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RISK AND PERFORMANCE: EMPIRICAL EVIDENCE FROM YINSON HOLDINGS BERHAD

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Abstract

The purpose of this study is to analyse the overall performance of Yinson Holdings Berhad which represents one of the company's in oil and gas industry. The data collected from annual report of Yinson holdings Berhad starting from 2011 to 2015. The measurement of credit, operating, and liquidity were used to see the overall performance of Yinson holdings Berhad in 5 years. These three performance are important for this study as oil and gas industry is important in a country as primary resources. The most significant to view how well this company generating profitability through its assets is liquidity performance. Liquidity performance shows the movement of ROA, ROE, and profit margin Yinson Holdings Berhad from 2011 to 2015. Moreover, this study will shows the relationship between these three performance and GDP by using SPSS in creating correlation in order to see the significant result.

Keywords: Liability performance, operational performance, and liquidity performance.

1.0 Introduction

1.1 Background of the study

Oil and gas industry includes the global processes of exploration, extraction, refining, transporting and it is also the raw materials for many chemical products. Malaysia was the first foray into oil and gas commenced over a century ago, with the first oil well being drilled by Shell in Sarawak, East Malaysia in 1910 The 1966 legislation which initially governed oil and gas activities in Malaysia, namely Petroleum Mining Act saw Exxon and Shell being given rights to explore and produce rights in return for royalties and tax payments to the government. Nowadays, Yinson Holdings Berhad is one of the companies in oil and gas industries.

Yinson Holdings Berhad is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The Yinson Group of Companies started in 1983 as a transport agency partnership business in

Johor Bahru. Since that time, they have expanded the businesses to include offshore support services as well as commodity trading. Furthermore, from an initial land-based logistics provider, Yinson is now a provider of offshore support services which servicing the upstream Oil and Gas sector. All of trading, logistics and the provision of offshore oil and gas services are the main complementary services which Yinson is involved in.

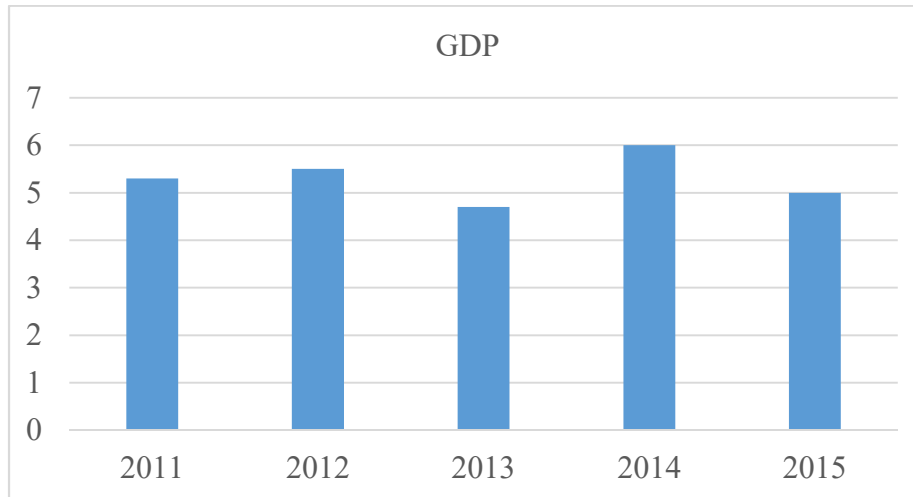
In addition, Yinson's Trading and Logistics network extends to all major cities in Peninsular Malaysia and their fleet of trucks have grown to over 200 units. Yinson's now have over 400 employees and 200 drivers. We provide a comprehensive range of transportation services and general warehousing facilities to enhance logistic services to customers. Over the years, Yinson's have invested continually in new resource in anticipation of customers' needs. In addition, we have a dynamic pro-active management team and Yinson's are committed to provide their customers with courteous, reliable and responsive service at a competitive price. Every customers needs a dependable service and they at Yinson are committed to fulfil the aim.

1.2 Board of Director (BOD)

NAME	POSITION
Mr. Lim Han Weng	Group Executive Chairman
Mr. lim Chern Yuan	Xecutive Director and Group Chief Executive Officer
Mdm. Bah Kim Lian	Executive Director
Mr. Lim han Joeh	Non-Independent, Non-Executive Director
Dato' Mohamad Nasir Bin Ab latif	Non-Independent, Non-Executive Director
Datuk Syed Zaid Bin Syed Jaffar Albar	Senior Independent, Non-Executive Director
Dato' wee Hoe Soon @ Gool Hoe Soon	Independent Non-Executive Director
Datuk Raja Zaharaton Bin Raja Zainal Abidin	Independent Non-Ecexecutive Director

1.3 Economic Factor (GDP)

Gross domestic product (GDP) is the best way to measure a country's economy. GDP is the total value of everything produced by all the people and companies in the country. The components of GDP are include personal consumption expenditures (C), business investment (I), government spending (G), exports (X), and imports (M). $[C + I + G + (X-M)]$



Graph 1.0

While 2016 was overall a difficult year for Malaysia due to subdued global trade and weak oil prices, the economy gained steam in the second half of the year (Malaysia Economic Outlook, 2017). Graph 1.0 shows the GDP for 5 years from 2011 to 2015. In 2013, the GDP has decline from 5.5% to 4.7%. It slowly increase in 2014, however it start slowly move downwards to 5% in 2015 from 6%.

2.0 Literature Review

An assessment of the financial performance of the company through the financial ratio analysis to obtain a description of the financial development of the company, so we can assess what has been achieved in the past and in the future is running. To measure the company's financial performance, earnings growth is used, because profit is as a tool to measure the performance of the company, which provides information relating to the management responsibilities in the management of the resources entrusted to them.

Auke and Robert (1997), almost every investor has to meet specific liabilities. The nature of these liabilities plays an important role in the formulation of an investment strategy.

Investors who use their liability structure as a determinant of investment strategy will be addressed as liability-driven investors. A rational strategy for a liability-driven investors to minimize the risk of not being able to meet these liabilities. This will also minimize the risk that the investor will use own funds in order to meet the liabilities.

Liquidity management is very important for every organization that means to pay current obligations on business, the payment obligations include operating and financial expenses that are short term however increasing long period debt. Liquidity management is very important for every organization that means to pay current obligations on business, the payment obligations include operating and financial expenses that are short term however increasing long period debt. Liquidity ratios are used within the support of liquidity management inside each organization within the form of current ratio and quick ratio with the intention of extremely influence on the profitability of organization. Thus business has adequate liquid assets (Cash, Bank) in the direction to meet the payment program by compare the cash and near-cash among the payment obligations. (Waqas, Mobeen, 2014).

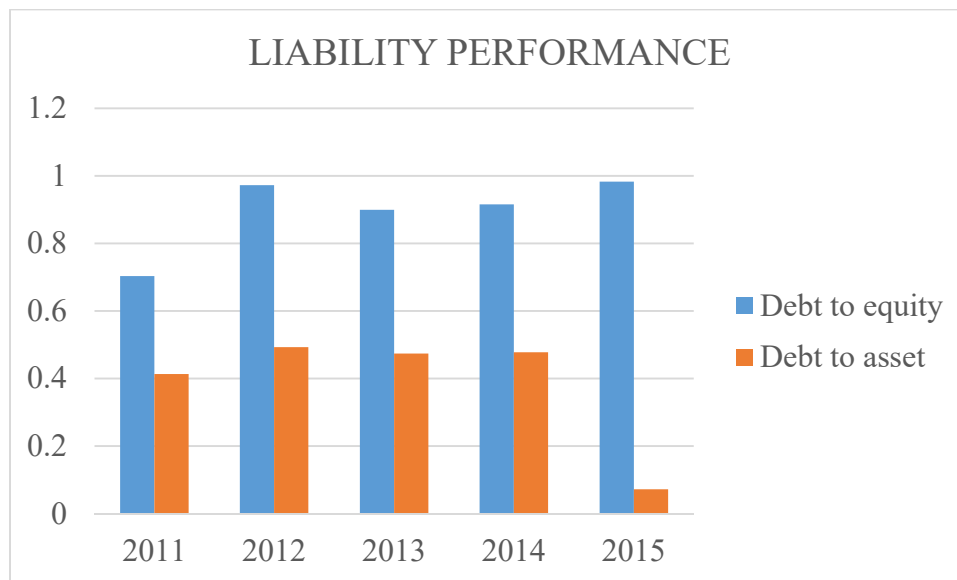
While in the study of systematic and unsystematic risk determinants of liquidity risk between Islamic and conventional banks it mentioned that although Islamic banks exist side by side with conventional banks, the unique nature of the mechanism used requires a special risk management process to be adopted in order to reduce risks and to become competitive in the financial industry. It shows that oil and gas industry as conventional industry required a proper way of managing the liquidity performance. (Waemustafa, Sukri, 2016).

In addition, Waemustafa (2015) said, “previous theories suggest that banks assets mainly consist of loan while liabilities are deposit payable where any mismatch in asset and liability would contribute to liquidity risk and credit risk” in his Bank Specific and Macroeconomics Dynamic Determinants of Credit Risk in Islamic Banks and Conventional Banks article. It discussing of liquidity performance in bank and it can be related to this oil and gas industry.

In order to gain the result of research, a stepwise regression model was used to determine which variables were “best” in explaining extent of financial disclosure. (David, 1993)

3.0 Descriptive Analysis

3.1 Liability Performance



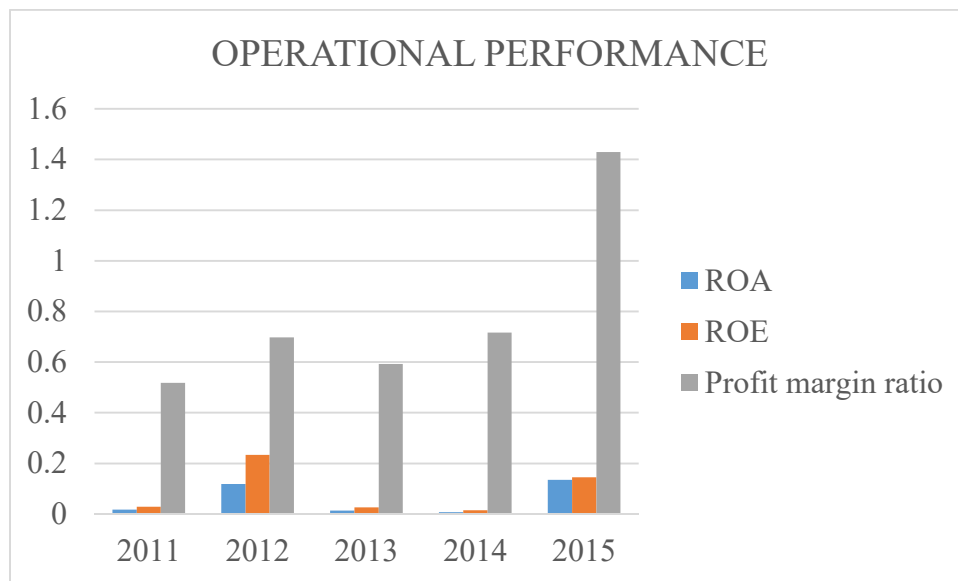
Graph 2.0

Liability performance or credit ratio is expressed as a percentage and results when a borrower's monthly payment obligation on long-term debts is divided by his or her net income or gross monthly income. Lenders look at this percentage to help them decide whether the companies are good or not in credit risk. Based on the graph, liability performance refers to the debt to equity and debt to asset of Yinson Holdings Berhad.

Debt to equity and debt to assets used to measure a company's financial leverage. Debt to equity indicates how much debt company is using to finance its assets relative to the amount of value represented in shareholders' equity. Based on the graph 2.0, debt to equity has the highest at 2012 and 2015 between 5 years performance which is 0.9. Whereas, the lowest of debt to equity ratio is 0.7 in 2011.

Meanwhile, debt to assets is the percentage of total assets that were financed by creditors, liabilities, and debt. A higher percentage indicates more leverage and more risk. From 2011 to 2014, the percentage are more than 0.4, however among the four years the more risky is in 2012 and the less risky is in 2015.

3.2 Operational Performance



Graph 3.0

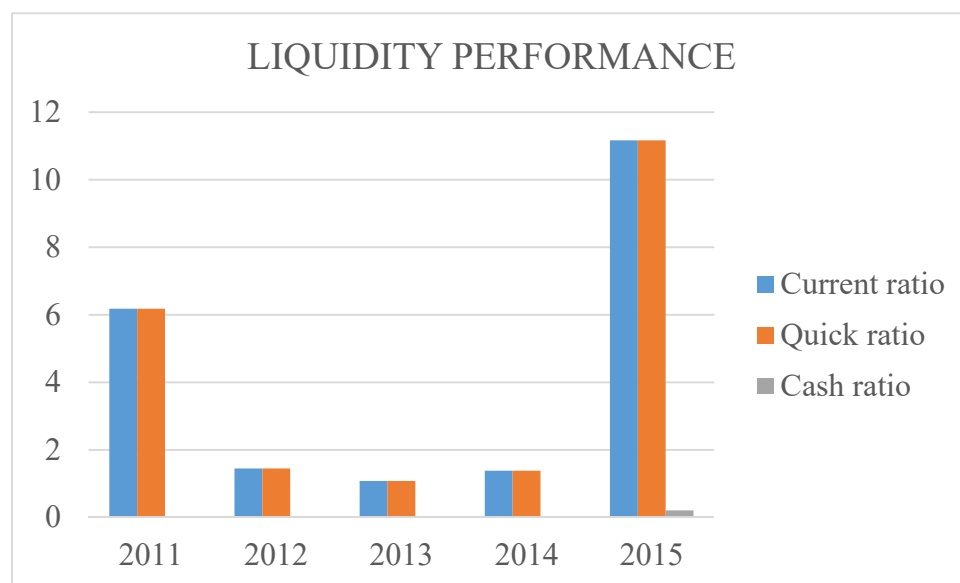
Operational performance are also called as operating ratio used in expense control, and in measuring the profitability and financial soundness of a company. The operating ratio shows the efficiency of a company's management by comparing operating expenses to net sales. The smaller the ratio, the greater the organization's ability to generate profit if revenues decrease. Operational performance of Yinson Holdings Berhad indicates three ratio which are ROA, ROE and profit margin. Based on the graph 3.0 the movement of the performance for ROA, ROE, and profit margin are fluctuation.

Return on assets (ROA) is an 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. In 2012, ROA for this company has increase to 0.11 from the previous year. However, it has declined for two years continuously and increase in 2015 back to 0.13. Return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity.

ROE measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. The highest ROE for this company is in year 2012 with 0.23 and the lowest is in year 2014 with 0.01. The movement of ROE for this company same with the movement of ROA which are increase in 2012 and getting declined in 2013 and 2014. However, in 2015 its climb back.

Profit margin ratio is profitability ratio that measures the amount of net income earned with each dollar of sales generated by comparing the net income and net sales of a company. Creditors and investors use this ratio to measure how effectively a company can convert sales into net income. Yinson Holdings Berhad generated income and making highest profit in year 2015 with 1.42 compare to the previous 4 years that only generate profit less than 1.0. However, Yinson Holdings Berhad still maintaining continuing get revenue but fluctuation from every year.

3.3 Liquidity Performance



Graph 4.0

Liquidity performance is an indicator of whether a company's current assets, quick ratio, and cash ratio will be sufficient to meet the company's obligations when they become due. Current ratio considers the current assets of a company relative to that company's current total liabilities. Meanwhile, quick ratio measures a company's with its most liquid assets, the ratio excludes inventories from current assets. The movement and value of current ratio and quick ratio are same for every years. Both of the measure declined from 2011 to 2013 but climb back in 2014 until 2015. The highest current ratio and quick ratio are in year 2015 which is 11.16. However, cash ratio only shows in 2015 with 0.21 and the rest the cash ratio are below 0.01.

3.4 Relationship between GDP with liability, operational, and liquidity performance

Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.0585073737 01936	.0626176501 05070	5
ROE	.0900440755 20287	.0962244389 09156	5
Profit Margin	.7908882249 23505	.3657257655 38650	5
Quick Ratio	4.253473127 557381	4.404187469 941847	5
Cash Ratio	.0513079062 59333	.0911141300 53073	5
Debt to Equity	.8948046741 08320	.1127721826 39541	5
Debt to Assets	.3858668017 47694	.1782260239 62133	5
GDP	5.300	.4950	5

Table 1.0

Correlations

Pearson Correlation	ROA	ROE	Profit Margin	Quick Ratio	Cash Ratio	Debt to Equity	Debt to Assets	GDP
ROA	1.000	.912	.732	.513	.721	.640	-.610	-.159
ROE	.912	1.000	.402	.163	.375	.597	-.234	-.012
Profit Margin	.732	.402	1.000	.774	.989	.598	-.928	-.198
Quick Ratio	.513	.163	.774	1.000	.854	-.027	-.943	-.314
Cash Ratio	.721	.375	.989	.854	1.000	.489	-.971	-.268
Debt to Equity	.640	.597	.598	-.027	.489	1.000	-.275	.003
Debt to Assets	-.610	-.234	-.928	-.943	-.971	-.275	1.000	.361
GDP	-.159	-.012	-.198	-.314	-.268	.003	.361	1.000

Table 2.0

3.4.1 GDP to Liability Performance

Table 2.0 shows that the most correlated with GDP is debt to assets with 0.361. Pearson correlation is near to 1 where it indicates that there is a strong relationship between these ratio. This means that changes in debt to assets are strongly correlated with changes in GDP. There is weak relationship between GDP and quick ratio. Its Pearson correlation shows -0.314. Significantly, ROA, ROE, profit margin, quick ratio, and cash ratio are negatively correlated with GDP. In other words, liquidity have negative and insignificant relation to GDP in all respective variables measurements. As one variable increases in value, the GDP will decrease in value. For instance, Pearson correlation shows -0.314 where negative correlation.

3.4.2 GDP to Profitability

As a part of macroeconomic factor, the GDP variable tested indicates insignificant relation to profitability. All variables of profitability shows negative relation that indicates the growth in GDP will decrease the overall profitability.

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	1.000 ^a	1.000	.	.	.063

Table 3.0

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.016	4	.004	.	. ^b
	Residual	.000	0	.		
	Total	.016	4			

Table 4.0

4.0 Discussion & Recommendation

4.1 Discussion

During the consecutive year from 2011 to 2015, overall performance of Yinson Holdings Berhad was showing favourable in the performance result for all measurement of

liability, operational, and liquidity. Method of SPSS are used to see the overall result and the relationship among dependent and independent variables.

4.2 Recommendation

4.2.1 Manage the liability performance

Debt to equity ratio (DER) effect on profit growth. For debt to equity ratio acquired a significance level of 0.008 is smaller than the significance level α (0.05). If the level of significance $<\alpha = 0.05$, then the hypothesis stating debt to equity ratio is negative and significant effect on income growth. The existence of a negative influence between debt to equity ratio by profit growth occurs because of the high proportion of debt that the company will be higher the liabilities of the company and ultimately the company's profit growth will be low which states that the debt to equity ratio (DER) is a financial ratio that indicates the proportion of relationships (relativity) between debt and equity used to finance the company's assets. The greater the proportion of debt used for capital structure of a company, the greater the number of its obligations. (Heikal M, 2014).

4.2.2 Improving Operational Performance

Operational risk consist of ROA, ROE, and net profit margin. Unproductive operation of the companies will affect the profit growth of the company. For instance, net profit margin (NPM) effect on profit growth. Net profit margin acquired a significance level of 0.008 is smaller than the significance level α (0.05). If the level of significance $<\alpha = 0.05$, then the hypothesis is stated net profit margin positive and significant effect on income growth in the automotive company in Indonesia Stock Exchange. The positive influence between the net profit margin and profit growth occurs because the company is able to generate high profits of the company so that the company's earnings growth will continue to increase. It is because the higher net profit margin (NPM) showed that increasing the company achieved net profit to net sales. (Heikal M, 2014).

5.0 Conclusion

In conclusion, Yinson Holdings Berhad is one of the company in oil and gas industry. This study shows that liability, operational, and liquidity performance is the significantly risk that faced by all of the companies in any industries. These three variables are important to measure the performance of the companies and their profitability. Based on this study, Yinson

Holdings Berhad effectively managed their liability risk compared to liquidity and operational risk. In order to improve their company performance, Yinson Holdings Berhad has to improve their operational and liquidity risk. They have to well manage which risk that will give higher profit less risky. Yinson Holdings Berhad to look forward on GDP where this economic factor is playing a main role in fluctuating value of any risks. It is because GDP is the main factor that related and affected all performances of the company.

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