Specific risk factors and macroeconomic factor on profitability performance an empirical evidence of Top Glove Corporation Bhd

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Abstract

The purpose of this study to conducted the overall performance of Top Glove Corporation with specific risk factors and macroeconomic factor on profitability performance. The data acquired from annual report of Top Glove Corporation starting from the year of 2011 until 2015. The measurement of liquidity ratio and operating ratio used to see the overall performance of Top Glove in 5 years which allegedly beyond benchmark. The additional measurement is the asset size, this variable has a negative and no significant relationship with liquidity risk. To see the relationship of risks factors to the profitability, this paper is utilizing liquidity (current ratio), GDP and operating ratio. Data is been analysed by utilizing the regression 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 are showing not significant relationship to profitability with low impact to the profitability.

Keywords: **Specific Risk**, **GDP, Liquidity Risk and Operational Risk, Systematic Risk, Profitability**

1.0 Introduction

1.1 Background of the study

Rubber gloves are commonly used as household items which offer a variety of uses. They are used for several purposes like cleaning, personal care, pets, first aid and so on. Rubber gloves are needed in healthcare industry and food service industry. Since there are many countries have implemented the law of compulsory usage of glove, the demand on rubber gloves are being increasingly.

There will be a positive growth in coming years in global rubber gloves market as it may drive by a set of factors such as, increasing sales due to weakening of Malaysian Ringgit (MYR), lower manufacturing and raw material costs, ageing population, rising healthcare expenditure as well as increasing incidences of viral outbreak and virus. The significant trends of rubber gloves industry include rising demand from economies, continuing demand of displacing the latex with nitrile gloves and enhancing product mix of rubber glove companies. Currently main as one of the world's largest natural rubber producing country, Malaysia has managed to position itself as a highly reliable source for rubber, ranking most of the top three in the world, and fourth exporter at USD1 billion (RM4.38 bil). According to Malaysian Rubber Board (MRB) provided statistics stated as of the third quarter of 2016, the rubber industry has contributed RM7.97 bil in country wide exports. Those statistics information display a sluggish increase in export for rubber products to 56 per cent compared to last year's 54 per cent.

Liquidity is perceived as the primary organization's determinant in terms of the ability of any financial instrument or asset or security which can be exchange volume, then it can be effectively changed over into the cash without losing its values or prices (Banque De France, 2008). The liquidity requirement of a business depends upon the business' nature (Panigrahi, 2013). As far as the firm's financial management component, the liquidity aspect is an essential factor for the efficient operations and effective also in the long term it can support the business continuation (Enyi, 2006).

The parts of study will be divided into four parts where the second chapter will be literature review which discuss about the previous study done by different researches. The next part will discuss about the descriptive analysis findings which discover the technique of the researches used in assessing the risk and includes the Top Glove Corporation overall performance. The last chapter contains some discussion, recommendation and conclusion to the Top Glove Corporation.

2.0 Literature Review

In this literature review, the goals from this studies are observe the secondary records which may be obtained from magazine, article and benefit from the choice. These sources give extensive variety of data that can be utilized. In this research it will be talk about five article that relate to the performance, liquidity, profit and risk that relate to our industry. According to the Miles, Snow, Meyer, & Jr. (1978) in order to maximize the profits the organization is endeavoured to minimize the risks of the organization. There is a lot of risks with the intention to be faced with the aid of an organization which includes operational risk, financial risk and business risk. A business risk is important that should be concerned, it will most likely lead a company to get into bankruptcy once it does not managed well (Jayant R. Kale, 1991). Another risk that confronted by organization is the terms of financial, it is consists of credit risk, market risk and liquidity. Since liquidity risk is needed to understand by every company which is running a business and its miles important to build a talented in managing the liquidity risk (Waemustafa & Sukri, 2016).

As indicated by Kleopatra Nikolau (2009), defined that liquidity can be relates to the ability of an economic agent to trade her or his existing services and wealth for goods or for other assets. Other than that, the liquidity can be comprehended as far as stream rather than stocks in other words, it is a flow concept. Abdus Samad & M. Kabir Hassan (1999) found that the ratios can be gathered under four board classifications which are solvency ratios, liquidity, risk and profitability. For the liquidity ratios can be measure by current asset ratio and current ratio.

Compare the liquidity risk between Islamic and Conventional banks in Malaysia who analyzed by (Waemustafa, W., 2016), the result confirmed that Conventional bank which represented with the mean rate compared to Islamic bank dominates the liquidity performance result. The calculation of liquid variable measured by short term market securities plus cash to total bank asset. The factor of this domination because of the lack of lender last resort and liability structure of Islamic bank and another one is the asset and interbank money market. With the constrained alternative for Islamic bank to lender of last resort and obtain external financing which sourced from interbank money market, this condition forced the Islamic bank to maintain an adequate liquidity provision to fulfill the expected loss from Islamic bank' financing activities.

Other study examined whether that liquidity ratio is positively significant with ROA this implies that Islamic banks adopt a conservative's approach in managing liquidity problem by (Waemustafa, W., 2016), maintaining sufficient cash reserve and in the meantime banks are able to generating profits. According the article review it can be conclude that there a positive relationship between ROA and liquidity which the company have enough cash in managing their business.

3.0 DESCRIPTIVE ANALYSIS

The data used are collected from Top Glove Corporation financial statement from the year of 2011 to 2015 available from Bursa Malaysia. Pearson correlation is used to measure the relationship between liquidity risk in the form of current ratio (CR), return on equity (ROE), return on invested capital (ROIC), return on capital employed (ROCE), earnings per share (EPS), operational risk in the form of operating ratio (OR) with company size in term of total assets (TA) and profitability in the forms of return on assets (ROA). Current ratio measures the ability of the company to pay for its current obligations given the size of its current liabilities or measures how efficient does the management manages in operational expenses to its net sales.

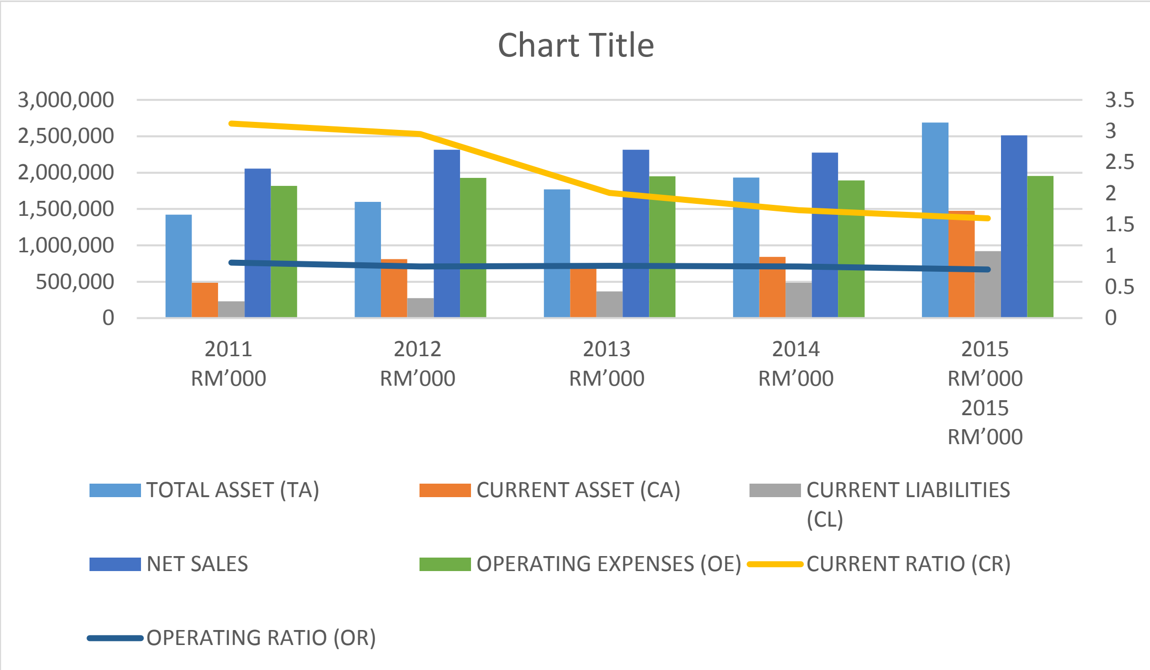
In the profitability side, ROA measures how much of a return the company can generate given the level of total assets that it has, ROE measures how much of a return of company can generate in the period gives on the total equity that the shares can invest. ROCE measures how much of profit the company can generate in terms of employed capital and lastly. EPS measures how much profit the company can give to the shareholders. The extracted data are as followed:

Table Results 1: Descriptive Results

	TOTAL ASSET (TA)	CURRENT ASSET (CA)	CURRENT LIABILITIES (CL)	CURRENT RATIO (CR)	NET SALES	OPERATING EXPENSES (OE)	OPERATING RATIO (OR)
2011 RM'000	1,423,029	486,019	229,412	3.12	2,053,916	1,818,767	0.89
2012 RM'000	1,598,052	810,538	274,356	2.95	2,314,454	1,929,412	0.83
2013 RM'000	1,771,423	735,459	365,024	2.01	2,313,234	1,950,016	0.84
2014 RM'000	1,933,167	840,024	485,827	1.73	2,275,366	1,891,915	0.83
2015 RM'000	2,687,930	1,473,095	920,691	1.60	2,510,510	1,955,610	0.78

(Sources: The information above is based on the annual report of the Top Glove Corporation from the year 2011- 2015)

Bar Graph 1. Descriptive Results



(Sources: Plotted by the figures based on the annual report of Top Glove Corporation from the year 2011-2015)

Based on table above, the revenue of Top Glove Corporation has decreased from year 2012 to year 2014 and increase afterwards. Sometimes decreasing in revenue does not mean that the company is not stable. The decrease is due to the lower average selling price because of the declining costs of raw material. The increase is due to the increase sales in nitrile glove for about 28% of total sales in 2015. The current ratio in financial year 2015 is the lowest compared to other years. Top Glove Corporation may having difficulties in paying back the short term debt because of the decreasing current ratio from 2012. It is due to the capacity expansion plan and the construction of the new optimized facilities that feature faster and more efficiently. However, it is a good news for investors as they may prefer lower current ratio because they are concerning about generating income using company's assets. The company's ROA decreased from 2012 to 2014 and increase after that. This shows that the company is able to generate income using their assets more efficiently in 2015 as it is the highest ROA among the 5 years.

3.2 Relationship of GDP, Liquidity and Operational to the Profitability

Table Results 2: Descriptive Results

	EPS (cent)	ROA	ROE	ROIC	ROCE	ECONOMIC GROWTH (GDP)	OPERATING RATIO (OR)	CURRENT RATIO (CR)
2011 RM'000	0.18	0.08	10.0	0.02	0.10	5.3	0.89	3.12
2012 RM'000	0.33	0.13	16.2	0.10	0.16	5.5	0.83	2.95
2013 RM'000	0.32	0.11	14.9	0.07	0.14	4.7	0.84	2.01
2014 RM'000	0.29	0.72	13.1	0.06	-0.79	6.0	0.83	1.73
2015 RM'000	0.45	1.16	17.4	0.10	-1.57	5.0	0.78	1.60

Table results 3. Correlation Matrix TOPGLOVE Specific Risk Determinants to Profitability

Person Correlation	ROA	EPS cent	ROE	ROIC	ROCE	GDP	LIQUID	OPERATE
ROA	1.000							
EPS cent	.711	1.000						
ROE	.476	.948	1.000					
ROIC	.430	.897	.982	1.000				
ROCE	-.997	-.687	-.440	-.385	1.000			
GDP	.121	-.303	-.305	-.152	-.088	1.000		
LIQUID	-.807	-.978	-.900	-.867	.777	.116	1.000	
OPERATE	-.782	-.670	-.483	-.393	.763	.082	.740	1.000
Sig. (1-tailed)	.							
EPS cent	.089	.						
ROE	.209	.007	.					
ROIC	.235	.019	.001	.				
ROCE	.000	.100	.229	.261	.			
GDP	.423	.310	.309	.403	.444	.		
LIQUID	.050	.002	.019	.028	.061	.426	.	
OPERATE	.059	.108	.205	.256	.067	.448	.077	.

Table Result 4. Coefficient Stepwise Regression analysis for TOPGLOVE Specific Risk Determinants to Profitability

Variables	Beta In	t	Sig.
EPS cent	.049[b]	.755	.529
ROE	.046[b]	.942	.446
ROIC	.053[b]	1.227	.345
GDP	.034[b]	.720	.546
LIQUID	-.079[b]	-1.266	.333
OPERATE	-.050[b]	-.678	.568
ROCE	-.624	-23.055	.000

3.2.1 Liquid to Profitability

Liquid measured by current ratio with P value > 0.10 indicates that liquidity have negative and insignificant relation to profitability in all respective variables of the measurement. In addition, the impact of changes liquidity to profitability is not quite high compared to the operate and GDP with the t value=-1.266. This negative relationship inferred that when liquidity represented by current ratio increases, any profitability ratios will react by decreasing in value. This finding is reliable with findings Bhunia, Khan & Mukhuti (2011) and Pandey & Jaiswal (2011) implied that there must dependably be a trade-off between profitability and liquidity. This negative relation should relate to the cash conversion which this company is generally retaining cash in reserve with conservative method which steady to the end result observed in Waemustafa and Sukri (2015). The cash is held for the organization's improvement or debt obligation payment which it won't not influence further profit generated in future. Another point of view of negative connection, the benefit transformation is ineffectually changed over to money since receivable instalment deferred. This lack conversion affects profitability since the company has not yet receive or hold real cash money from transaction.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.997[a]	.994	.993	.04174	2.253

a. Predictors: (Constant), ROCE

b. Dependent Variable: ROA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.926	1	.926	531.556	.000[b]
	Residual	.005	3	.002		
	Total	.931	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), ROCE

3.2.2 Operate to Profitability

After the take a look at performed and all of variables delivered. With the stepwise approach indicates that R value is 0.997 and indicates an excessive degree of correlation between variables. R^2 is 0.993 and shows that ninety 99.3% of variation in ROA is defined by means of independent variable perform. In phrases of relationship to profitability, for perform variable which it measured by using running ratio with a P-value > 0.10 suggests negative insignificant relation to profitability. But the operate variable to profitability (ROA) has a high quality widespread relation with a P value < 0.10. This high-quality relation shows that the corporation's operation can increase the profitability of corporation. Top Glove Corporation is generating more running income even as reducing the operating costs in which this corporation obtain high-quality quantity of profitability with extra manufacturing as a profits aspect without incurred more charges all through the operation process. Instead of getting earnings, the negative relation shows the increases of charges impact the profits of company that can't maximize the profits but out of five variables examined quality one (ROA) which has significant relationship to profitability. This model is likewise super with the massive of anova regression P < 0.10. Further perform variable has the excellent effect with the t price -5.735 to the profitability compared to the liquid and GDP.

3.2.3 GDP to Profitability

After the test performed and all of variables added. With the stepwise approach shows that R value is 0.958 and suggests a high degree of correlation between variables. R^2 is 0.889 and shows that 88.9% of variation in ROA is defined with the aid of independent variable operate. In phrases of relationship to profitability, for operate variable which it measured by means of operating ratio with a P-value > 0.10 shows negative insignificant relation to profitability in 4 out of five profitability measurement tested. However, the operate variable to profitability (ROA) has a high quality sizeable relation with a P value < 0.10. This positive relation suggests that the organisation's operation can increase the profitability of company. Top Glove Corporation is generating extra operating income whilst decreasing the operating expenses wherein this company attain positive quantity of profitability with extra manufacturing as a profits thing without incurred extra expenses at some stage in the operation process. Instead of having profit, the negative relation shows the will increase of costs impact the earnings of this employer that cannot maximize the income. However, out of five variables tested simplest one (ROA) which has significant relationship to profitability. This model is also huge with the significant of anova regression $P < 0.10$. Further the operate variable has the highest impact with the t value -5.735 to the profitability compared to the liquid and GDP.

Discussion and recommendation

4.1 Discussion

For the year 2011 to 2015, overall performance of Top Glove was showing favourable in the good uptrend performance result to earn more profit. Top Glove may having difficulties in paying back the short term debt because of the decreasing current ratio from 2012. It is due to the capacity expansion plan and the construction of the new optimized facilities that feature faster and more efficiently. However, it is a good news for investors as they may prefer lower current ratio because they are concerning about generating income using company's assets. However, since the operational has the result with the highest t-value= -0.678 indicates that this variable impacted much on profitability measurements. One of profitability measurement has a significant relationship which is GDP to operate variable. With this excessive impact of profitability measurement is sizeable relationship and to GDP of perform to profitability. Consequently, the attention of the corporation into the operational issue should grow to be priority on 2015 onwards beside the GDP and liquidity to enhance the profitability.

4.2 Recommendation

4.2.1 Enhance Liquidity Management

Liquidity management is one of the important issue for the organization that everyone needs to confront. It is refer to the ability of an organization to make money instalment as they become due. In this way to get signal to know the successful of a firm or failure. They can attempt to assess the liquidity ratio such as quick ratio and current ratio to determine how liquid the company. A lower ratio of Top Glove is showing that the liquidity is having some issue on it which may not able to oblige at the specified time, it will might cause the credit risk also if the liquidity issue is going worse. Waemustaf & Sukri (2015) found that there is a negative relation between the credit risk and liquidity which implies that the higher the liquidity the lower the credit risk will be. Keeping in mind to reduce the probabilty of credit risk occurs, first the company need to enhance in the management of utilizing the debt and cash. Once it is managed well then there is enable obligation to pay the debt on time and the default payment would not occur and stayed away from credit risk.

4.2.2 Better Inventory Control for Liquidity

Liquidity is one of the essential measure of your company's financial health. This calculation comes to a decision how properly you can pay off your short-time period debts. There are more than one approaches to measure liquidity. Your company's inventory influences its liquidity in any other case counting on which calculation you operate. The ideal measure of inventory's effect on liquidity relies upon on the type of inventory your company sells. The effect of inventory for your organisation's liquidity relies upon on which test you use. Inventory makes you greater liquid under the current ratio but does now not make you more liquid under the acid-test ratio. The current measure relies upon on how easily you can sell your stock. If company may fast get cash to company inventory without dropping its fee, inventory will direct increases company liquidity. If it takes a long term to sell your inventory, it does no longer assist company liquidity.

5.0 Conclusion

In conclusion, based on the trend analysis and correlation analysis. There may be a few liquidity risk that is faced by Top Glove which is measured by current ratio. Once the liquidity getting deteriorates it means that the company need to enhance their liquidity control which involves in operation activities. Although the performance of Top Glove is favourable which was showing the increasing in sales and return, however the operation management is want to improve in order to service their liabilities as well. In addition, one of the variables which is the most significant to ROA as a profitability is the liquidity management. A company need to enhance in the management of utilizing the debt and cash. Once it is managed well then there is enable obligation to pay the debt on time and the default payment would not occur and stayed away from credit risk. Besides, this company need to improve the better inventory control for liquidity by implementation of liquidity control and inventory control with following the trend or cycle of marketplace should put into consideration as part of profitability contribution despite the fact that the findings suggests liquid as well as GDP isn't huge to profitability.

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