Risk and Performance: Empirical Evidence from Bumi Armada Berhad

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ABSTRAK

The purpose of this study is to sought the corporate governance and it impact on firm risk and company performance on Bumi Armada Berhad. The data collected from annual report of Bumi Armada Berhad starting from 2011-2015. The measurement of liquidity ratio and operating ratio used to see the overall performance of Bumi Armada Berhad in 5 years which allegedly beyond benchmark. The result was founded the liquidity have a positively and significant relation to profitability represented by ROA in all respective variables of the measurement. Current ratio has a strong relationship between ROA. This perspective of strong relationship is happened when the asset of the company conversion is effectively converted to cash.

Keywords: ROA, employment rate, Inflation, GDP, Profitability, Liquidity Risk

1.0 INTRODUCTION

1.1 BACKGROUND OF THE COMPANY

Bumi Armada Berhad as public limited company under the Companies Act, 1965 was established in December 1995 and this company. Bumi Armada Berhad is a Malaysia company of international offshore energy facilities with services provider based in Malaysia with a presence in over 17 countries on five continents that supported by more than 1,600 people from over 30 nations.

Bumi Armada Berhad provides three business of offshore services which are Floating Gas Solutions ('FGS'), Floating Production, Storage & Offloading ('FPSO') and Offshore Marine Services ('OMS').

Floating Gas Solutions (FGS) operation

This business is focused on innovative solution for the offshore liquefied natural gas industry. As an office proprietor and operator, FGS is included in the creation and import fragments of the LNG value chain, particularly the improvement of coasting liquefaction and capacity/regasification solution.

Floating Production, Storage & Offloading (FPSO) operation

The FPSO Operations business works in working FPSO vessels to meet the particular prerequisites of the customers, the store and the operational condition. FPSO Operations deals with the advantage upkeep, generation operations and seaward administration of the FPSO vessel. The FPSO Operations unit is in charge of the general respectability of the seaward creation offices' foundation, preparing hardware and field operational viewpoints. By utilizing completely incorporated frameworks and the execution demonstrate, there has been a change in the capacity to accomplish more noteworthy security, enhanced productivity and accessibility from the floating production assets.

Offshore Marine Services (OMS)

The OMS business is an amalgamation of the Transport and installation now it alluded to as Subsea Development businesses and Offshore Support vessel (OSV). Under the OMS specialty unit, Bumi Armada Berhad claims and works the fleet of 54 vessels including Anchor Handling Tug Support ("AHTS") vessels, Workboats/Light Development Bolster vessels, Platform Support vessels ("PSvs"), Multi-Reason Support vessels ("MPSvs"), DP2 multipurpose vessels and Derrick Lay canal boats. The OSv fleet is engaged in four key markets, to be specific South East Asia, West Africa, Russia and Latin America, while the key market for the SC exercises is the Caspian Sea, with the Armada Installer, a reason constructed Derrick Lay canal boat.

1.2 CORPORATE INFORMATION

Chairman Independent Non-Executive Director: Tunku Ali Redhauddin ibni Tuanku Muhriz
Independent Non-Executive Director Saiful Aznir bin Shahabudin
Independent Non-Executive Director: Alexandra Elisabeth Johanna Maria Schaapveld:
Independent Non-Executive Director: Steven Leon Newman
Non-Independent Non-Executive Director: Maureen Toh Siew Guat
Non-Independent Non-Executive Director: Shapoorji Pallonji Mistry

Executive Director Acting Chief Executive Officer: Chan Chee Heng
Executive Director Head of Offshore Marine Services: Shaharul Rezza bin Hassan
(Alternate director to Shapoor Mistry): Ravi Shankar Srinivasan

2.0 LITERATURE REVIEW

Waemustafa, W., & Sukri, S. (2016) aimed the study about comparison the liquidity risk between Islamic banks and Conventional banks in Malaysia. It found that Islamic banks maintain higher liquidity compared to the conventional banks and shows that 5 out of 13 bank-specific factors are significant to the liquidity risk of the Conventional banks and Islamic banks shows that 4 out of 14 bank-specific factors and one macroeconomic factor significantly influence to the liquidity risk. Cash plus with short term market securities to total bank asset is to measure the liquid variable. This indicate Islamic banks have a big percentage of the liquidity compared to Conventional banks. This factors are due to the lack of a lender of the last resort and the interbank money market was gives a restricted alternative to Islamic banks. This condition is to constrained the Islamic bank to keep an adequate liquidity provision to satisfy the expected loss from their financing activities. Other than that, it could be explained that uniqueness Islamic bank in in term of assets and liability structure that contain of profit and loss sharing-based investment account allow both risk and profit to be shared among Islamic banks and their customers itself.

Another study conducted by Waemustafa, W and Abdullah, A. (2015) is to see the whether there is any critical impact between Shariah supervisory boards and their remuneration towards Islamic banks in financing mode. This study used as a sample of 18 Islamic banks from year of 2012 to 2013 which is operating in Malaysia. This study is exposed that the Shariah supervisory board may decide the mode preference of financing toward Murabahah and BBA. It shows that SSB does not have any significant relation to the decision of Islamic financing mode in Malaysia where the notion give some insight of 'cosmetic reason'.

As outlined by Waemustafa, W and Sukri (2015), analyses the macroeconomic and bank specific determinants of credit risk in Islamic and Conventional Banks which is applied on a sample of 13 Islamic Bank and 15 conventional bank in Malaysia. The results show that only four from fourteen variable give insignificant difference between Islamic banks and conventional banks for as example MGT, DTAR, ROA and DEER. There is no difference in term of leverage, solvency, profitability and management efficiency between Islamic banks and conventional bank. For LIQUID, EM, FINANCE, SIZE, REGCAP, LEV, LLP, RSL and CR give the significant difference between Islamic bank and Conventional banks.

Zohoori, M. (2013) cited to conclude that the role of board of directors in managing with firm's risk can highlight the relationship between board of directors and enterprise risk management (ERM). This relation has a definitely affected on organizational performance measures. Agency theory and stewardship theory can support the relationship between board's characteristics and organizational performance. this study is to distinguish the critical factor that dependent to board of directors and enterprise risk management it will display another framework to show the relationship between those factor and output measure by using ROA and turnover to show the critical indicator for evaluate the organizational performance.

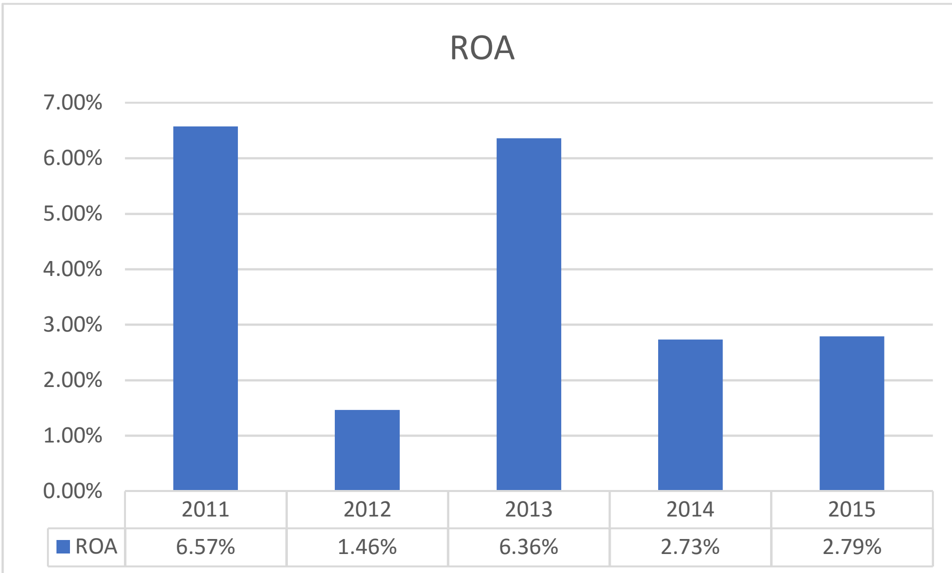
Another study was conducted to analyse the liquidity risk and as well as to draw the relationship between the liquidity risks and financial performance and measured by using Return on Assets (ROA) and return of equity (ROE) of Islamic banks is analysed by Ariffin, N. M. (2012). This study also is to determine the liquidity risks and financial performance give impact of the global financial crisis on the Islamic banks. From findings of this study, it finds that the global financial crisis give impact on extent of liquidity risk and financial performance of Islamic bank from the analysis of correlations.

3.0 DESCRIPTIVE ANALYSIS

3.1 RETURN ON ASSET

	YEAR				
COMPANY	**2011**	**2012**	**2013**	**2014**	**2015**
BUMI ARMADA BHD	6.57 %	1.46%	6.36%	2.73%	2.79%

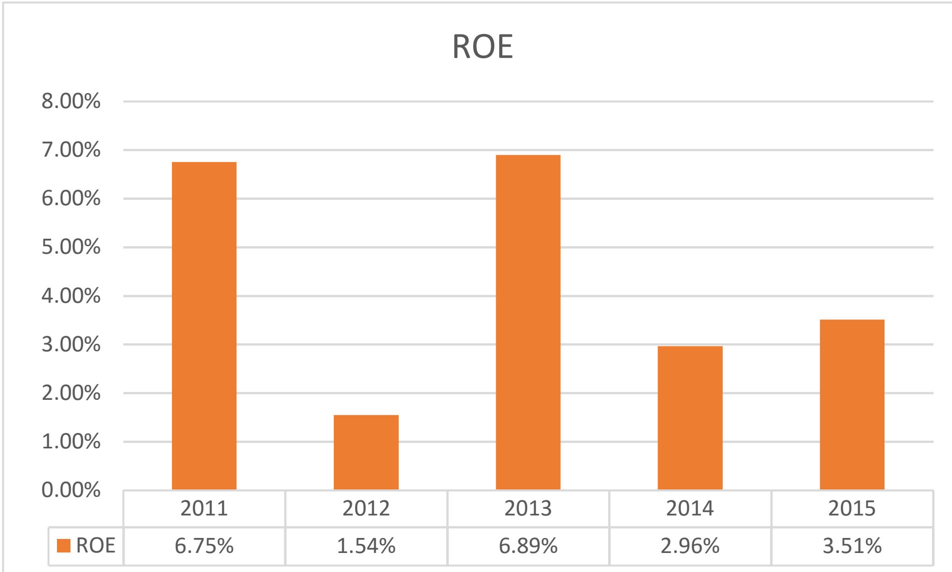
Return on asset is calculated to see how efficient the company manages their assets to generate



profit or income. This ratio calculated by taking a company's net income and divide it with total assets. The higher percentage of ROA shows that company be capable to turn their assets into income efficiently. Based on graph 3.1 it shows on 2011 the ROA is about 6.57% then dramatically decrease about 1.46% in the year 2012 and increase slightly in 2013 about 6.36%. Then in 2014, the ROA drop to 2.73% and by 2015 increase by 0.06% about 2.79%. from this finding, Bumi Armada Berhad still needs to improve their assets management in future.

3.2 RETURN ON EQUITY

COMPANY	YEAR				
	2011	2012	2013	2014	2015
BUMI ARMADA BHD	6.75%	1.54%	6.89%	2.96%	3.51%

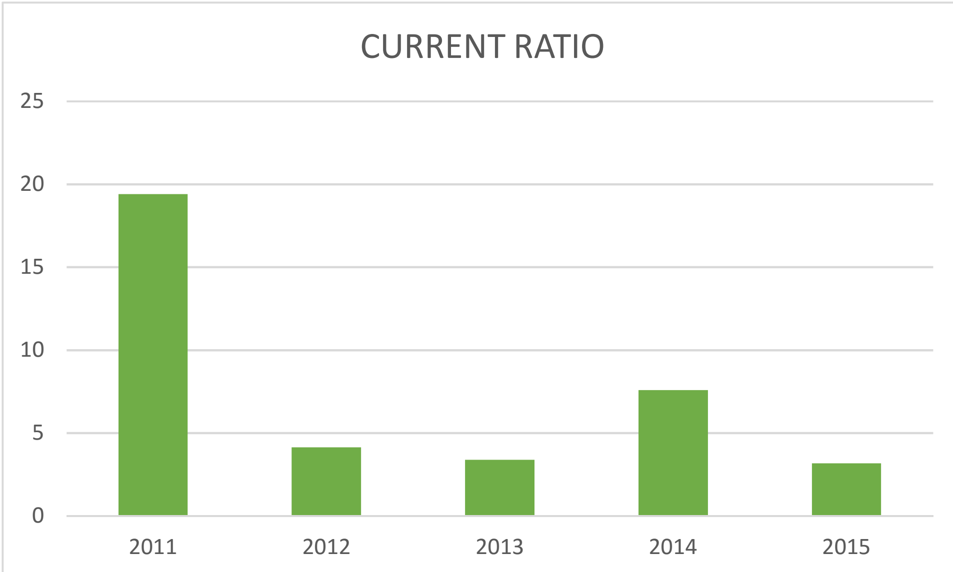


Return on equity indicates a company manages their shareholder money that is invested to generate income of the year. It is useful for comparing the profitability between company to the other company. Return on equity is calculated by dividing net income by total equity.

In the year 2012 it decreases drastically by 5.21% from 6.75% in the year 2011. However, increase slightly in the year 2013 about 6.89%. But this increasingly does not stay long and drops to 2.96% on 2014 and increase in 2015 about 3.51%. This indicates that Bumi Armada Berhad is inefficient in managing their shareholder money.

3.3 CURRENT RATIO

COMPANY	YEAR				
	2011	**2012**	**2013**	**2014**	**2015**
BUMI ARMADA BHD	19.40763099	4.142602054	3.390676408	7.594437369	3.172126058

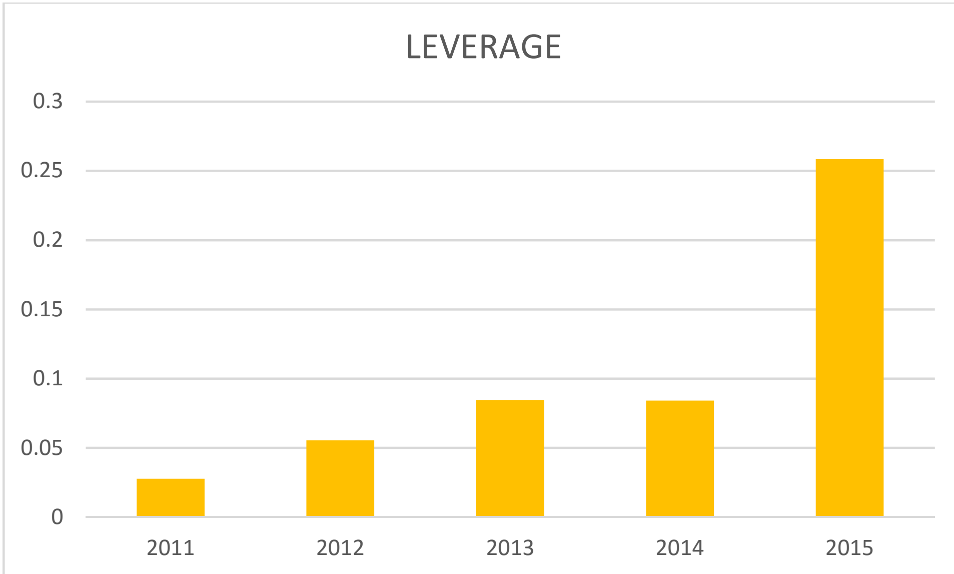


The current ratio measures a company's ability to meet its short-term liabilities with its short-term assets and is one of the best measures of a firm's financial health. Generally, the company would aim to maintain a current ratio of at least 1 to ensure that the value of their current assets covers at least the amount of their short-term obligations.

Based on the graph above, in the year 2011, it shows increasing dramatically by 19.40763099. but it keeps decreasing in the year 2012 and 2013. It going back a normal increase in the year 2014, 7.5944 and decrease back in the year 2015 about 3.172. If a company has more current assets than current liabilities, the money left over can be used to service debt.

3.4 LEVERAGE RATIO

COMPANY	YEAR				
	2011	**2012**	**2013**	**2014**	**2015**
BUMI ARMADA BHD	0.027604464	0.055375202	0.084533136	0.083995234	0.258346995



Debt equity ratio is to measure of a company's financial leverage by calculated dividing the total liability with equity. It shows the proportion of equity and debt the company is using to finance its asset. High risk often associated with aggressive leveraging practices. A lower debt to equity ratio usually indicates a more financially stable in business.

The graph shows keep increasing from the year 2011 to 2013 (0.0276, 0.05537, 0.08453). it decreases in the year 2014 with 0.083 and increases drastically in the year 2015 with 0.25834. It shows that a company has been aggressive in growth financing with debt, and it may be a greater potential for financial distress if earnings do not exceed the borrowed of cost funds

4.0 DISCUSSION & RECOMMENDATION

The finding of this study in table 1, 7 out of 10 items were significant with Return of Asset (ROA). ROA compared to ROA is equal to 1. It shows remuneration is significant with ROA p value = 0.267. ROE is also positive and significant. The third is leverage is positive and significant with p value= 0.518. but GDP, exchange rate and unemployment are negatively significant with p value = - 0.531, = -0.264 and = - 0.286.

For liquid it measured by the current ratio with the p value = 0.54. It is indicated the liquidity have a positively and significant relation to profitability represented by ROA in all respective variables of the measurement. Current ratio has a strong relationship between ROA. This perspective of strong relationship is happened when the asset of the company conversion is effectively converted into cash. The current ratio is to measures company's ability to meet its short term liabilities and it is the best measures of company's financial health. Company need adequate the liquidity so that the liquidity will give effect the profits and can be divided to shareholders. This is closely related between liquidity and profitability because one decreases and the other one increases which is found in Saleem, Q., & Rehman, R. U. (2011).

By looking in macroeconomic factor, GDP variable tested with p value = -0.531 that indicates negative significant to profitability of ROA. It is indicated the GDP will stimulate overall of profitability. This may involve the growth of economic will increase the profit of a banks. This can generate more profit received which eventually boosts profitability. Tan, Y., & Floros, C. (2012) analyse that Government should made relevant policy lower the speed of economic to development as high GDP growth it may decrease the profitability of banks. The other variable of profitability (ROE) also have positive significant with p value = 0.994.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.994[a]	.988	.984	.002986823807137	1.316

a. Predictors: (Constant), ROE

b. Dependent Variable: ROA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.002	1	.002	239.839	.001[b]
	Residual	.000	3	.000		
	Total	.002	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), ROE

By using method stepwise Regression, the R value represents the simple correlation, this can be seen in “R” column which is 0.994 with a high value of correlation between variables. For R^2 is 0.984 and shows that 98.4% of the variation in ROA is interpreted by independent variable which is current ratio.

Table below shows Anova Regression Analysis indicates predicting the dependent variable that ROA. Based on table, it shows that the equation shown which is F=239.839. This model is significant with the significant of Anova regression $P < 0.10$.

4.1 RECOMMENDATION

Bumi Armada Berhad need to implement principles of good corporate governance so that it shows their financial report in a good condition. If their corporate governance is not stable it may effect on generating more profit, the shareholder will run from their company. According to Doidge, C.(2007) analyzed that a good corporate governance varies widely across over the countries and firm and it enables the company to access capital markets on higher terms that is effective for company to raise more funds and it might expect that company planning aiming to access capital market especially for company with valuable growth opportunities that can’t be supported internally and to adopt mechanisms that commit to be a good governance.

Bumi Armada Berhad need to see the asset availability by improving in term of liquidity performance by measured using current, quick and liquid ratio. Based on the current ratio of the company, it going back a normal increase in the year 2014, 7.5944 and decrease back in the year 2015 about 3.172. If a company has more current assets than current liabilities, the money left over can be used to service debt. If company didn’t concentrate of this liquidity risk it will give a big impact on company performance in term of their financial. Company need to make an improvement and manage on liquidity management.

5.0 CONCLUSION

As conclusion, clearly that oil and gas industry are facing any type of risks. Risk cannot be eliminated but company can minimize it. Bumi Armada Berhad may handle all the risk effectively with standard of benchmark. To maintain the performance on the next year’s ROA and ROE has a positive significant but by calculating ROA in year 2014, the ROA drop to 2.73% and by 2015 increase by 0.06% about 2.79% its shows that Bumi Armada Berhad need to maintain their asset to make sure that they monitor their assets do not exceed the liabilities. It may affect the financial company. Bumi Armada Berhad have a good corporate governance so that it shows their financial report in a good condition. If their corporate governance is not stable it may effect on generating more profit, the shareholder will run from their company.

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