The Performance and Risk of Heineken Malaysia Berhad

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ABTRACT

This study explores the overall performance of Heineken Berhad with specific determinants and the macroeconomic determinants on company profitability performance. Return on assets (ROA) is used as a measurement for company profitability while for independent variables, the company specifics determinants (internal factor) are size, operating, liquidity and leverage. While, the macroeconomic determinants (external factor) are gross domestic product (GDP), inflation, unemployment and exchange rate are used to determine the company profitability. The data are obtained from the annual report of Heineken Malaysia Berhad over period of 2001 to 2015 where analyzed by using correlation and regression in SPSS. The findings show the board remuneration has a negative and significant relationship with the ROA, implying that company must have a good set on remuneration policy which will have higher the company profit.

Keywords: Risk, Profitability, Firm size, Operating, Liquidity, Remuneration and Inflation.

1.0 INTRODUCTION

For this study, I had chosen the Heineken Malaysia Berhad as my main reference company which has listed in Bursa Malaysia. Before this, I will focus on company background. The Guinness Anchor Berhad was a formerly named to Heineken Malaysia Berhad which their primarily product is the alcoholic beverage. Heineken brand product includes malt beer Kirin Ichiban, cider Strongbow, German wheat beer Paulaner and ready-to-drink alcoholic beverage Smirnoff Ice. This company subsidiary was comprised with Guinness Anchor Marketing Sdn. Bhd., Ramaha Corporation (M) Sdn. Bhd., Guinness Sabah Sdn. Bhd. and Malayan Breweries (Malaya) Sdn. Bhd.

The goal of this study is to determine the company profit and risk where the risk can impact on company profitability. According to Raee said the risk are divided into two categories which are the financial risk and nonfinancial risk. The financial risk contain of exchange rate risk, interest rate risk, credit risk, liquidity risk, Inflation risk, stock price risk, and reinvestment risk. Also, non-financial risks contain of managerial risk, political risk, industry risk, operating risk, regulation risk, and human resource risk where all these risk can directly or indirectly to impact on the company profit (Raee, 2008).

This study is organized into five sections. Section one introduce the study. Section two the highlight the literature review as relevant determinants of profitability. Section three present the descriptive analysis. Section four present the discussion and conclusion while section five presents the conclusion.

2.0 LITERATURE REVIEW

Waeibrorheem and Suriani (2016) conducted a study for Islamic banks and conventional banks between the years 2000 to 2010. The study was to investigate the influence of external and internal factors affecting liquidity risk of Islamic and conventional banks. The multivariate regression analysis shows that 4 out of 14 bank-specific factors and one macroeconomic factor significantly influence the liquidity risk of Islamic bank whereas conventional banks show that 5 out of 13 bank-specific factors are significant to liquidity risk.

Similarly, Waeibrorheem and Suriani (2016) also conducted another study for the sample of 15 conventional banks and 13 Islamic Banks in Malaysia from the period of 2000 to 2010. The study found that risky sector financing; regulatory capital (REGCAP) and Islamic Contract are significant to credit risk of Islamic banks. For Conventional Banks, loan loss provision, debt-to-total asset ratio, REGCAP, size, earning management and Liquidity are significant factors influencing credit risk. As for macroeconomic factors only Inflation and M3 are significant to credit risk for both Islamic and Conventional banks.

Besides that, Waemustafa and Azrul (2015) used a sample from 18 Islamic banks in which operating in Malaysia from the year 2012 to 2013. The study examined the influence of SSB effectiveness and their remuneration to the choices of Islamic mode of financing by Malaysian Islamic bank. The study found that there was no significant effectiveness of Shariah supervisory board (SSB) towards the choice of Islamic mode of financing in Malaysia whereas it just significant with their remuneration.

Moreover, Fathi, Saeed, Fatemeh and Sharif (2012) used the banks listed in the Tehran Stock Exchange (TSE) to determined, and where data have been collected during the 6-month period from 2009 to 2010. There were three measurement (interest rate risk, natural hedging risk and capital) to use for determine the of risk management on stockholders' wealth where the stockholders' wealth is measured by Return on Equity (ROE). Findings revealed that that interest rate risk and diversification risk have significant correlation with ROE, but there is no significant correlation between credit risk and ROE.

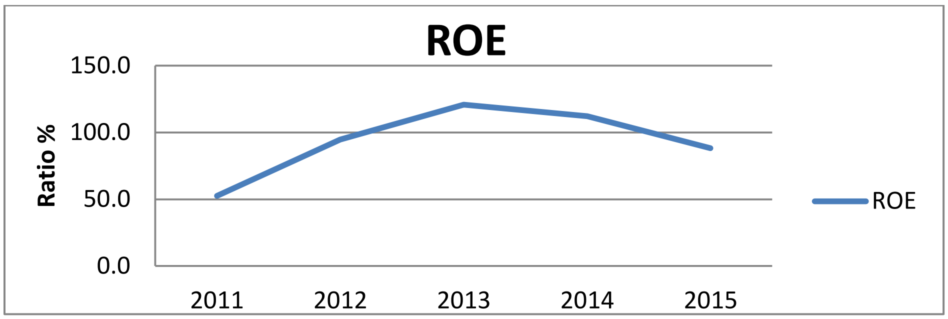
Lastly, Boyd and Stanley (1988) used the sample risk and return statistics for 249 publicly traded bank and nonbank financial firm during 1071-84. The study was examined the effects of Bank Holding Companies (BHC) expansion into currently prohibited activities by simulating mergers between actual BHC and nonbank firms as if such merger had been permitted. The study found that if BHC expansion into other financial industries would necessarily reduce the volatility of BHC profits.

3.0 DESCRIPTIVE ANALYSIS

3.1 TREND ANALYSIS

3.1.1 Profitability Ratio

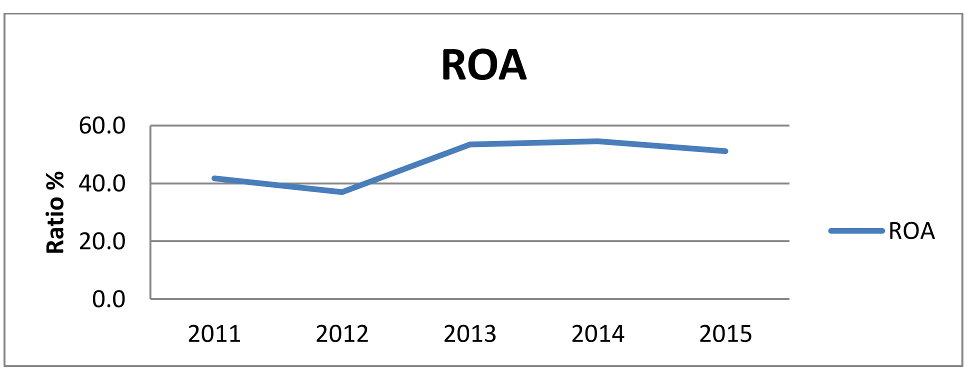
Figure 1: RETURN ON EQUITY



YEAR	**2011**	**2012**	**2013**	**2014**	**2015**
ROE (%)	52.5	94.7	120.9	112.1	88.2

According to the table above, ROE is dramatically increased from 52.5% (2011) to 120.9% (2013) and after that decreased to 88.2% (2015).ROE is calculated for company's ability to generate profits from the investments of shareholders. The ROE of Heineken Berhad have a strong growth potential between the 5 years even though ROE on 2014 and 2015 were occurred drop performance. But most analysts believe that a ROE of 10% or less is unsatisfactory. A return on equity of 17% or 18% is considered very good, 20% excellent, and 25% and above, superior. So from that, it can say that management of Heineken Berhad have a highly effectiveness in financing the operation and help to growth the company between the 5 years.

Figure 2 : RETURN ON ASSETS

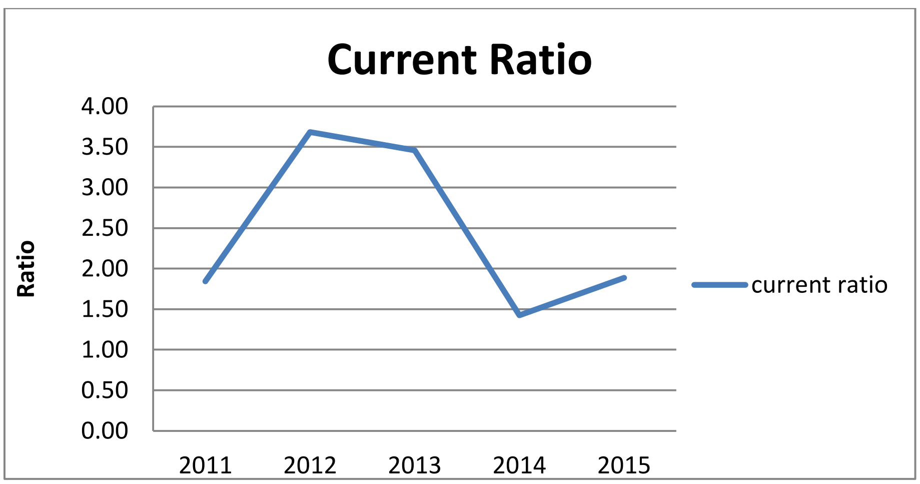


YEAR	2011	2012	2013	2014	2015
ROA(%)	41.7	37.0	53.4	54.6	51.1

Return on assets is also known as return on investment. It measures the amount of profit earned on each dollar invested in assets and also management's efficiency at utilizing the assets. Heineken Berhad has highest return on asset in 2014 which is 54.6% and the lowest return on asset in 2011 which is 41.7%. The higher the value, the better it is because the Heineken company earning more money on less investment due to efficiency in asset utilization.

3.1.2 Liquidity Ratio

Figure 3: CURRENT RATIO

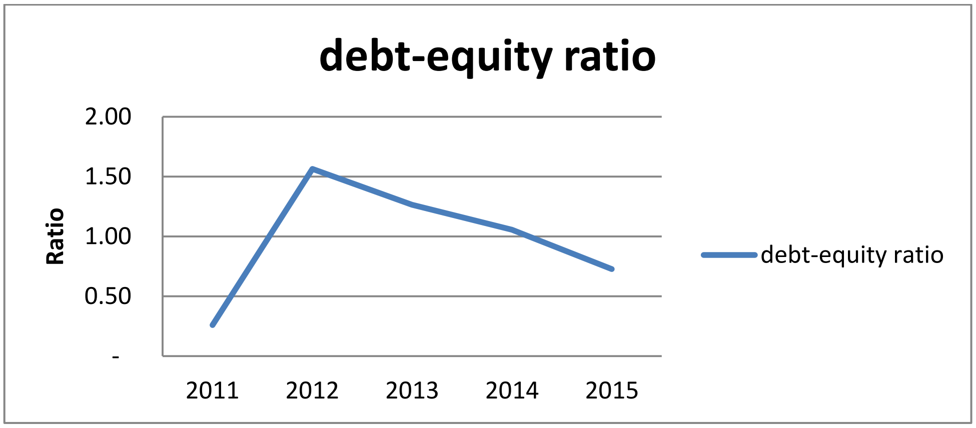


YEAR	2011	2012	2013	2014	2015
Ratio	1.84	3.68	3.46	1.42	1.88

Overall, the current ratio is dramatically increased from 1.84 in 2011 to 3.68 in 2012 where also slightly decreased to 1.42 in 2014 and slightly regained back to 1.88 in 2015. The acceptable current ratio is generally between 1.5 and 3 for healthy businesses. For current financial year 2015 the ratio of 1.88 was in the range which considers good short-term financial strength to the Heineken Berhad.

3.1.3 Leverage Ratio

Figure 4: DEBT-EQUIY RATIO



YEAR	2011	2012	2013	2014	2015
RATIO	0.26	1.56	1.26	1.05	0.73

From the table above, Heineken Berhad has the highest debt-to-equity ratio which is 1.56 in 2013, it has lower debt-to-equity ratio which is 0.26 in 2011. For current financial year 2015 the ratio was 0.73 which nearly to 1 meant can considered that the Heineken Berhad is use more equity and less borrowings or debt as source of financing or also can said that this company funds with an even mix of debt and equity to financing.

3.2 CORRELATION ANALYSIS

3.2.1 Descriptive Statistic of Dependent and others Specific Variables

Table result 1. Descriptive Statistics for Variables

	Mean	Std. Deviation
ROA (profit)	47.560	7.7790
CURRENT.R (liquid)	2.4560	1.03570
OPERATING	.1740	.01342
LEVERAGE (credit)	.9720	.50007
GDP	5.3000	.49497
INFLATION	2.4400	.66933
UNEMPLOYMENT	3.0600	.13416
EXCHANGE.R	3.4600	.49168

T.ASSET BOD_REMUNERATION	431605.60 2779881.8	44882.792 266941.8

From the table above, the standard deviation of *liquid* shows that small variations (10%) in term of liquidity where the value of current asset and also the value of current liabilities are just slightly different between that 5 years Whereas, the mean of liquid is 2.4 which considered healthy company as the mean is fall between 1.5 and 3. It shows that the Heineken Berhad has higher ability to meet its short term obligation without converting inventories into cash as immediately. This is due to the cash balance constitute nearly one-third of the total current assets.

The mean of *operating* is 17% which below the benchmark ranging between of 80% to 90%. It is considered to unsatisfactory as the average ratio has far from the accepted ratio which indicates that this company is inefficient in operation. The standard deviation also shows that there was little change in ratio between the consecutive years 2011-2015.

Heineken Berhad shows the mean of *credit (leverage)* is 0.9720 which nearly to 1. It shows that Heineken Berhad funds with an even mix of little debt and equity to financing as due to the less borrowing on RM 50,000 in year 2015 been dropped from RM 150,000 in year 2012 and where the share capital was still remain at RM 151,049 between that 5 years. This show that company remains able to meet its long-term financial obligations when happen occasional cash-flow issues. While, the standard deviation of credit in Heineken Berhad is 0.5007 meaning that there is slightly different in credit between that consecutive years 2011-2015.

Mean of *Remuneration* is RM 2,779,881.80 meaning that this company pays very high in term of salary to around 10 directors per year. I notice that this company only hiring 1 or 2 executive directors to operate their business in result their range of remuneration in year 2015 could up to RM 1,350,000 per person.

Table Results 2. Correlation Matrix Heineken Berhad Specific Risk Determinants to Profitability

Correlations

		ROA	CURRENT .R	OPERATIO N	LEVERAGE	REMUNER ATION	T.ASSET	GDP	INFLATIO N	UNEMPLOY MENT	EXCHANGE .R
Pearson Correlation	ROA	1.000									
	CURRENT.R	-.397	1.000								
	OPERATION	.028	.491	1.000							
	LEVERAGE	-.043	.727	.382	1.000						
	REMUNERATION	-.963	.491	.009	-.016	1.000					
	T.ASSET	-.619	.257	-.556	.343	.514	1.000				
	GDP	-.114	-.444	-.640	.073	-.115	.653	1.000			
	INFLATION	.231	-.795	-.885	-.702	-.246	.128	.468	1.000		
	UNEMPLOYMEN	.254	-.311	.667	-.271	-.289	-.798	-.339	-.284	1.000	
	EXCHANGE.R	.529	-.496	.504	-.283	-.580	-.832	-.198	-.090	.944	1.000
	Sig. (1-tailed)		.254	.482	.473	.004	.133	.428	.354	.340	.180

3.2.2 Firm Size to Profitability

Firm size measured by total asset with P (0.133) > alpha (0.10) indicates that firm asset have *negative and insignificant* relation to profitability in all respective variables of the measurement. Negative insignificant implies that the firm is less productive but more profitable. This finding consistent with Becker(2010) found that a negative influence of firm's size on firm's profitability. Contrary, a study by Pervan and Josipa (2012) found that there was a significant relationship between firm size and firm profitability. If a firm grows in size, the profitability of the firm would raise which lead to a strong on market power, negotiating power and economies of scale. The growth of asset utilization will increase firm profitability, while can reduce the indebtedness of a firm.

3.2.3 Inflation to Profitability

As a part of macroeconomic factor, the inflation variable tested with P (0.354)> alpha (0.10) indicates *insignificant* relation to profitability. But most analysts found out that there is a positive relationship between these two variables. Like according to Vong and Hoi (2009), they mention that high inflation is often linked with higher cost and higher income. It is predicted that if income increases more that the cost, inflation will have a positive impact on the profits. However, there will be a negative correlation if the cost increases faster than the income does.

3.2.4 Liquid to Profitability

Liquid measured by current ratio with P (0.254) > 0.10 indicates that liquidity have *negative and insignificant* relation to profitability in all respective variables of the measurement. This finding is consistent with findings of Assaf (2003) implies that high liquidity can be undesirable as a low. Usually, the current assets are less profitable then the fixed assets. It means that the money invested in current assets generates less return then fixed assets, thus include an opportunity costs and also the cost for maintenance which can reducing the profitability of the company. Moreover, Goswami and Sarkar (2011) implied that any further investment in current asset will lead to decline in profitability.

Table Result 3. Stepwise Regression Analysis for Heienken Berhad Specific Risk Determinants to Profitability

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.963[a]	.927	.903	2.4207	3.381

a. Predictors: (Constant), BOD_REMUNERATION

b. Dependent Variable: ROA

Table Result 4. Anova Regression Analysis for Heineken Berhad Specific Risk Determinants to Profitability

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	224.472	1	224.472	38.307	.008[b]
	Residual	17.580	3	5.860		
	Total	242.052	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), BOD_REMUNERATION

Table result 5. Regression Coefficients Analysis for Heineken 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)	125.572	12.651		9.926	.002		
	BOD_REMUNERATION	-2.806E-5	.000	-.963	-6.189	.008	1.000	1.000

a. Dependent Variable: ROA

3.2.5 Remuneration to Profitability

After test the conducted and all of variables added. With the stepwise method shows that R value is 0.963 and shows a high degree of correlation between variables. R^2 is 0.927 and indicates that 92.7% of variation in ROA is explained by independent variable board REMUNERATION.

In terms of relationship to profitability, for board REMUNERATION variable which it measured by total board remuneration with a P (0.004) < alpha (0.10) indicates *negative significant* relation to profitability measurement tested.

Similarly, the board remuneration variable to profitability (ROA) has negative significant relation with a P (0.08) < alpha (0.10). This negative relation indicates that company must have a good set on remuneration policy which can lead to a higher the company profit. Contrary, a study by Rita & Amos (2016) was found that the relationship between board remuneration and ROA (p=0.830), ROE (p=0.061), and EPS (p=0.216) was not significant at the Kenyan Financial Services Industry. Besides that, other findings also show that board remuneration does not affect ROA, ROE, and EPS (King'wara, 2015). Moreover, Nulla (2013) was found that there were no relationships between CEO compensation and ROA, except for the relationships between CEO bonus, and ROA in Toronto Stock Exchange small sized companies.

Nonetheless, this study is able to successfully establish a negative significant relationship between board remuneration and profitability (ROA).

4.0 Discussion and Recommendation

4.1 Discussion

During the consecutive year 2011-2015, overall performance of Heineken Berhad was showing favorable in the performance result for all measurements of liquidity and remuneration in annual basis. However, since the board remuneration has the result with the highest t-value= -6.189 indicate that this variable impacted much on profitability measurements. One of profitability measurement has a significant relationship which is ROA to remuneration variable. With this high impact of remuneration to profitability and one of profitability measurement is significant relationship to board remuneration. Therefore, the attention of the company into the remuneration factor should become priority on 2015 onwards beside the GDP, liquidity and total asset to enhance the profitability.

4.2 Recommendation for Improvement

1. Timing matters in liquidity visibility

Cash and liquidity are important topic to discuss on decision. Commonly there linked between the cash and liquidity decisions to be independent. The excess cash can use for invest and shortfalls automatically will be funded. In this way can help the Heineken Berhad for managing liquidity risk in a straightforward process.

2. Future cash forecasting: confidence matters

Future cash flows are one of the most important risk management tools that firm must have. Must having a confidence in the forecast not only provide insight into risk but also helps protect against risk factors. Unfortunately, lack of accuracy is also one of the primary deficiencies of most forecast processes. So the company should be alert on this.

5.0 CONCLUSION

This study examined overall performance of Heineken Berhad with specific determinants and the macroeconomic determinants on company profitability performance. In this study, the data of

Heineken Malaysia Berhad were active in Bursa Malaysia between the years 2001 to 2015 has been used. The regression and correlation methods have been used in the analysis.

The correlations are found to be *negative* for the company between liquidity variable and company profitability. The reason why this relationship is there always be trade-off between profitability and liquidity. In addition, the results of the analysis showed that the firm asset has *negative and insignificant* relation to profitability when the firm is less productive but more profitable. Moreover, the results of the analysis showed inflation variable indicates *insignificant* relation to profitability when the cost increases faster than the income does. Lastly, the results of the analysis showed the existence of a *negative significant* relationship between board remuneration and company profitability implies that this company must have a good set on board remuneration policy which can lead to a higher the company profit.

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