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Abstract

The aim of the study is to examine the overall performance of Apollo Food Holdings Berhad with specific risk factors and macroeconomic factor on profitability performance. The study uses Statistical Package for the Social Sciences (SPSS) to develop the ordinary least square relationship between profit and risk. The data is obtained from the annual report of Apollo Food Holdings Berhad from 2011 to 2015. The liquidity ratio and operating ratio are used to measure the overall performance of Apollo Food Holdings Berhad in 5 years. To see the relationship of risks factors to the profitability, this paper is utilizing liquidity, GDP and operating ratio. Data was analysed by utilizing regression and bivariate correlation. The regression analysis and bivariate correlation shows only one factor of profitability is significant to operating ratio which is ROA with the highest impact to the profitability. However, the liquidity and GDP is not significant to profitability with low impact to the profitability.

Keywords: Liquidity Risk, Operational Risk, Profitability, GDP

1.0 Introduction

Malaysia has an increases number of middle upper income population and has a strong GDP forecasts with food and beverage sales expected to grow. Malaysia has ambitions to be the main halal hub in the world. Therefore, Government of Malaysia is planning to build up its food processing industry, especially halal food products, which have the potential to expand into international markets. According to the New Zealand Trade and Enterprise, Malaysia has a packaged food industry worth USD\$5.5 billion in 2011 which is led by dried processed food, dairy and bakery and grow to USD \$5.9 billion by 2016. The high volume of Malaysia's import are food ingredients rather than the packed product as Malaysia has its own processed foods and drinks industry for the local and international market. Retail market of Malaysia food and beverage is expected to grow by 10 percent per annum with Malaysian household spending almost a quarter on food and beverage of their income.

1.1 Company Background



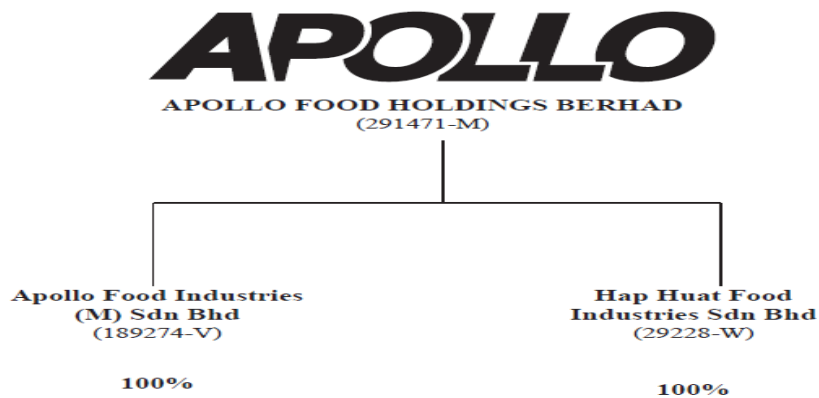
Apollo Food Holdings Berhad is a holding company, which is engaged in the management services provision to subsidiaries. It operates in two segments: Investment holding, and manufacturing, marketing and distribution, which is engaged in manufacturing, marketing and distributing in compound chocolates, products of chocolate confectionery and cakes. It offers products in two categories: Chocolate Wafer products, and Layer cake, Chocolate Layer Cake and Swiss roll products. It distributes its products in Malaysia and other overseas market. Its subsidiaries include Apollo Food Industries (M) Sdn. Bhd., which is engaged in manufacture and trading in compound chocolates, chocolate confectionery products and cakes, and Hap Huat Food Industries Sdn. Bhd., which is an investment holding company.

1.2 Organization Chart

Name	Qualification and Experience
<p>Liang Chiang Heng</p> <p>Singaporean, aged 65, appointed as Managing Director since 20 March 1996, appointed as Executive chairman since 21 July 1998</p>	<ul style="list-style-type: none"> ✓ Non-Independent Executive Chairman of the Board, Managing Director ✓ joined Apollo Group since 1979 ✓ awarded an Honorary PhD in Business Administration from the Wisconsin International University ✓ sits on the Board of several private companies ✓ member of the Remuneration Committee
<p>Liang Kim Poh</p> <p>Singaporean, aged 54, appointed as an alternate director on 20 March 1996, appointed to the Board on 21 July 1998</p>	<ul style="list-style-type: none"> ✓ Non-Independent Executive Director ✓ Sales Director of the Group ✓ sits on the Board of several private companies
<p>Ng Chet Chiang @ Ng Chat Choon</p> <p>Malaysian, aged 66, appointed to the Board on 20 March 1996</p>	<ul style="list-style-type: none"> ✓ Independent and Non-Executive Director ✓ associate member of Malaysian Institute of Taxation ✓ appointed as Chairman of the Audit Committee on 9 May 1996 ✓ member of the Remuneration and Nomination Committees ✓ sits on the Board of several private companies
<p>Datuk P.Venugopal A/L V.K. Menon</p> <p>Malaysian, aged 72, appointed to the</p>	<ul style="list-style-type: none"> ✓ Non-Independent and Non-Executive Director

<p>Board on 12 October 1998</p>	<ul style="list-style-type: none"> ✓ graduated with a BA (Hons.) from the University of Malaya ✓ Masters in Public Administration from Harvard University ✓ officer of the Malaysian Administrative and Diplomatic Service (more than 32 years of which 26 were with the Prime Minister's Department in various capacities) ✓ Member of the Audit, Remuneration and Nomination Committees
<p>Abdul Rahim Bin Bunyamin Malaysian, aged 62, appointed to the Board on 14 December 2001</p>	<p>Independent and Non-Executive Director Member of The Association of Chartered Certified Accountants, UK (ACCA) extensive corporate finance experience having been attached with a reputable merchant bank and several companies in the commercial sector Member of the Audit, Remuneration and Nomination Committees.</p>
<p>Datin Paduka Hj. Aminah Binti Hashim Malaysian, aged 67</p>	<ul style="list-style-type: none"> ✓ Independent and Non-Executive Director graduated with Bachelor of Arts (Economics) from University of Malaya ✓ served in various Johor State Government Department from 1972 to 2003 ✓ committee member of Puspanita Johor, Pemadam Johor and Mawar Johor

	<ul style="list-style-type: none"> ✓ member of the Audit, Remuneration and Nomination Committees ✓ sits on the Board of a private company
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Apollo Food Holdings Berhad have 2 subsidiaries companies which are Apollo Food Industries (M) Sdn Bhd and Hap Huat Food Industries Sdn Bhd.

2.0 Literature Review

According Muljawan (2005), before proceeding to a further stage of risk management process, it is important to identify the process of risk formation first. The management of liquidity risk is merely unreliable without appropriate knowledge of risk formation. The liquidity's standard deviation shows that small variations in terms of liquidity where most Islamic banks being studied maintain a similar percentage of cash according to their risk intensity of financing portfolio.

A study by Waemustafa and Abdullah (2015) using a sample from 18 Islamic banks in which operating in Malaysia from the year 2012 to 2014. It examines the influence of SSB effectiveness and their remuneration to the choices of Islamic mode of financing by Malaysian Islamic Bank. The study found that an effective Shariah Supervisory Board does not have significant bearing towards the choice of Islamic mode of financing in Malaysia but the remuneration have significant bearing towards the mode of financing.

Besides that, according to Kolapo et al. (2012) and Kithinji (2010) the formation of credit risk include, inappropriate credit policies, poor loan practice, restricted

institutional capacity, unstable interest rate, poor management, inappropriate laws, direct lending, massive licensing of banks, low capital and liquidity risk, laxity in credit assessment, poor loan underwriting, poor lending practice, insufficient supervision by central banks, government interference and insufficient knowledge about borrowers.

Ali (2004) found that liquidity contributes to number of failure in banks in spite of having entry to external liquidity. In this way, understanding the nature of liquidity and its impact on credit risk is important to derive for empirical proof of interaction between liquidity and credit risk. Different studies of Demirguc-Kunt and Huizinga (2010) found that the high fee income is related with high inflation that influence banks' assets allocation decision into interest generating activities, fee generating and profitability by considering macroeconomic impacts.

Castro (2013) opined that by reducing the real value of outstanding loans, high inflation can make debt servicing easier. Yet, in the meantime, it can deliberate borrowers' capacity to service debt by reducing real income. The finding of this study backs Shu (2002) who think that acceleration in credit expansion will bring down default rate as higher inflation prevail due to the fact that inflation enable borrowers to service their loan from the availability of funds. The finding of this study shows that conventional risk taking behavior is negatively influenced by level of liquidity, the higher the liquidity the lower credit risk exposure.

According to Solomon (2012), risk and return are two interdependent aspects in the company's activity. Return can only be assessed but on the basis of supported risk. Consequently, profitability is subject to the general condition of risk where the organization operates. Impact of various factors (market, competition, time factor, inflation, exchange rates, interest, commissions, human factors and not least the company culture) often makes financial decision become a decision under risk. Besides that, between economic profitability and financial return there is a tight correlation.

According to Arditti (1967) the risk variables can be divided into two categories: (a) those that are directly associated with the probability distribution of returns of a company's stock, such as the second and third moments of the distribution and the coefficient of correlation between the returns from a single stock and all other

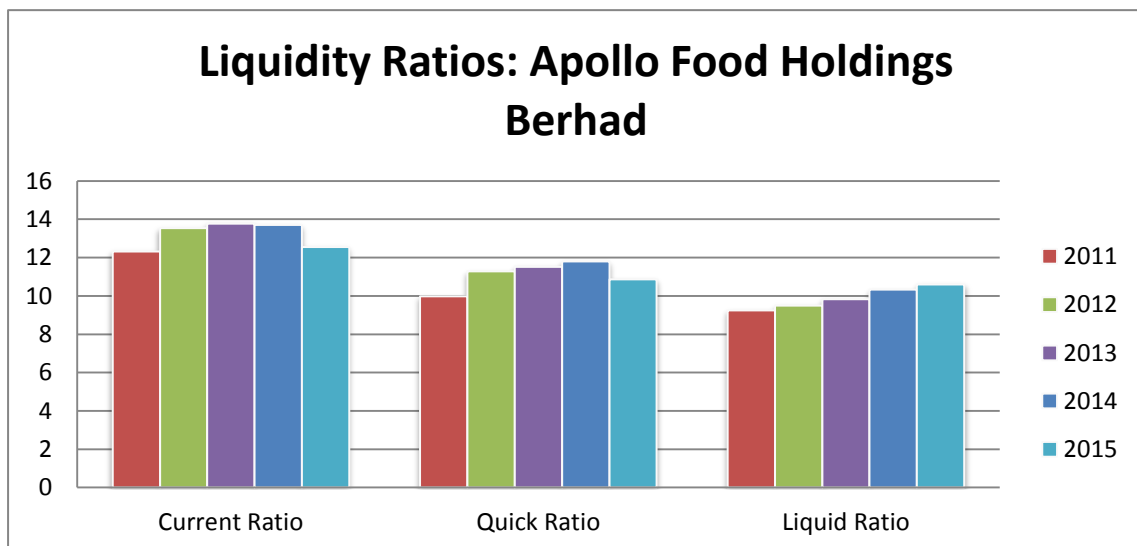
available stocks; and (b) those variables which are intertwined with the company's financial policies-the dividend-earnings and the debt-equity ratios. Under the assumption that the stock market received what it expected over the 1946-1963 period, the actual return for each stock in the Standard & Poor's Composite Index (industrials, railroads, and utilities) is used as a measure of the required return and regressed on the afore- mentioned risk variables. The regressions involving the dividend-earnings ratio show that it is negatively and significantly related to the required return. Investors like high dividend-payouts. A negative sign of the debt/equity coefficient is that some other risk variables which are positively correlated with the required return but negatively correlated with the debt- equity ratio have been omitted.

3.0 Descriptive Analysis

3.1 Trend Analysis

3.1.1 Liquidity Performance

Bar Graph 1. Descriptive Results



Before the overview trend analysis for the ratios on the above examined, the formula for those ratios for 2011-2015 can be calculated as following:

Current Ratio (CR) = Current Assets/Current Liabilities

Quick Ratio (QR) = (Current Assets-Inventories)/Current Liabilities

Liquid Ratio (LR) = Total Asset/Total Liabilities

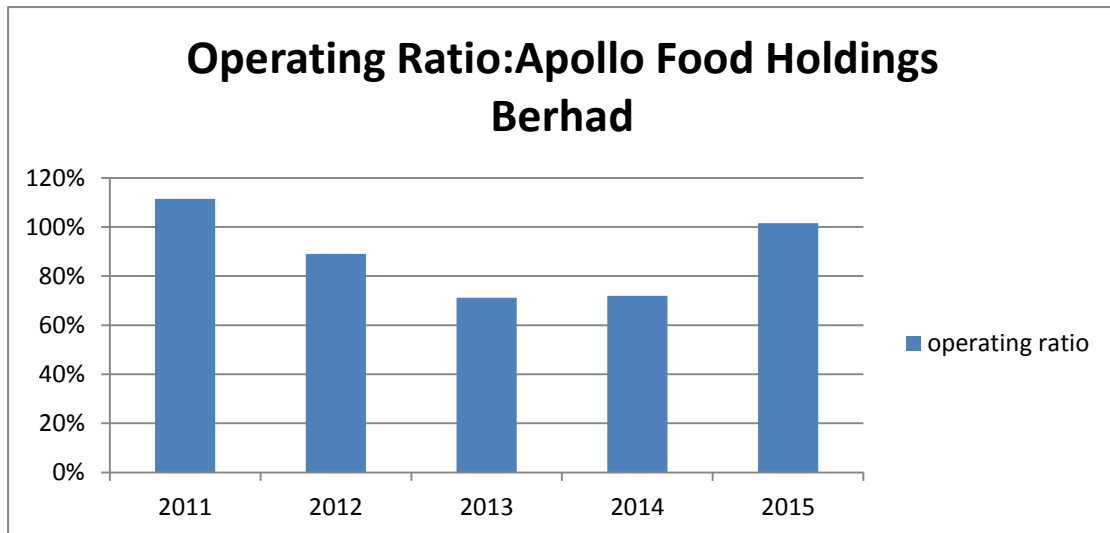
Table Result 1. Descriptive Result

	Current		Total		Current	Quick	Liquid
Curent Asset	Liabilities	Total asset	liabilities	Inventories	Ratio	Ratio	Ratio
99,633,147	8,090,542	233,771,475	25,293,175	18,866,856	12.31	9.98	9.24
103,060,858	7,611,750	240,447,645	25,314,292	17,221,363	13.54	11.28	9.50
121,836,462	8,847,696	256,272,916	26,090,156	19,893,955	13.77	11.52	9.82
135,431,569	9,884,329	269,784,563	26,110,138	18,790,244	13.70	11.80	10.33
144,619,971	11,527,039	274,292,370	25,860,039	19,362,334	12.55	10.87	10.61

Overall, the Apollo Food Holdings Berhad performances for all liquidity variables leap up beyond its benchmark of standard conventional rule which is 2:1 and 1:1 respectively for current ratio and quick ratio. The performance of current ratio is quite well during the consecutive year from 2011 to 2013. However during the consecutive year of 2014 and 2015, the current ratio slightly dropped down but the value still maintain above the benchmark. For quick ratio, the performance is also quite favourable during the consecutive year 2011 to 2014. Nevertheless, it dropped slightly in year 2015. For liquid ratio, the performance is increase gradually during the consecutive year 2011 to 2015. The overall performance of the liquidity variable of this company is above the benchmark. This indicates the company can settle their current liabilities with current assets without any issue.

3.1.2 Operating Performance

Bar Graph 2. Descriptive Results



Before the overview trend analysis for the operating ratio on the above examined, the formula for these ratios for 2011 to 2015 can be calculated as following:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses}}{\text{Operating Income}}$$

Table Result 2. Descriptive Results

Operating Expenses	Operating Income	Operating Ratio
19,906,817	17,854,221	111.5%
19,370,180	21,741,325	89.1%
22,836,326	32,083,145	71.2%
24,102,843	33,470,740	72.0%
25,694,195	25,293,936	101.6%

The smaller the ratio, the higher the company's ability to gain profit if revenue decreases. The company's operating ratio is decrease from year 2011 to 2013. After that it increases in year 2014 to 2015. For overall performance of Apollo, this company has above the standard of benchmark which is ranging between 75% to 80% in year 2011, 2012 and 2015. The consideration of good performance viewed by its lower percentage ratio which argued that the company is efficient or inefficient in terms of its operating expenses whether the company incurred more expenses or not.

Bar Graph 3. Descriptive Results

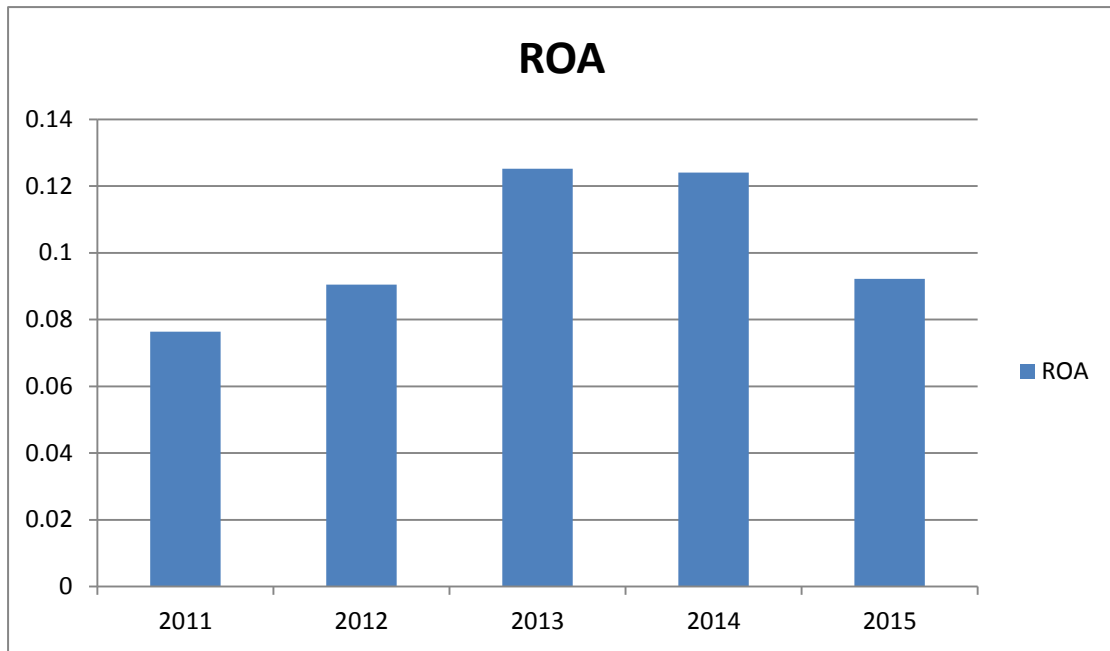


Table Result 3. Descriptive Results

Net Profit after tax	Total Assets	ROA
17,854,221	233,771,475	7.64%
21,741,325	240,447,645	9.04%
32,083,145	256,272,916	12.52%
33,470,740	269,784,563	12.41%
25,293,936	274,292,370	9.22%

Return on assets (ROA) is a primarily indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings over a certain period of time. The higher of ROA, the more efficient in managing its assets to generate income for company. Based on the graph 3.0 above, it shows fluctuate pattern of the profitability level of Apollo Food Holdings Berhad from year 2011 to 2015. ROA has risen year from 2011 to 2013. However it dropped from year 2014 to 2015. Nevertheless, Apollo may have problem in converting the assets into net earnings in 2015 as compared to previous which decreased to 9.22%. From the trend of the ROA, it was fluctuate and Apollo may need to improve in the assets management aspect to generate some earnings from its existing assets.

3.2 Correlation Analysis

Table Result 4. Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.101653227302525	.021855076061519	5
GDP	5.300	.4950	5
Liquid Ratio	9.900584144603776	.567058271869429	5
Operating Ratio	.890725885130043	.178227027511064	5
Total Remuneration	5040442.40	678639.962	5
Total Asset	254913793.80	17711460.348	5

From the table above, the standard deviation of liquid shows that small variations in term of liquidity where the current asset and also the value of current liabilities are just slightly different between that 5 years. Whereas, the mean of liquid is 9.9 which considered as not healthy company as the mean is above the benchmark 1.5 to 3. It shows Apollo Food Holdings Berhad has higher ability to meet its obligation without converting inventories into cash immediately. The company is having too liquid current asset.

The mean of operating is 89% which in between the benchmark ranging between 80% to 90%. It is consider as satisfactory as the average ratio in between the accepted ratio which indicates that the company is efficient in operation. The standard deviation also shows that there was 17% of changes during the consecutive year 2011 to 2015.

The mean of remuneration is RM5040442 meaning that this company is paying high salary to 6 directors per year. Besides that, the company have the mean of RM254913793 of total assets. This show company is having highly liquid assets.

Table Result 5. Correlations

		ROA	GDP	Liquid Ratio	Operating Ratio	Total Remuneration	Total Asset
Pearson	ROA	1.000					
Correlation	GDP	.050	1.000				

Liquid Ratio	.451	.051	1.000			
Operating Ratio	-.955	-.140	-.295	1.000		
Total Remuneration	.428	.124	.977	-.236	1.000	
Total Asset	.568	.025	.989	-.404	.971	1.000
Sig. (1-tailed)		.468	.223	.006	.236	.159

Table Result 6. Coefficient Stepwise Regression analysis for Apollo Food Holdings Berhad Specific Risk Determinants to Profitability

Excluded Variables^a

Model	Beta In	t	Sig.	Partial Correlation	Collinearity Statistics		
					Tolerance	VIF	Minimum Tolerance
1 GDP	-.086 ^b	-.427	.711	-.289	.980	1.020	.980
Liquid Ratio	.185 ^b	1.060	.400	.600	.913	1.095	.913
Total Remuneration	.215 ^b	1.415	.293	.707	.944	1.059	.944
Total Asset	.217 ^b	1.291	.326	.674	.837	1.195	.837

a. Dependent Variable: ROA

b. Predictors in the Model: (Constant), Operating Ratio

3.2.1 Liquidity to Profitability

The finding shows that liquidity ratio with P (0.223) > 0.10 indicates that liquidity is positively and insignificant with ROA this implies that Apollo Food Holdings Berhad adopt a conservative strategy in managing liquidity problem by maintaining sufficient cash reserve and at the same time the company able to generate profit. This is evidenced from company liquidity mean of 9.90. The finding is consistent with previous studies Ghazali (2008), who found a positive relationship between liquidity and ROA. Bourke (1989). Kosmidou and Pasiouras (2005) also found a significant

positive relationship between Liquidity and ROA. The higher liquidity ratio of company can also be due to the fact that higher equity and trade financing to maintain a greater amount of cash to maintain their liquidity position. The increase in inflation has negative relationship with the profitability.

3.2.2 Firm Size to Profitability

Firm size is measured by total assets with P (0.159) > alpha (0.10) indicates that firm assets have insignificant relation to profitability in all respective variables of the measurement. Positive insignificant implies that even though the firm are less productive but can lead to a firm on more profitability which depends on the firm entity.

3.2.3 GDP to Profitability

As a part of macroeconomic factor, the GDP variable tested with P (0.468) > alpha (0.10) indicates insignificant relation to profitability. Profitability shows positive insignificant relation that indicates the grow in GDP will accelerate the overall profitability. This implies that the economic growth will increase the demand for Apollo food products. This could generate more income received which eventually it boosts profitability. Although, the GDP grow boost profitability with more demand, the competition from the competitor in the same industry frustrate the food and beverage profitability since there is lacking of competitive advantage of this company. Moreover, the impact of GDP to profitability is relatively high with the t value -0.427 compared to liquidity.

Table Result 7. Stepwise Regression Analysis for Apollo Food Holdings Berhad Specific Risk Determinants to Profitability

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.955 ^a	.913	.884	.0074461425 93002	2.084

a. Predictors: (Constant), Operating Ratio

b. Dependent Variable: ROA

Table Result 8. Annova Regression Analysis for Apollo Food Holdings Berhad Specific Risk Determinants to Profitability

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.002	1	.002	31.459	.011 ^b
	Residual	.000	3	.000		
	Total	.002	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), Operating Ratio

Table Result 9. Regression Coefficient Analysis for Apollo Food Holdings Berhad Specific Risk Determinants to Profitability

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.206	.019		10.899	.002		
	Operating Ratio	-.117	.021	-.955	-5.609	.011	1.000	1.000

a. Dependent Variable: ROA

3.2.4 Operate to Profitability

After the test is conducted and all of variables added. With the stepwise method shows that R value is 0.955 and shows a high degree of correlation between variables. R² is 0.884 and indicates that 88.4% of variation in ROA is explained by independent variable OPERATE. In terms of relationship to profitability, for operate variable which it measured by operating ratio with a P -value < 0.10 indicates negative insignificant relation to profitability. However, the operate variable to profitability (ROA) has a positive significant relation with a P value < 0.10. This positive relation indicates that the company's operation can increase the profitability of company.

Apollo company is generating more operating income while reducing the operating expenses where this company achieve positive amount of profitability with more production as an income factor without incurred more expenses during the operation process. Instead of having profit, the negative relation indicates the increases of expenses effect the income of this company that cannot maximize the profit. This model is also significant with the significant of anova regression $P < 0.11$. In addition, operate variable has the highest impact with the t value -5.609 to the profitability compared to the liquid and GDP.

4.0 Discussion and Findings

Apollo's financial performance was out of the expectation of the shareholders with unhealthy alert which profit margin, ROA and current ratio was decrease in 2015. The only profitability measurement has a significant relationship which is ROA to operate variable. With this high impact of operate to profitability and one of profitability measurement is significant relationship to operate. Therefore, the attention of the company into the operational factor should become priority on 2015 onwards beside the GDP and liquidity to enhance the profitability.

The company can improve the company liquidity management as the company have a highly liquid current assets. The optimum liquidity management can avoid a firm from the too high or too low liquidity ratio which the firm is powerless to the creditors pressure where if the liquidity is too low the firm is unable to meet their obligation on specified time. So, there should be an improvement in terms of liquidity performance with the measurement of liquidity management using current, quick and liquid ratio to see the asset availability. One of benefit liquidity management, company will having enough liquidity. It means that the company is holding enough cash to purchase from suppliers with better pricing during purchasing process and thus the company may increase its profit.

5.0 Conclusion

In a nutshell, we can know that all the companies faced liquidity risk and operational risk especially in the study of the food and beverage company. Apollo Food Holdings Berhad need to overcome the liquidity risk and operational risk more effectively and efficiently with the mean ratio is above the benchmark standard. The liquidity and operational performance annually shows this company is not having problem to settle the obligation and operates efficiently that could gain more profit. In addition, to maintain the performance in 2015 onwards, from the findings, one of variable is significant (ROA) as a profitability variable to the operation with the highest impact compared to all of variables. Besides that, although the findings shows liquid as well as GDP is not significant to profitability, the implementation of liquidity management and inventory control with following the trend or cycle of market should put into the consideration as a part of profitability contribution to maintain and improve continuous profitability of this company.

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