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# **Firm Risk Performance: The Role of Corporate Governance Of Bumi Amada Bhd**

Muhamad Fitri, Ayu Darwina

Univeristi Utara Malaysia

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# **FIRM RISK AND PERFORMANCE: THE ROLE OF CORPORATE GOVERNANCE OF BUMI ARMADA BHD**

Ayu Darwina Muhamad Fitri

Universiti Utara Malaysia

## **Abstract**

The basis of this project is to analyze all the Bumi Armada Berhad's performance starting from the year of 2011 until 2015. The information of the company will be taken from the financial statements report for every year of the company. This project will highlights on the specific risks elements and external factors that reflected to development of the company. The estimation for the particular risks will be implemented on the performance company due to examine the level of profitability. By utilizing the financial ratio analysis as a related to the Liquidity risks and Operational risks. In addition, all the data will be examine using the regression analysis and correlation between two variables that one factors will be significant or insignificant profitability.

*\*Keywords: performance, specific risks, external factors, profitability, liquidity*

## **1.0 INTRODUCTION**

### **1.1 Company Profile**

Last 22 years ago (December, 1995), Bumi Armada Berhad (BAB) was established. On 1997, Bumi Armada Berhad become the first enter to the public under the companies Act 1965. It's shares listed on the main market Bursa Malaysia securities bhd. It become Malaysia based international offshore energy facilities and services cross over 17 countries such as Malaysia, Africa, Australia and etc.

It principally contribute in several business part such as Floating Production Storage Offloading (FPSO), support and provides Offshore Marine Service (OMS), Subsea Construction (SC) and Floating Storage Units (FSU). The Bumi Armada Berhad's main assets encompass a thirteen of Offices globally, 9 of FPSO, 49 assets of Offshore support vessels, and 1 SC. In addition, Bumi Armada is largest owner of Malaysia and operator of Offshore support vessels (OSV) which is the third largest is South East Asia. The company is sustainable in provision the oil and gas service with over decades of experiences.

## **1.2 Latest Headline of BAB**

As at 16 March, 2017 Bumi Armada Bhd was created second Joint Venture to achieve a specific objectives by pooling of resources for large projects. The agreement of this second JV is stated that BAB was incorporated with a Shaapoorji Pallonji and has been verified among the groups's wholly owned subsidiary of Bumi Armada Bhd.

Armada 98/2 Pte Ltd has been form for particular purpose such as owning and running the engineering, procurement and construction of floating production, storage and offloading (FPSO) vessel and dedication into a charter bareboat to the first Joint Venture Shapoorji Pallonji Bumi Armada Godavari Private Limited ( SPBAG). Thus, Bumi Armada becoming the positive trending traded counters in Bursa Saham Malaysia and maintaining the Target Price by MYR0.90 per share.

### 1.3 Board Of Directors Membership and Commitment

Directors	Board Committee					Corporate Governance Committee
	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee	Executive Committee	
YAM Tunku Ali Redhauddin Ibni Tuanku Muhriz	-	Chairperson	-	-	-	Chairperson
Saiful Aznir Bin Shabudin	Chairperson	Member	Member			Member
Alexandra Elisabeth Johanna Maria Schaapveld	Member	Member	Chairperson			Member
Steven Leon Newman	Member			Chairperson	-	-
Chan Chee Beng		Member		-	Chairperson	-
Maureen Toh Siew Guat	Member		Member	Member	Member	-
Shaharul Rezza Hassan				-	Member	-

## **2.0 LITERATURE REVIEW**

Living in the nature of business, corporate should maintain the company reputation and company's ability to running in future. By maintaining the sustainability, the company should be emphasize with two significant components of the company which is the performance and the risk.

The performance is indicate the company's outcomes over a given time frame by looking at financial performance, marketability, and the value of shareholder's equity. According to the PricewaterhouseCooper's article (July, 2009), risk can be defined as a probability of value destruction or creation - directly impacts a company's performance objectives. The generous loss emerges because of borrower default credit reimbursement contribute to insolvency and even bankruptcy leads to banking financial crisis, Vadova (2003). Waemustafa and Sukri (2013) viewed that there is need to understand how credit risk is formed in Islamic banks and conventional banks considering internal and external factors determinants Waemustafa and Sukri (2013) opined that there is need to understand how credit risk is formed in Islamic banks and conventional banks considering internal and external factors determinants.

Additionally, by managing the credit risk and other various financial risk, it's essential for such company to frame a shariah supervisory board (SSB) in order to provide a provisions and guide in their company's transactions based on the principles shariah. According to Waemustafa (2013) SSB remuneration and bank's financial growth shown a positive and significant relationship with mode of financing.

## **3.0 DESCRIPTIVE FINDING**

### **3.1 Macroeconomic factors**

The macroeconomic factors as a GDP, inflation, unemployment, exchange rates and investment can incorporate anything that impacts the direction of business market. Those factors also are key markers that influence the economy development. execution In fourth quarter of year 2016, GDP raised for 4.5% over the same period of the previous year . Malaysia GDP Growth in Malaysia averaged 1.20% starting

from the year 2000 until 2016. As down below, it indicates the Malaysia GDP current prices used of MYR. It indicate the monetary value of all final goods and services inside nation's border.

Year	GDP
GDP at Current Prices (RM Million)	
2011	911,733
2012	971,252
2013	1,018,821
2014	1,106,580

*Source: National Energy Price*

Starting 2011 until 2014 it continue to raising smoothly. Nominal GDP 2012 was increase for 6.5% from 2011, then progressively rise to 4.9% at the year 2013, and there is 8.6% was generate in 2014. Consumer prices in Malaysia rose 4.5 percent year-on-year in February of 2017, compared to a 3.2 percent increase in January and above markets expectations of a 4.1 percent rise.

It indicate the highest inflation rate since November 2008, driven by faster rises in prices of food and non alcoholic beverages and housing and utilities while cost of transport surged (Trading Economic, 2017). The expand of GDP over time was causes by the inflation where the price level is rising and money supply has been increasing, public will spend more because they know it will diminished value in the future. That's the main reason where the inflation is consider as the Consumer Price Index (CPI).

In year 2017, Malaysia's unemployment rate climbed slightly to 3.5 % in month of January from 3.4% in the same time of the year 2016. The quantity of unemployed people went up 2.5 percent from a year prior to 514,100 (TradingsEconomic, 2017). Previously, MP Ong Kian Ming conceived that in year 2017, the number of jobless could be higher in Malaysia. "Uncertainties are expected as more professionals might lose jobs or find it harder to get jobs", (Ong Kian Ming, 2016) .

As mentioned before, Bumi Armada Berhad was contribute in oil and gas industry. Since 1987, Malaysia has been running oil and gas industry, has thrive throughout the years to become among the the most dynamic proprietors of oil and gas owners. As we know the primary sources of energy supply in Malaysia are oil and petroleum and also natural gas. Increasing in supply and weakening international demand with the more fears over the slowdown growth in China pushed crude oil price decline by amount of 50% since the middle 2014 from its heights of about US\$100 per barrel.

Nowadays, the worldwide oil and gas industry is experiencing troublesome circumstances, to a great extent because of a oversupply circumstance, which created unrefined petroleum costs to dive. However, prices have nearly doubled from a 12-year low of US\$28 per barrel in February 2016, and experts point out that there are still plenty of opportunities for Malaysian oil and gas players to explore. (InvestKL).

Malaysia exchange rates becoming more weakening. From way back, the year 2011 1USDollar can be covert to MYR and the amount percentage exchange rate is not greater than  $\leq 3.0$  . Unfortunately, exchange rate is change to MYR4.26 per USD, it reveal that Ringgit Malaysia was the weakest since September 2014. When depreciation in exchange rated or currency, our home currency tends to increment in exports and declining in imports.

### **3.2 Liquidity Performance (Liquidity Risk)**

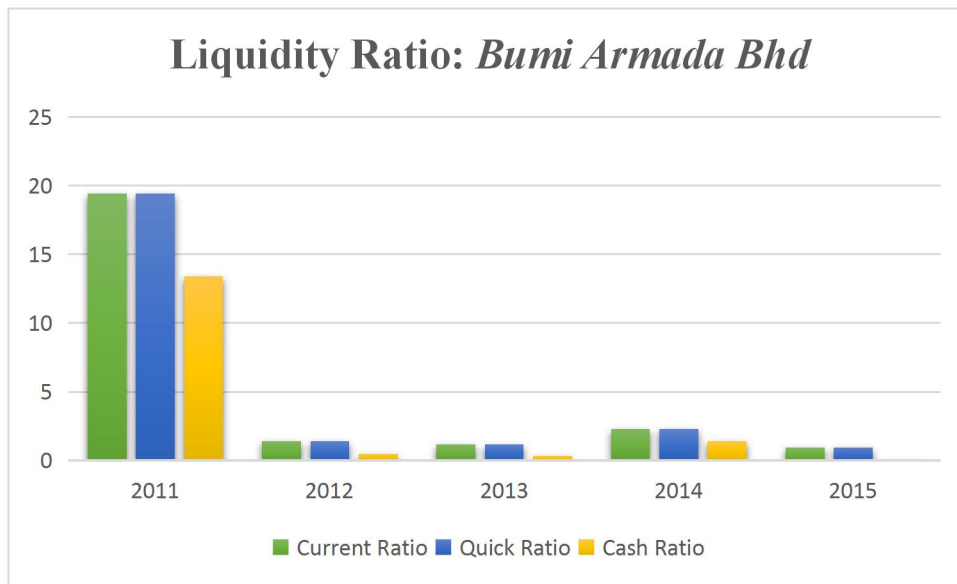
The liquidity illustrate the ability of the company to meet the short term liabilities within one year. According to (Maness & Zietlow 2005), solvency and liquidity are two concepts that are closely related and reflect upon the actions of company's working capital policy. A low liquidity level may lead to increasing financial costs and result in the incapacity to pay its obligations.

To reveal the outcome of liquidity performance of BAB, by utilize these three financial ratio such as Current ratio, Quick ratio and Cash Ratio. The formula for those ratio shown as below :-

- ✓ *Current Ratio = Current Assets / Current Liability*
- ✓ *Quick Ratio = Current Assets - Inventory / Current Liability*
- ✓ *Cash Ratio = Cash / Current Liability*

Below the Bar Chart 1 indicate the trend of the Liquidity Performance of Bumi Armada Berhad compile by three ratios.

*Descriptive Results : Bar Chart 1*



*Table 1: Current Ratio (Descriptive Results)*

	2011	2012	2013	2014	2015
Current Assets	1,334,197	1,444,410	2,142,644	5,300,157	3,156,629
Current Liabilities	68,746	1,036,464	1,793,509	2,326,510	3,369,316
<b>Current Ratio</b>	19.40763099	1.393593989	1.194665876	2.278157842	0.936875318

*Table 2: Quick Ratio (Descriptive Results)*

	2011	2012	2013	2014	2015
Inventory	0	10,750	5,559	4,830	6,051
Current Assets	1,334,197	1,444,410	2,142,644	5,300,157	3,156,629
Current Liabilities	68,746	1,036,464	1,793,509	2,326,510	3,369,316
<b>Quick Ratio</b>	19.40763099	1.383222186	1.191566365	2.276081771	0.935079405



Table 3: Cash Ratio (Descriptive Results)

	2011	2012	2013	2014	2015
Cash	920,137	500,500	634,538	3,303,247	368,934
Current Liabilities	68,746	1,036,464	1,793,509	2,326,510	3,369,316
<b>Cash Ratio</b>	13.38458965	0.482891832	0.353796942	1.419829272	0.109498189

The results of liquidity analysis of those three ratios indicate was starting downturn from year 2012 - 2015. As we can see those three is less than 1 from 2012 until 2015, it can clarify that the current liabilities is exceed the current liabilities, then the BAB would suffering to meet the short term obligation.

### 3.3 Leverage performance (Credit Risk)

Financial Leverage ratio measure the relative contribution such as shareholders and creditor. This form of ratio demonstrate the level which the company is depend on obligation. Moreover, leverage ratio also indicate the extent that debt is utilized in a proportion a company's capital structure.

To execute the outcome of leverage performance of BAB, by used the Debt to Equity ratio & Interest Coverage ratio. The formula for those ratio shown as below :-

- ✓  $Debt\ to\ Equity = Total\ Liabilities / Shareholder's\ Equity$
- ✓  $Interest\ Coverage\ Ratio = EBIT / Interest\ Expense$

Descriptive Results : **Bar Chart 2**

Descriptive Results :

**Bar Chart 2**

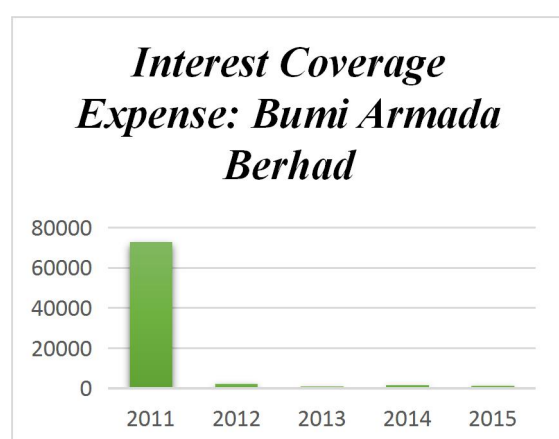
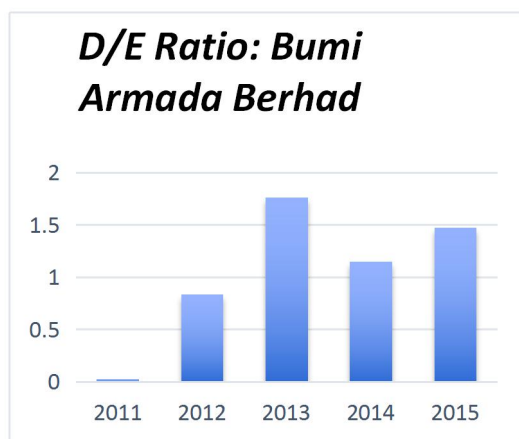


Table 4: Debt to Equity ratio (Descriptive Result)

	2011	2012	2013	2014	2015
Total Liabilities	69,103	3,162,748	7,734,365	7,734,365	10,776,867
Total Equity	2,503,327	3,767,011	4,380,235	6,717,525	7,295,772
<i>D/E Ratio</i>	0.027604464	0.839590859	1.765742021	1.151371227	1.477138677

Table 5: Interest Coverage ratio (Descriptive Result)

	2011	2012	2013	2014	2015
EBIT	169,360	36,038	181,444	142,850	178,294
Interest Expense	23,844	1,077	237	94	65
<i>In. Coverage Expense</i>	7.102835095	33.46146704	765.5864979	1519.680851	2742.984615

The Debt to Equity ratio formula indicates how much the company is leveraged (in debt) by comparing what is owed to what is owned. A high debt to equity ratio could indicate that the company may be over-leveraged, and should look for ways to reduce its debt (Michael C. Dennis, M.B.A., C.B.F). For debt to equity ratio Bumi Armada company shows that it expanded rapidly about 2.76% (2011), then slightly rose to 83.9% (2012) and about 176.5% in year 2013. However, in 2014 it descended about 115% from previous year. For latest financial D/E 2015 it was about 147% are liabilities of stockholders equity, it means the creditors provide MYR1.47 for each Ringgit Malaysia stockholders to finance the assets.

Additionally, Interest Coverage Ratio elaborates the extent to which earnings can decline without the company becoming unable to meet its annual interest costs. The result shows that the Interest Coverage ratio overall is declining rapidly. The higher the ratio, the more the Bumi Armada company does not suffer by debt expense and the company will not face difficulties in meeting its debt payments. Even though, in the bar chart shows negative trending but actually it is significant positive in paying the interest cost.

### 3.4 Operational Performance

Implementing Operating ratio is to examine the efficiency of the management in their business operation. If the ratio is lower, meaning the more proficiently the company is making benefits.

To execute the outcome of operation performance of BAB, by used the Operating ratio. The formula for those ratio shown as below :-

$$\checkmark \text{ Operating Ratio} = \text{Operating Expense} / \text{Operating Income}$$

Descriptive Results : **Bar Chart 3**

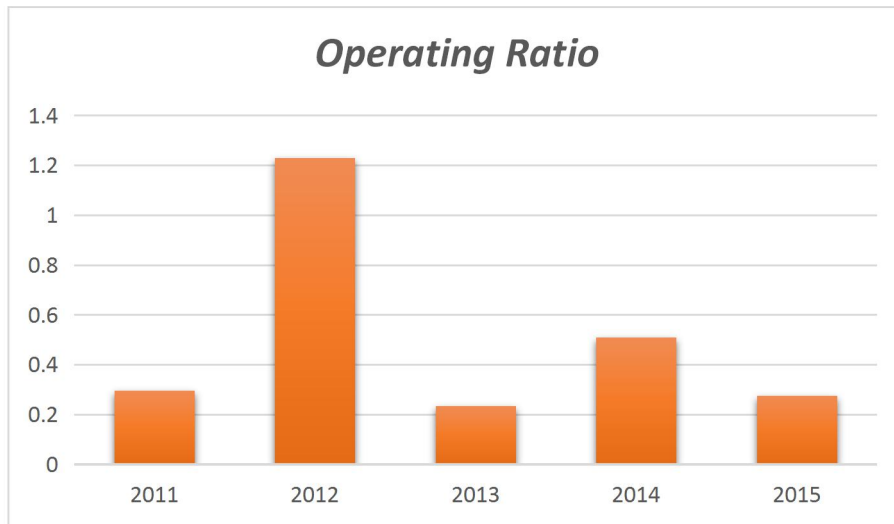


Table 6: Operation ratio (Descriptive Result)

	2011	2012	2013	2014	2015
Operating Expense	57,280	45,672	42,368	72,899	49,292
Operating Income	193,204	37,115	181,681	142,944	178,359
<b>Operating Ratio</b>	0.296474193	1.230553684	0.233199949	0.50998293	0.276363963

Operating ratio plus operating profit ratio is 100. The two ratios are obviously interrelated. For example, if the operating profit ratio is 20%, it means that the operating ratio is 80%. A rise in the operating ratio indicates a decline in the efficiency (AccountingExplanation.com). Overall, in 2012 show that Bumi Armada was 123% an it decline in the efficiency of the operation. However, starting from 2013 to 2015 increasing rapidly where the 2013 is about 23%, 2014 is about 50% and lastly is about 27%. It's not beyond the 100% indicate it's business is efficiency in daily operations.

### 3.5 Relationship of Operating ratio, Assets size and GDP

Table 7: Correlation Matrix Bumi Armada Specific Risks to determine Specific Risk  
(Descriptive Result)

	ROA	DEBTQ	OPR	SIZE	EQUITY	GDP	EXCHANG ER	CASHR
ROA	1	-.734	-.424	-.702	-.686	-.145	-.345	.970**
DEBTQ	-.734	1	-.207	.686	.651	-.399	.463	-.868
OPR	-.424	-.207	1	-.213	-.214	.460	-.451	-.274
SIZE	-.702	.686	-.213	1	.993**	.065	.867	-.690
EQUITY	-.686	.651	-.214	.993*	1	.160	.831	-.663
GDP	-.145	-.399	.460	.065	.160	1	-.198	.055
EXCHANG ER	-.345	.463	-.451	.867	.831	-.198	1	-.350
CASHR	.970**	-.868	-.274	-.690	-.663	.055	-.350	1

#### 3.5.1 GDP to profitability

The variables of Gross Domestic products (GDP) examine by utilize the P-Value in order to minimize sources of uncertainty. When P-value < 0.05 it indicates statistically significant toward the profitability, otherwise it will be insignificantly within two variable due to profitability. However, when there is negative relation between 2 variables it have inverse relationship. For instance, it also show that ABC variable is associated with a increase at XYZ variable will increasing.

Based on the correlation matrix above, GDP is correlate to ROA. Therefore, this (-) relationship implies that when GDP is increases, and Return On Assets ratio will react by decreasing in value. It also similar with Debt to equity Ratio and Exchange Rate which have negative correlation. In the circumstance economic, when the level of real GDP that is the amount of production demanding in economic, then the company will reduce in profits company earning due to overall resources of company.

### **3.5.2 Assets Size to profitability**

By referring to table 7, 3 out of 8 variables have a negative correlation coefficient outcome such as Return on Assets, Operating Ratio and Cash Ratio. It relate to the profitability company, all the daily operations company and also liquidity of the company in running the business. Pick one of the related variables as a operating ratio. In the business condition, we can opined that when the level of Assets size in rising up , there will be lacking on the operation performance. In practice, the bigger asset size does not necessarily mean a better asset or good quality assets. There are so many factors responsible to make an asset as the better asset. (EconomicWatch,2010)

## **4.0 RECOMMENDATION**

### **4.1 Funds company should diversify to hedge against a fallen market**

Searching a new and variety of funds sources in order to reduce the risk of the company. In crisis 2008 until 2009 was a lesson for us. Countless companies reliant on bank credit before the crisis either went out of business or at best had to seriously scale back their operations due to the subsequent lack of bank credit.

Consider share programs, venture capitalist funds and the alternative finance sector as well as keeping a cash reserve if possible. A company must strive to always have a cash reserve on hand for unforeseeable negative events (Timothy Woods, 2014).

### **4.2 Minimizing cash flow risk by availing insurance**

When debtor becomes insolvent, it impact the company position to dishonor our payment obligations. This is a credit risk and it should be insured with Credit Insurance or Debt Protection. Since it also involves premium cost. The finance controller needs to analyze the debtors and may avail such insurance for the high-risk debtors only. This technique does not generate cash but puts more assurance on future cash inflows. It helps in making the cash flow forecasting more reliable (Sanjay Bulaki Borad) .

### **4.3 Implementing the best Corporate Governance**

By implementing the better Corporate Governance structure is an effective system that companies to achieve corporate direction and performance. Board of Director should supervise the management to operate the company for the benefit of one or several stakeholders also known as principals. To avoid the issue of conflict interest between the agent and principals.

### **5.0 CONCLUSION**

Finally, we can conclude that the liquidity risk, credit risk, and operational risk may gave large implications towards the financial performance and non-financial performance of company. Overall, we can say that Bumi Armada Berhad have facing the liquidity risk because due to lack to meet its obligation from the creditors. Moreover, it shows that the company's liabilities is 50% from the actual size of assets, show that the company are insolvent and is net income is negative. However, this company were management is efficiency in their running business. It also indicates a better ability to generate business revenue. Thus, this company should concern on more practices of corporate governance system by developing it reputation towards the investors or stakeholders.

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