Impact Factor: 9.9 ISSN-L: 2544-980X

Evaluation of Capital Assets in Companies of Uzbekistan

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Abstract: The article discusses the practical dimensions of capital assets, emphasizing their unique features and current significance. Additionally, it presents conclusions and recommendations regarding capital assets.

Kew Words: capital, capital assets, capital value, assessment, profitability.

INTRODUCTION

In developed nations, accurately assessing the business value of companies has become a crucial requirement, particularly in terms of determining their capital value and enhancing their attractiveness for investment. In Uzbekistan, valuing capital assets typically involves evaluating their market value, which is the price a willing buyer would pay to a willing seller in an open market. The valuation approach can differ depending on the type of asset—such as real estate, machinery, or other capital forms.

For real estate, factors like location, condition, and market demand are vital. Professional appraisers often utilize methods like the comparable sales approach, income approach, or cost approach to establish value. While standard valuation methods are applied in Uzbekistan, it is essential to take into account specific local regulations and practices.

Currently, Uzbekistan is undertaking significant efforts to advance the operations of joint stock companies. Notably, recent years have seen the establishment of legal frameworks for the public sale of state-owned assets involved in investment projects of domestic joint stock companies. However, the government's significant stake in these companies, coupled with an underdeveloped stock market and its minimal impact on the economy, poses challenges to the implementation of modern techniques for valuing the capital of joint stock companies.

LITERATURE REVIEW

Throughout our paper, we examined various scientific studies. Foreign economists Modigliani and Miller explored capital structure and value estimation, providing insights into the principles of capital structure formation. Specifically, their theory on capital structure and value assessment is grounded in the notion of determining capital value and structure without considering factors such as taxes, bankruptcy, volatile capital markets, and inflation, which significantly impact the real economy[2].

In Robert Hamada's research, he revised Modigliani and Miller's average cost of capital model by incorporating elements from the models of William Sharpe and Modigliani and Miller to assess the value of a company’s private equity[3].

Stiglitz, an external economist, identified five shortcomings in the Modigliani and Miller theory through his research. He argued that the theory fails to consider the effect of a company's bankruptcy risk on the weighted average cost of capital. Specifically, Modigliani and Miller's framework

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[2] Modigliani F, Miller M.H. 1958. The cost of capital, corporation finance and the theory of investment. The American Economic Review, Vol. 48, No. 3 pp.261–97

[3] Hamada R (1969) Portfolio analysis, market equilibrium, and corporate finance. The Journal of Finance, Vol. 24, No. 1. pp. 13–31

overlooks the implications of bankruptcy and financial challenges, even though the likelihood of bankruptcy is a crucial factor in evaluating a company's capital value[4].

G. Donaldson, a foreign economist, applied capital structure theory to analyze the financial strategies of several U.S. companies in his research. He concluded that a company's capital structure is associated with its capital hierarchy[5].

In Fama and French's scientific research, they noted that both factors are important when evaluating the company's capital value, taking into account factors such as financial difficulties and the company's hierarchy[6].

American economists Stephen Ross, Randolph Westerfield, and Bradford Jordan argue that financial managers should oversee three key areas within a company. The first area is capital investment financing (budgeting), which involves planning and managing the company's long-term capital investments. The second area focuses on the company's capital structure, which includes identifying and managing the necessary sources for financing these long-term investments. The third area is working capital management, which entails overseeing short-term assets and liabilities to ensure the smooth operation of the company and the continuity of its production processes[7]. In particular, Robert Merton, a foreign economist, systematized the ICAPM (Intertemporal Capital Asset Pricing Model) model for evaluating financial assets over time to solve this problem. This model evaluates the company's financial assets taking into account different time periods for the financial market to reach equilibrium[8].

ANALYSIS AND RESULTS

Various methodologies exist for evaluating the capital value of companies, and financial managers must consider factors such as the industry characteristics of the joint-stock company, its financial capabilities, and the degree of influence it has on external environmental changes. Research has indicated that the use of the Gordon and WACC models provides significant advantages, with reliable results demonstrated through the assessment of capital costs for the joint-stock company "Uzmetkombinat".

[4] Stiglitz, Joseph E, (1969). "A Re-Examination of the Modigliani-Miller Theorem," American Economic Review, American Economic Association, Vol. 59, No. 5 pp. 784-793
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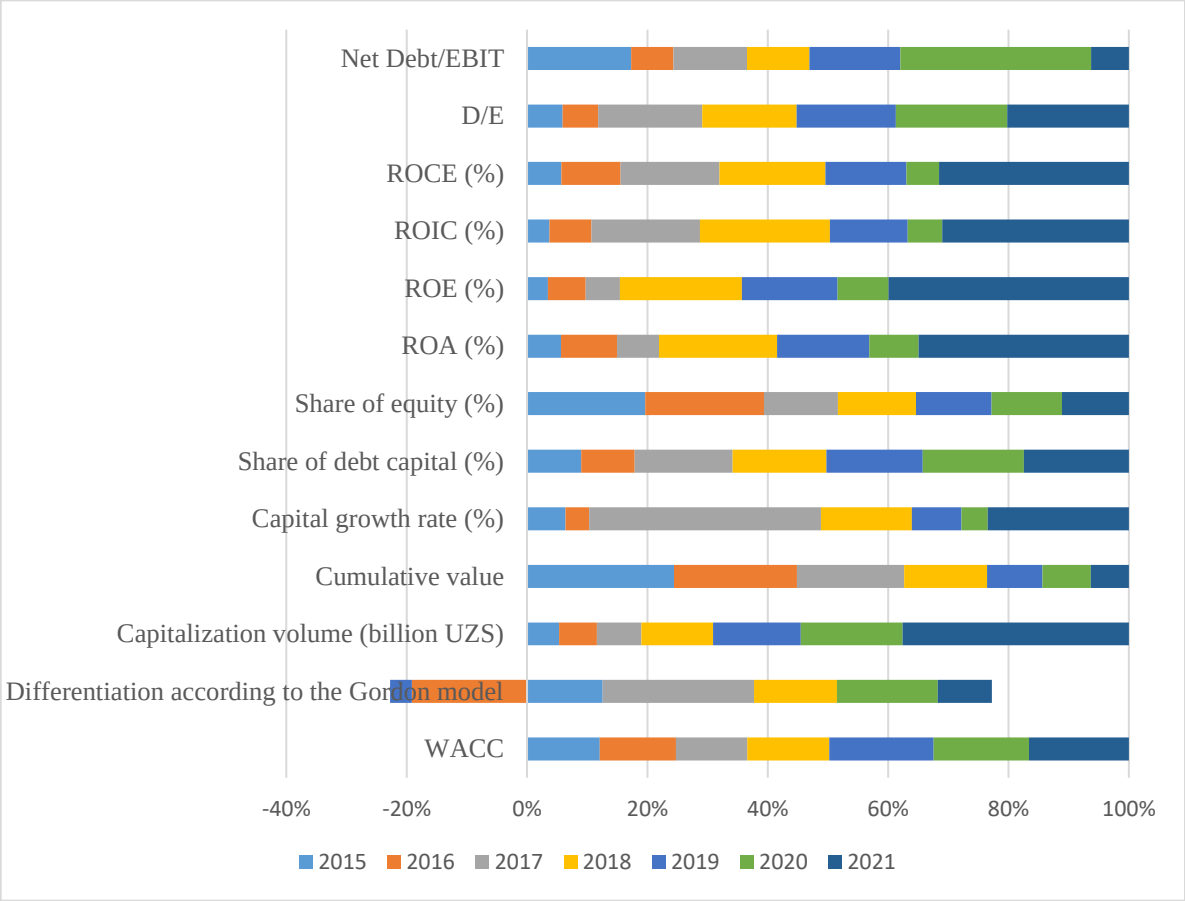

Figure 1. Analysis of capital cost and multiplier coefficients of "Uzmetkombinat" JSC

The use of capital by the joint-stock company "Uzmetkombinat" makes it possible to form general conclusions based on the relationship between efficiency indicators and multiplier coefficients. In 2015-2017, the weighted average cost of capital had an increasing-decreasing trend, and it can be seen that the main connecting factors are the increased efficiency of the ROIC coefficient. Also, the growth of the debt capital affects the change of the ROA ratio, along with the direct growth of the financial leverage ratio. As a result of the society's modernization of means of production, expansion and diversification of investment activities, the market capitalization increased by more than 7 times and the income from product sales increased by 8.5 times during 2015-2021.

CONCLUSION

There are several shortcomings and challenges associated with determining efficiency coefficients in the formation and utilization of company capital, particularly when using multiplier coefficients recommended by international standards or rating agencies for assessing the economic efficiency of investment projects. Firstly, joint-stock companies may face difficulties in preparing financial reports that align with international standards and making them available to the public. Secondly, certain structural indicators necessary for calculating multiple multiplier coefficients may be unavailable or insufficiently detailed in the national unified assessment standard. Thirdly, obtaining comprehensive information on the factors used in some econometric models can be limited. Furthermore, the prevalent reliance on the cost approach instead of the income method to evaluate the capital value of most joint-stock companies indicates underlying issues in the assessment process.

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