
Loans granted	(22)	49	—
Deferred tax asset	(12)	1,195	45
Non-current assets		31,313	29,731
Inventories	(23)	441	1,060
Contract assets	(19)	1,069	753
Tax assets	(12)	118	14
Receivables from revaluation of derivatives	(20)	1,385	4,701
Trade and other receivables	(21)	5,193	4,791
Loans granted	(22)	1	—
Cash and cash equivalents	(24)	2,506	2,309
Current assets		10,713	13,628
Total assets		42,026	43,359
Equity and liabilities			
Share capital	(30)	3,869	3,869
Reserves	(31)	(3,350)	1,955
Retained earnings		18,146	16,771
Equity attributable to the parent company's shareholders		18,665	22,595
Loans received	(25)	500	3,100
Contract liabilities	(26)	1,820	1,778
Payables from revaluation of derivatives	(27)	922	390
Trade and other payables	(28)	11	10
Lease liabilities	(17)	1,465	1,580
Provisions	(29)	267	259
Deferred tax liability	(12)	2,487	2,394
Non-current liabilities		7,472	9,511
Loans received	(25)	2,647	67
Contract liabilities	(26)	2,325	2,584
Tax liabilities	(12)	534	330
Payables from revaluation of derivatives	(27)	5,953	4,642
Trade and other payables	(28)	3,997	3,191
Lease liabilities	(17)	208	192
Provisions	(29)	225	247
Current liabilities		15,889	11,253
Total liabilities		42,026	43,359

APPENDIX 6: INCOME STATEMENT 2023

Consolidated income statement (MCZK)

	Note	2023	2022
Revenue from electricity produced		453	431
Revenue from electricity and gas sold		46,755	36,858
Cost of electricity and gas sold		(37,469)	(29,043)
Gross profit from the sale of commodities	(4)	9,739	8,246
Other operating revenue	(4)	986	806
Personnel expenses	(6)	(2,099)	(1,847)
Amortisation and depreciation	(15, 16)	(1,459)	(1,383)
Depreciation of the right-of-use	(17)	(158)	(161)
Cost of purchased services, material and energy	(7)	(2,226)	(1,801)
Borrowing costs	(8)	(144)	(137)
Capitalisation	(9)	526	336
Impairment (gains) losses for financial assets	(10)	(53)	(66)
Other gains and losses	(11)	1	150
Profit before tax		5,113	4,143
Income tax	(12)	(1,995)	(808)
Profit after tax		3,118	3,335
Basic and diluted earnings per share attributable to ordinary shares (CZK)	(14)	806	862