The risk and performance of Careplus Group Berhad

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Abstract

The purpose of this study conducted to determine the overall performance of Careplus with the internal factors and external factors on profitability performance. The data acquired from annual report of Careplus Group Berhad from the year of 2011 until 2015. The measurement of current ratio, return on assets (ROA), and total asset turnover are used to determine the overall performance and the efficiency of Careplus Group Berhad in the 5 years. The other measurement is the total assets, which is showing a positive and significant relation to profitability. To see also the internal and external factors that influencing the ROA as profitability, this paper do also using remuneration and exchange rate. Data is been analysed by utilizing the regression correlation. This correlation analysis was showing that there is three internal factors variables which are total assets, financial leverage, and remuneration followed by one external factors variable which is exchange rate are significant relation to the profitability. However, the GDP and the inflation are showing not significant relationships to profitability.

Keywords: Internal Factors, External Factors, Credit Risk, Profitability

1.0 Introduction

1.1 Background of the Study

By the 1930s, Malaysia created half of the world's rubber. A large portion of the Chinese and Indians that live in Malaysia today are relatives of workers conveyed to deal with the rubber plantations. Generally the plantation were possessed by European proprietors. They changed Malaysia into Britain's wealthiest colony. After the independence, a considerable lot of the ranches were swung over to Malaysian hands and some were changed over to palm oil estates. (Hays, 2015)

The Malaysian rubber industry is comprised of more than 500 manufacturers creating latex items; tires and tire-related items; and modern and general elastic items. The business contributed 18.1 billion to the nation's fare income in 2011. Rubber items represented 3.9 percent of Malaysia's aggregate fares for manufacturing products (Malaysian Industrial Development Authority, 2015). In this way, these days rubber industry in Malaysia is getting greater and greater. Also, a portion of the rubber business may get obstructed in developing the company. This may influenced by many reasons whereby there are external and even internal risks.

Along these lines, this study is intended to concentrate on the performance of a company called Careplus Group Berhad (Careplus) and also the risks that this company would facing. Careplus was recorded on the ACE Market of Bursa Securities on 6 December 2010. It has been in the glove business for more than 20 years and is extending its ability to meet developing requests. They were consolidated in Malaysia on 30 March 2010 under the Companies Act 1965 of Malaysia as a private limited company under the name Careplus Group Sdn Bhd. Accordingly, on 5 April 2010, they changed over their status from a private limited company to a public limited company to encourage their posting on the ACE Market of Bursa Securities. They are chiefly a venture holding organization while their entirely possessed subsidiaries are included in the manufacturing, processing and trading of gloves.

The performance that can be discussed in the Careplus is using the financial ratio to evaluate the profitability of the company and based on other ratio such as liquidity and leverage to find out the risks that the company would facing. There can be liquidity risk and operational risk whereby the company is facing in the internal issues, and also market risk which influenced by the external parts of the company. Besides, the correlation analysis are being evaluated to identify the relationship between the factors of variables, performance and the risks of the company whether is positive or negative. This can easily look through inside whether there are significant correlated and the recommendations can be made to solve those issues occurred.

2.0 Literature Review

According to the Miles, Snow, Meyer, & Jr. (1978), in order to maximize the profits the organization is attempted to minimize the risks of the company. There is a lot of risks that is going to be faced by an organization such as business risk, financial risk, and also operational risk. A business risk is important that need to be concerned, it will probably lead a company to get into bankruptcy once it does not managed well (Jayant R. Kale, 1991). Another risk that faced by company is the terms of financial. It consists of liquidity, market and also credit risks. Based on the financial report of Careplus Group Berhad in year of 2011 until 2015, liquidity risk is one of the important elements that need to be concerned to avoid the deterioration of this company. Because liquidity risk is needed to understand by every organization which is running a business and it is important to construct an efficient in managing the liquidity risk (Waemustafa & Sukri, 2016).

Besides, operational risk does giving a big influences to an organization towards the performance and the risks. An eminent management is vital for a company to improve the performance but also giving the confidence to the customers and also increases in reputation. Thus, all the risks are important to be identified in order to mitigating and prevent before the serious exposures happened. Besides, some researchers found that the financial ratio is vital to be reviewed in order to determine the performance of a company. It shows that performance evaluation will more comprehensive once it comes to consider the financial ratio (C.-M. Feng, 2000).

Next study is conducted to see the remuneration is showing a significance relationship to the performance of a company. According to Price (1992) found that “financial incentives are the predominant methods used to improve operative motivation”(p. 185). This implis that a well performance company is needed a good remuneration in terms of giving financial incentives and even in non-financial incentives to let the workers get motivated. Once they are being motivated they will be more energized to do their every single task. Hence, it shows a positive relation to profitability that the more remuneration is given to the workers the more motivation to manage well in an organization.

Further study to identify the foreign exchange rate is one of the important variable towards a company performance. A lower of exchange rate shows that most of companies would probably get removed from the danger zone which would not get company failure easily (Meeks, 1991). Most of the companies especially for the manufacturing industries should concern about the exchange rate further to take a chance which would earn a maximum profit from international trades. But there is also some risk is there because of the fluctuation movement of currency prices. Thus, manufacturing industries like Careplus which is producing rubber items is actually having the chance of earning the profit from the other countries since Malaysia is one of the top manufacturing in rubber industries which most of the countries that need rubbers is going to depend on Malaysia.

Other study conducted whether there is having any significant correlation between inflation and the profit of the company. From the study indicates that there is only a negative insignificance relation to ROA as a profitability. It implies that sustains increasing in price of goods and services the less profit that can be earned by a company. One research found that the companies will get benefits from the inflation when it is lower because of the costs that is using for product materials, especially for manufacturing industries (Feldstein, 1997). This study reveal that low inflation is probably provides benefits to the companies in terms of lower costs used for raw materials.

Another study examined that one company would determine the sustain growth and to develop a company is need to concern about the Shariah compliance. Once the company is going to develop by using equity financing based on *musharaka*h and *mudarabah,* it should become an aggregate measuring to all the company stakeholders (Waemustafa, 2013). To engage the improvement of performance, the company would try to consider in not using the debt to finance the company although there is a way of maximizing the shareholders wealth. But in an equity based financing company is probably not facing much more of credit risk because of the conservative action which is not going to use liabilities to finance firm. Briefly, a company that wants to sustain the growth and the performance should concerned more towards the way of financing for instance a Shariah compliant company would not having many issues of credit risk since the company is an all equity firm.

3.0 Descriptive Findings

3.1 Trend Analysis of Overall Performance

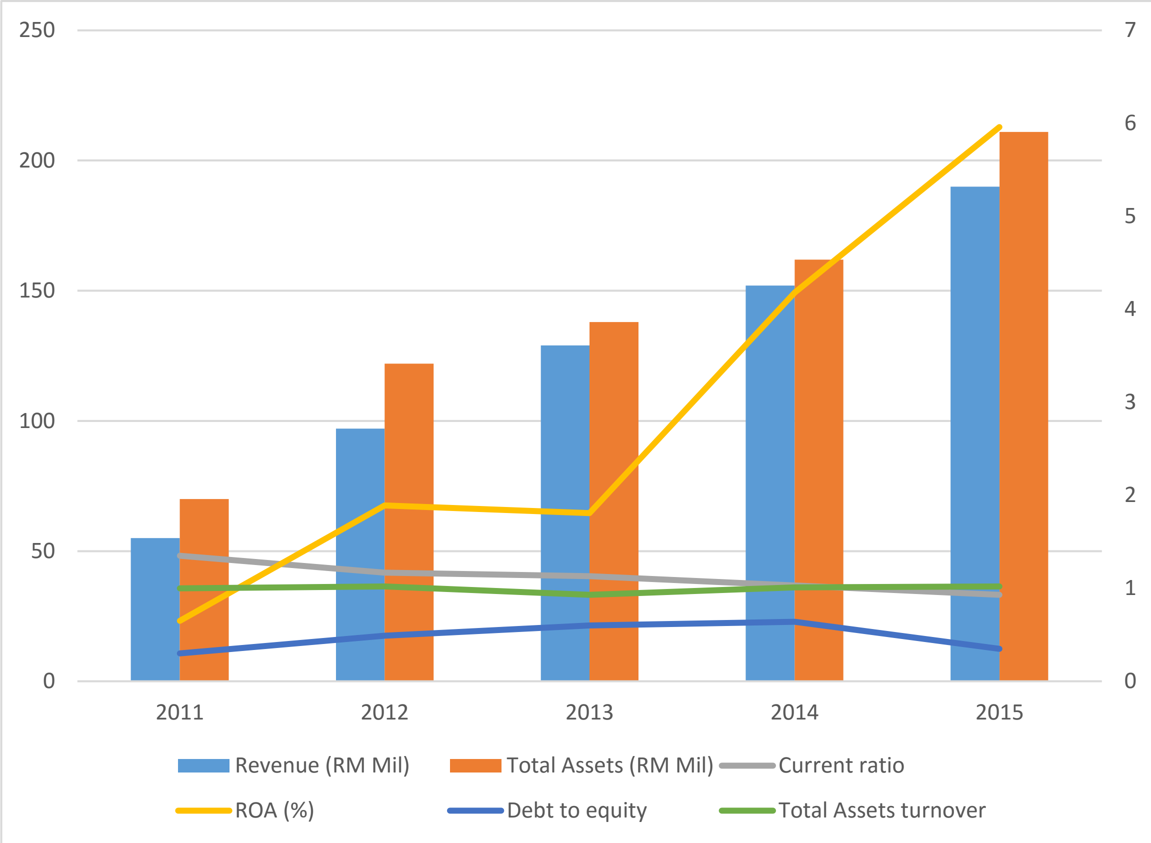
This study is aimed for the trend looking in the 5 years from 2011 to 2015 of the Careplus. The information that going to be analysed are the financial health, leverage and the performance of the company which focus on the ratios such as current ratio, debt to equity ratio, return on assets and return on equity. Besides this study also aimed for the size of the company which is regarding to the total assets that the company is holding in the 5 years. Below will be the information that used to study at the year from 2011 until 2015:

Table Result 1: Descriptive Results

Year	2011	2012	2013	2014	2015
Revenue RM(Million)	55	97	129	152	190
Total Assets RM(Million)	70	122	138	162	211
Current ratio	1.35	1.17	1.13	1.03	0.93
Return on Assets (%)	0.65	1.89	1.81	4.18	5.96
Debt to equity	0.59	1.26	1.39	1.51	1.52
Total assets turnover	1.00	1.02	0.93	1.01	1.02

(Sources: The information above is based on the annual report of the Careplus Group Berhad from the year 2011- 2015

Figure 1: Descriptive Results



(Sources: Plotted by the figures based on the annual report of Careplus Group Berhad from the year 2011-2015)

The **Table 1** and the **Figure 1** are demonstrating the trend of the Careplus during the year of 2011 until 2015. In terms of the liquidity of the company, the current ratio is showing a downtrend from the beginning of the year 2011 until the latest one, which is dropped from 1.35 to 0.93. This indicates that the company is having a bigger portion of debts than the assets year by year which also means that the cash that can be converted by using assets is lesser.

Next, in the performance of the company is shown that the revenue of the company is reach the highest amount which is a good sign in the latest year of 2015 about RM 190 million. Same thing with the ROA is showing a huge uptrend during the last two years. The ROA is increased from the year of 2011 which is only about RM55million to the year of 2015 which is about RM190million. It already increased about 245% of return on assets in the year of 2015 compared to the year of 2011. Logically the ROA increasing maybe because of the size and the sales are having the same pattern of movement which is increasing year by year of the company.

However, in the company leverage is showing that there is not having a big significant trend but there is a little downtrend at the latest year of 2015. According to Winn (2014), "Value maximization of a firm depends heavily on the financial leverage of the company. This is measured by the debt to equity ratio, which explains what proportions of debt and equity are being used to finance the firm's assets" (p. iii). So, Careplus has a debt to equity ratio of 1.52 in the year 2015 which is increased from 0.59 year of 2011. This is still can be considered as the company is having a bigger value in using of debt to finance the services of the company in order to maximize the value of the firm. Lastly, the total assets turnover is giving a fair movement from the year of 2011 until 2015. This is because there is a significant sign that showing the trend of revenue and the total assets is almost same pattern whereby going up year by year. So, the total assets that can generate sales in the company is in a fair trend in the company, it is not giving a big influence to Careplus which is only 1.00 in year of 2011 to 1.02 in year of 2015.

In overall, the performance of Careplus is still good in the year from 2011 to 2015, which having a good return in terms of assets and equity. Besides, the liquidity of the company is deteriorated which is need to be solved in order to avoid a higher credit risk in the company. However, the leverage of the company also can be considered as still in a good condition in the latest year of 2015. All in all the company is still good to improve in terms of generating the income and also servicing the debt.

3.2 Correlation Analysis

Table Result 2: Descriptive Results

	Mean	Std. Deviation
ROA	.028996158000000	.021362069500000
Total Assets	140580943.80	52070730.280
Financial Leverage	1.253998218000000	.386368683000000
Remuneration	1051075.60	317459.097
GDP	5.300	.4950
Inflation	2.440	.6693
Exchange rate	3.4600	.49168

Table Result 2 shows the mean of profitability measured by ROA of the Careplus Group Berhad is 2.9% and there is also having a 2.1% of standard deviation for ROA of Careplus (Table Results 2). This study included two type of factors which is internal factors and external factors which those variables is being related to the performance of the Careplus, there are total assets of the company (size) with the mean of 140580943.8, financial leverage mean 1.25, remuneration mean 1051075.6, gross domestic product (GDP) mean 5.3, inflation mean 2.44, and exchange rate mean 3.46.

Table Results 3: Correlations Matrix of Internal Factors to Profitability

Pearson Correlation	ROA	Total Assets	Financial Leverage	Remuneration
ROA	1.000			
Total Assets	.955	1.000		
Financial Leverage	.749	.882	1.000	
Remuneration	.959	.985	.812	1.000
Sig.				
Total Assets	.006			
Financial Leverage	.073	.024		
Remuneration	.005	.001	.048	

Table Results 4: Correlations Matrix of External Factors to Profitability

Pearson Correlation	ROA	GDP	Inflation	Exchange rate
ROA	1.000			
GDP	.101	1.000		
Inflation	-.137	.468	1.000	
Exchange rate	.914	-.198	-.090	1.000
Sig.				
GDP	.436			
Inflation	.413	.213		
Exchange rate	.015	.375	.443	

Table Results 5: Coefficient Result of Internal Factors

Model		Beta	t	Sig.
	(Constant)		-.285	.823
	Total Assets	1.861	.876	.542

	Financial Leverage	-.537	-.855	.550
	Remuneration	-.438	-.256	.841

Table Results 6: Coefficient Result of External Factors

Model		Beta	t	Sig.
	(Constant)		-3.307	.187
	GDP	.406	1.867	.313
	Inflation	-.239	-1.117	.465
	Exchange rate	.973	5.038	.125

Tables Results 3 and 4 show the result of Pearson correlation of Careplus in internal and external factors variables. Significantly, there are two internal factors variables are showing the positive significant to the return on assets (ROA) whereby total assets and remuneration, but financial leverage shows positive not significance correlation to the ROA. Which means that all the internal factors variables are having the chance to influence the ROA of the company such as increasing in remuneration for the board would have significance correlation to the ROA increases. However, based on the external factors variables GDP is positive but not significance to ROA and exchange rate is indicating positive significance to ROA of Careplus. In contrast, inflation is negative not significance correlation with the ROA, it implies that the inflation would affect the ROA of Careplus to drop once the inflation is increasing.

Tables Results 5 and 6 indicate that the coefficient result from the internal and external factors of Careplus. So, the coefficient for all the internal factors and external factors variables are not significantly different from 0 because its p-value is larger than 0.05. Then, this study implies that most of the factors do not really influenced the ROA of the Careplus. It might have the positive and negative relationship but there are still do not have significant relationship which could affect the change of ROA of Careplus significantly.

3.2.1 Remuneration to Profitability

Remuneration computed by the total remuneration to the executive and non-executive boards with P value < 0.10 indicates that remuneration have positive and most significant relation to profitability in all respective variables of the measurement. Moreover, the impact of changes remuneration to profitability is high compared to the exchange rate and total assets with the t value=.876. This positive relationship implied that when remuneration increases, any profitability ratios will react by moving in the same direction which is increasing in value. This positive relation could relate to the more salary that have paid to the boards the more profit would have in the company because of motivation to the boards to manage company well. In fact, financial incentives are the dominating techniques used to move forward operative motivation (Price, 1992).

3.2.2 Inflation to Profitability

The inflation which is one of the external factors also macroeconomic factor tested with P value > 0.10 indicates insignificant relation to profitability. It shows negative insignificant relation to the profitability of the company which is ROA. This implies that the sustained increment in the prices for goods and services will affects the return of the company deteriorates. This is probably happen that the increases of inflation would probably negatively influenced the economic growth and also profitability of company (Boyd & Champ, 2006). Hence, with the increasing of the inflation year by year, the profit for the company would facing a problem in terms of generates more return.

4.0 Discussion and Recommendation

4.1 Discussion

For the year of 2011 to 2015, the overall performance of Careplus still can also be improved. From the revenue that generated by Careplus is favourable which keep increasing every year that showing a good uptrend to earn more profit. While in the current ratio was showing a little downtrend which implies that the assets can be used to convert into cash is getting lesser. This might give a negative impact to the company in terms of services the debt by using cash and cause credit risk. However, the inflation has resulted with the highest t-value= -1.117 which shows that this variable effects the much on profitability measurements. And a most significant relationship to the ROA is the remuneration variable which is P value= 0.005. Hence, with the bigger impact of inflation to profitability and a most significant relationship of remuneration to the profitability. Consequently, the inflation is need to be faced and find solutions to improve the profit of the company and the attention also need to pay for the company into the incentives factors which is remuneration.

4.2 Recommendation

4.2.1 Enhance Liquidity Management

Liquidity management is one of the important issue for the company that everyone has to face. It is refer to the ability of a company to make cash payment as they become due. There is always the issue of mismatch in financing the company by using the equity and also debt. And the problem of liquidity risk might occurs which the company wants to avoid from it during financing the company using the long term debt (Waemustafa & Sukri, 2016). Thus, in order to get signal to know the failure or successful of a firm. They can try to evaluate the liquidity ratio such as current ratio, quick ratio to determine how liquid the company is. A lower current ratio of Careplus is showing that the liquidity is having some problem on it which may unable to oblige at the specified time. So, it might cause the credit risk also if the liquidity problem is going worse. Waemustaf & Sukri (2015) found that there is a negative relation between the liquidity and the credit risk which implies that the higher the liquidity the lower the credit risk will be. In order to reduce the probabilty of credit risk occurs, first the company need to enhance in the management of using the cash and debt. Once it is managed well then there is enable to pay the debt on time and the default payment would not happen and avoided credit risk.

4.2.2 Better in International Trading for Profitability

Next improvement that can be used is the international trades. It consists of the import and export which would mainly related to the foreign exchange rate that might earn more profit with the multinational companies. Based on the measurement of correlation, exchange rate was showing the one of the significant relationship towards the ROA. This indicates that the profit of Careplus is going to be influenced significance by the exchange rate. There is showing a P value= 0.015 which is the most significant among the other two external factors. So, in terms of improving the profitability of the company then the company can try to export more to the outside to earn foreign currency and get high profits. Careplus could try to target on the multinational companies that they need for the rubber products because Malaysia is having a bigger post in manufacturing the rubber items. Thus, Careplus should take the advantages of trades outside that can earn more profits to improve the company wealth.

5.0 Conclusion

In conclusion, based on the trend analysis and correlation analysis. There is some liquidity risk that is faced by Careplus which is measured by current ratio. Once the liquidity getting deteriorates it implies that the company need to enhance their liquidity management which involves in operation activities. Although the performance of Careplus is favourable which was showing the increasing in sales and return, but the operation management is need 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 remuneration. This indicates that the remuneration is quite influencing the performance of Careplus which the boards are being motivated in terms of financial incentives to manage the company well. Besides, this company need to improve the international trading by doing import and export which could probably enhance the return of this company because from the macroeconomic parts it shows that there is a significance relationship between the exchange rate and profitability which means the export trading is one of the opportunity that company should take into consideration.

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