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16 April 2017

Online at <https://mpra.ub.uni-muenchen.de/78398/>
MPRA Paper No. 78398, posted 16 Apr 2017 15:05 UTC

Firm Risk and Performance in A & M Realty Berhad

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ABSTRACT

The purpose of this study is to examine the overall performance of A & M Realty Berhad with specific risk and macroeconomic factor on profitability performance. The data and information get from annual report of A & M Realty Berhad starting from 2011-2015. The measurement of liquidity ratio and operating ratio used to see the overall performance of A & M Realty Berhad in 5 years. Besides that, to measure is the asset size, the variable has negative and no significant relationship with liquidity risk. To see relationship of risks factors to the profitability, this paper is utilizing GDP, operational ratio and liquidity ratio. Data was analysed by utilizing regression and bivariate correlation. The regression and bivariate correlation shows only one factors of probability is significant to operating ratio which is ROA with the highest impact to the profitability. However, the liquidity and GDP is not significant to profitability with low impact to the profitability.

Keywords: Credit Risk, Liquidity, Profitability and Macroeconomics

1.0 INTRODUCTION

1.1 Company Background

A & M Realty Berhad is one of the Malaysia-based investment holding company and also provides management services. From company subsidiaries, A & M Realty Berhad is primarily engaged in property development and construction. Besides, A & M Realty Berhad divided into four main business segment. This are property development, construction and service rendered, manufacturing and trading, hotel and leisure related services, and plantation. For property development and construction, this business involved in the construction and development of residential, commercial and industrial properties. For the services rendered,

this business included the provision of corporate advisor and administrative services. For their third business, this is manufacturing and trading segment includes the manufacturing and trading of automotive parts and related products. While, for the hotel and leisure related services business, A & M Realty Berhad provides hospitality services, food and beverages. Lastly, for plantation business company involves plantation of oil palm, bananas and pineapples.

1.2 Statement of Corporate Governance

Based on the annual report 2015, A & M Realty Berhad possess twelve Board of Director and also have diversity of gender. Board of Director for this company have 2 female and the rest are male. Eight of BOD are Non-Independence and Executive Directors including the Executive Chairman, Executive Deputy Chairman and Managing Director. The rest are Independent Non-Executive Directors. From this A & M have many Non-Independence director and Executive Director. Mean that most of this company BOD are full-time employees of this company. Besides, this BOD have higher earners in A & M, with remuneration packages made up partly of basic pay and fringe benefits and partly performance-related by. Aggregate remuneration in 2015 for Executive Director are RM2, 501,176 meanwhile for Non-Executive are RM50, 340.

Furthermore, their Board of Directors have different skill, some of them have degree in Civil Engineering, Bachelor of Arts Degree, Bachelor of Commerce, Bachelor of Arts majoring in Economics, Degree in Medicine, Degree in Bachelor of Science (Engineering), Master Degree in Construction, Bachelor of Laws Degree, and lastly Degree in Accounting.

Besides, A & M Realty Berhad board carry out meetings five times a year. All Board meetings are structured with a pre-set-agenda. Board papers providing updates on operation, financial and corporate developments as well as minutes of meetings of the Board Committees are circulated 7 days prior to the meetings to give Directors time to deliberate on the issues to be raised at the meetings. All the Directors have been granted unrestricted access to all information pertaining to the Group's business and affairs as well advice and services of the Company Secretaries in order to assist them in their decision making. Where necessary, the Directors may engage independent professionals, at the Group's expense, to advise them on specialized issues for the purpose of decision making.

For the risk management framework, informal risk management is carried out throughout the year. The aim are to identifying, evaluating, managing and reporting the Group.

As conclusion, The Board is satisfied that the Group's adequacy of the existing system of risk management and internal control which operates satisfactorily to prevent any significant breakdown or weakness that give rise to material losses incurred by the Group during the financial year under review.

2.0 LITERATURE REVIEW

Credit risk explained by Investopedia credit risk refers to the risk that a borrower cannot repay a loan to the lender. The lender may lose the principal of the loan and also the interest that they charge to borrower. Credit risk happen because borrower expect to use future cash flows or future cash to pay current debt.

According to Vodová (2003) credit risk happen due to borrowers default on their loan repayment. This risk can contribute to insolvency and even bankruptcy that leads to banking crisis. According to Boumediene (2011) opined that credit risk occurred in Islamic banks' Murabahah financing. This happen when customer opt to cancel to buy the commodity causing the bank to be liable for losses. Besides that, failing to complete the instalment repayment for the goods as stipulated also causes credit risk to Islamic banks.

According to Waemustafa and Sukri (2015) they finding only four out of fourteen variable shows insignificant difference between Islamic banks and conventional banks. For example DTAR, DER, MGT and ROA. It show that there is no difference in term of solvency, leverage, management efficiency and profitability between Islamic banks and conventional banks. Meanwhile CR, LLP, LEV, REGCAP, SIZE, FINANCE, RWA, EM and LIQUID show significant different between Islamic banks and conventional banks.

For my company, A & M Realty Berhad don't have credit risk because their business not involve which public or customers money. Credit risk only happen at the bank industry only because this business involve with customers money or another words also known as depositors.

According to Alman, M (2012) Shariah Supervisory Board (SSB) is one of internal governance mechanisms which involves the monitoring of Islamic banks' activities in accordance to the Sharia or Islamic law. This law only specifically o its implementation and compliance and it is also a part of the big corporate governance framework. It different is only by the existence of Shariah Supervisory Board.

Since Shariah governance is part of corporate governance. Bhati, M & Bhatti MI. (2010) opined that is good and effective SSB should reflect the issue of independence, transparent, accountable, responsible and fair.

According to Waemustafa and Abdullah (2015) they support the nation that there is no serious effort was taken to implement the profit and loss sharing mode of financing among Islamic bank. Is not about SSB effectiveness, but it seems that their remuneration may determine the preference toward BBA and Murabahah mode of financing. They also find that there is an insignificant portion of these asset portfolio is mainly dominated by murabahah, BBA and other than profit and loss mode of financing. For A & M Berhad they not involve this problems because they not involve in banking business.

According to Abdul Rahman (2006) find that many listed firms in Malaysia are owned or manage by family and these companies appear to be inherited by their own family member. Besides, according to Jasani (2002) he finds that Small and Medium Scale Enterprise (SME) are managed by the founder and anchored to the family in terms of funding and employment. This family business involve with activities concentration on trading, manufacturing and retailing. . He finds that 59 percent, that is the majority of the businesses in Malaysia, are still managed by the founder while 30 percent are run by the second generation where the majority are the founder's children. The founder's reign is highlighted with 65 percent of them linked to the SME.

According to Haslindar and Fazilah (2011) they finds that, on average, firm value is lower in family ownership than non-family ownership but family ownership shows a higher value than non-family ownership based on ROE. Therefore, family firms basically invest a high share of their assets. They also find that relationship between firms with smaller boards and firm value suggesting that small board size could be a good and superior corporate governance mechanism for firms to improve performance. A & M Realty Berhad are not family owned

According to Sloan (2001) the financial information is the first source of independent and true, communication about the performance of company managers. The integrity of financial reporting is highly dependent on the performance and conduct of those involved in the financial reporting ecosystems, particularly directors, management and auditors (Mohd Hassan Che Haat, Rashidah Abdul Rahman & Mahenthiran, S. 2008; Nik Mohd Hasyudeen Yusoff, 2010)

According to Norlia, Zam, Ibrahim (2011) they opined that corporate governance become important because most of big companies collapse. Malaysia and also another country find the best solution to battle the corporate governance issues. Relationship between corporate governance and financial reporting are important and can't be denied. The failure in corporate governance could lead to the failure in financial reporting.

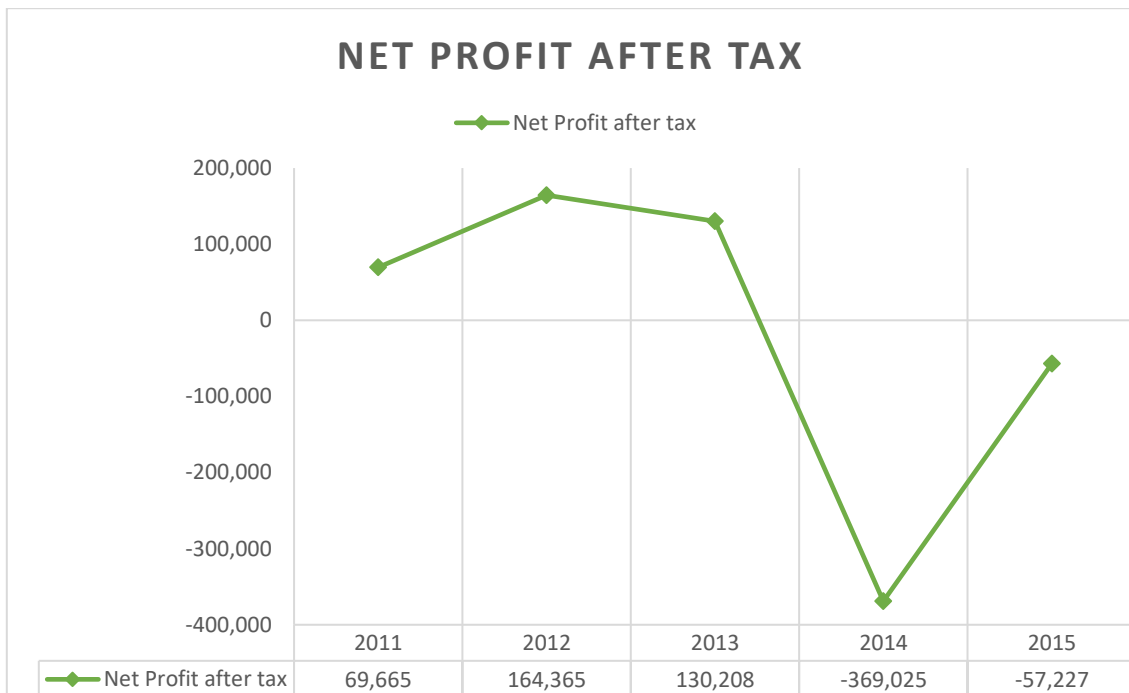
Based on my analysis A & M Realty Berhad follow the MCCG. MCCG is the guideline that government introduce to listed company. They disclose their financial report every year.

According to Muljawan (2005) the management of liquidity risk is merely unreliable without proper knowledge of risk formation in Islamic mode of financing. It is critical to initially identify the process of risk formation before proceeding to a further stage of risk management process.

Based on Waemustafa and Sukri (2016) Islamic banking activities have unique in term of principle compare to conventional banking activities. For instance, the debt-based financing is considered very popular among Islamic banks because of its low risk especially with risk-averse clients who prefer the debt-based mode of financing. However, the issue of compliance is always argued within the debt-based mode of financing.

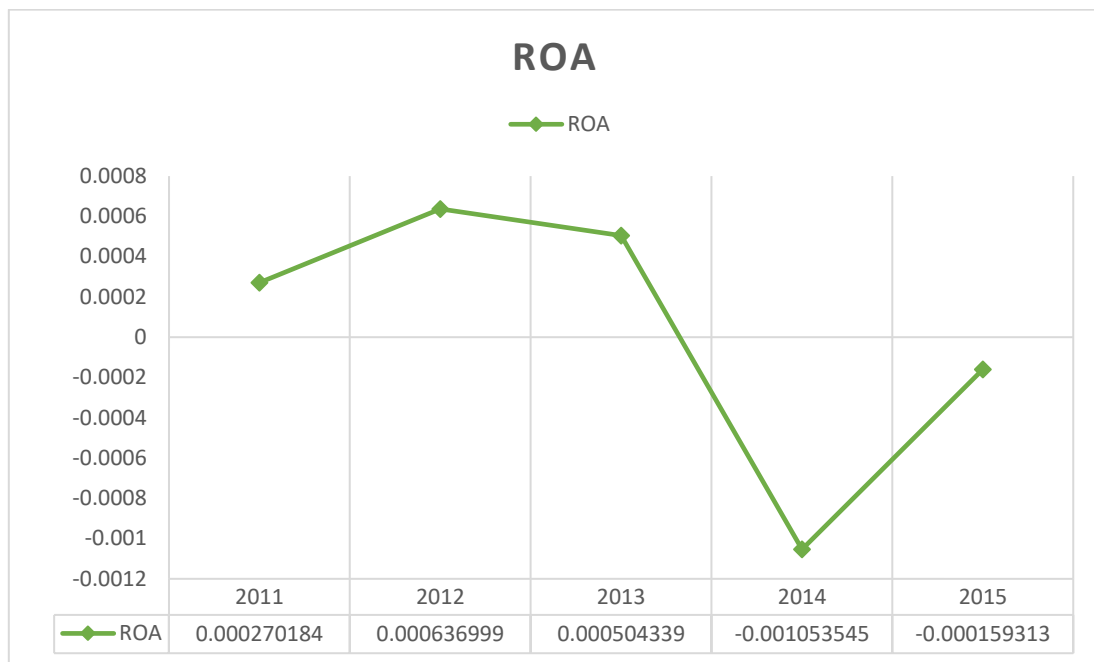
3.0 DESCRIPTIVE ANALYSIS

3.1 Net Profit after Tax



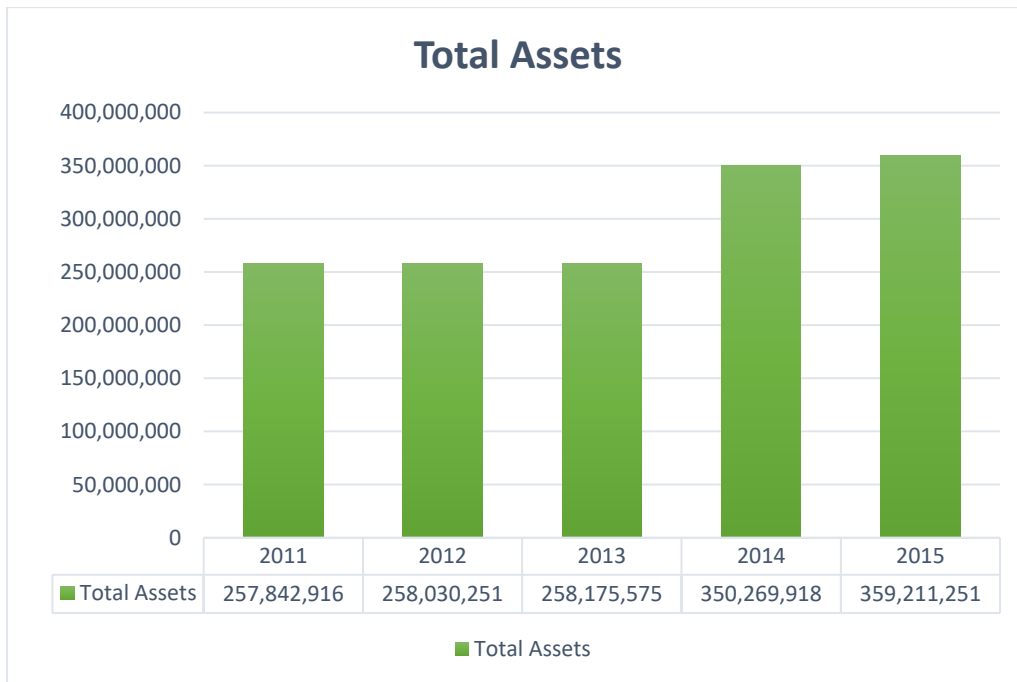
The graph above show that net profit after tax for A & M in 2011 are RM 69,665 and increase in 2012 to RM 164, 365. Meanwhile in 2013 the profit are decline to RM 130,208 and in 2014 A & M get loss income this is (RM 130,208). Meanwhile in 2015 the profit increase but still loss, the loss are (RM 57, 227). Net profit are important because it is the source of compensation to shareholders of the company. If company cannot generate or make more profit to compensate owner, the value of share will decline or reduce.

3.2 Return on Assets (ROA)



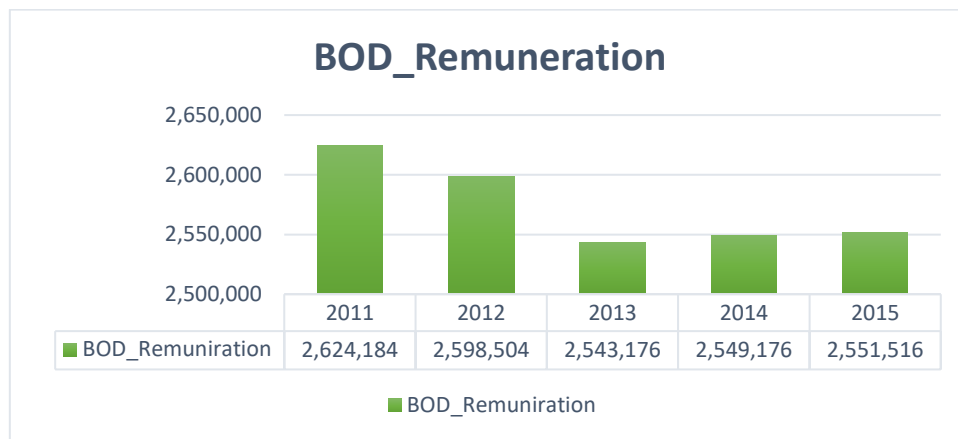
ROA is net income or profit divide by total assets. In 2011 ROA are 0.027% and increase in 2012 to 0.0636%. Meanwhile in 2013 ROA are decline to 0.0504% and 2014 also decline to – 0.1054%. Meanwhile in 2015 the ROA are increase to -0.0159% but still negative percentage. This is because in 2014 and 2015 A & M get loss income from their business. ROA ratio are measures how effectively a company can earn a return on its investment assets. Besides that, ROA also shows that how good a company can convert the money to purchased assets into profits

3.3 Total Assets



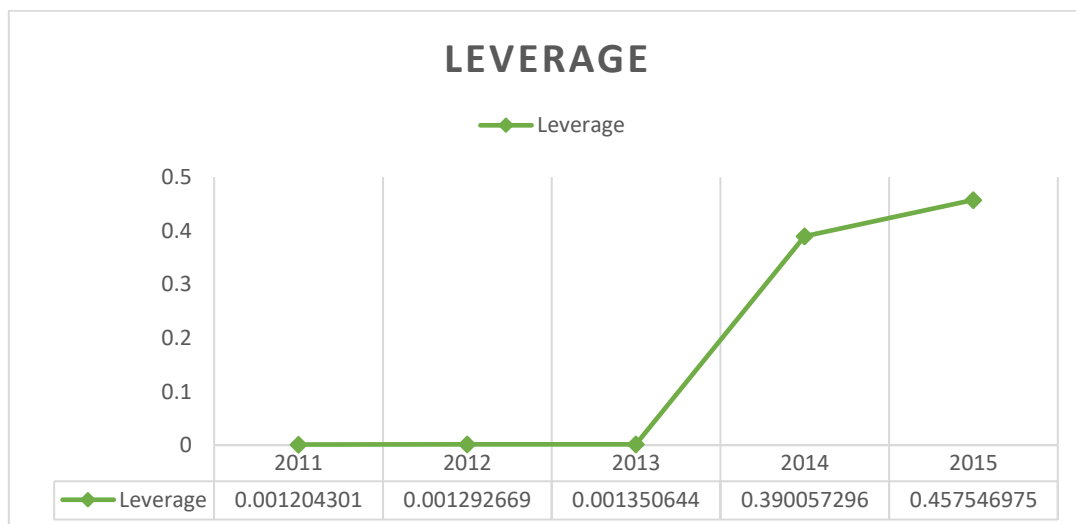
The graph above show that, total assets always increase since in 2011 until 2015. Total assets for 2011 are RM 257, 842,916 for 2012 RM 258,030,251 for 2013 RM258, 175,575 for 2014 RM 350,269,918 and for 2015 RM 359,211,251. Assets are the total current assets plus non- current assets such as cash, investment, building of firm, inventories and so on. Total assets are very important and when company total assets are less than total liability company cannot pay back the loan, also company declare as bankrupt.

3.4 BOD Remuneration



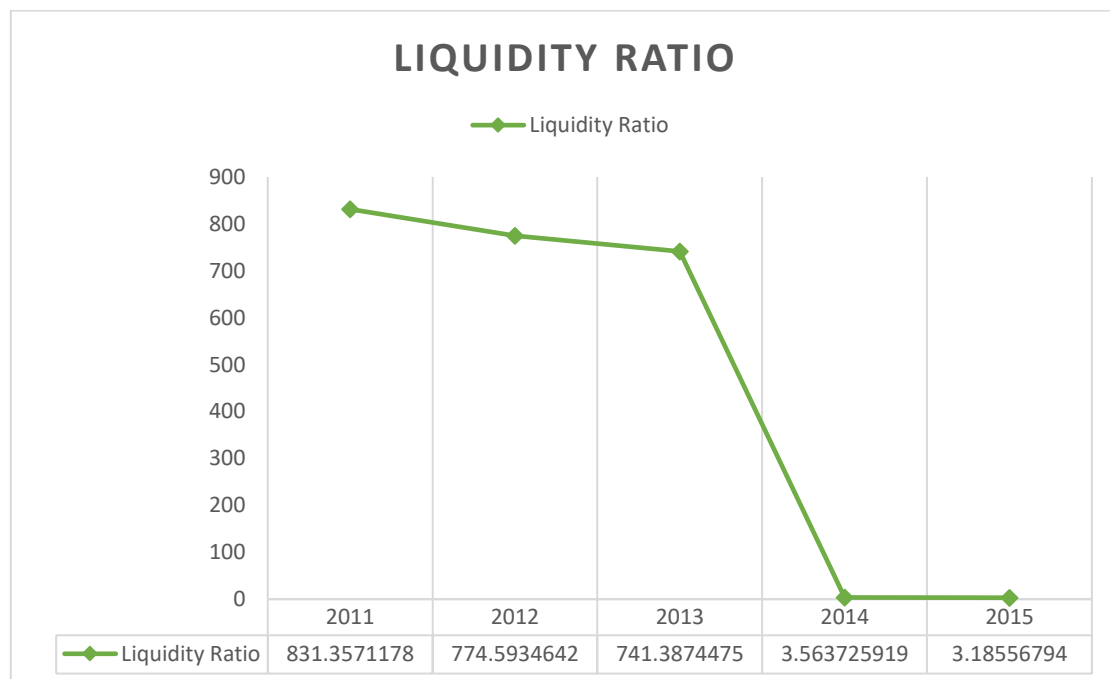
The graph above show that, BOD remuneration for A & M Company in 2011 are RM 2,624,184 and decline in 2012 and 2013. For 2012 remuneration are RM 2, 598,504 and for 2013 RM 2,543,176. Meanwhile in 2014 and 2015 the remuneration are increase to RM 2,549,176 and RM 2,551,516. The factor why A & M increase their BOD remuneration because they don't want their BOD go to another company especially the BOD that have more experience, good skill, good leadership and so on.

3.5 Leverage Ratio



The graph above show that, the leverage ratio for A & M. Leverage for the company are increase since 2011 until 2015. . For 2011 the leverage ratio are 0.0012 for 2012 are 0.001292 for 2013 0.001350 for 2014 0.39005 and for 2015 are 0.4575. This is because their total assets and total liabilities are increase every year. Leverage show that when the ratio show 1 means that investors and creditors have an equal stake in the business assets. Besides that a lower leverage ratio usually implies a more financially stable business. Year that show with higher leverage ratio are considered more risky to creditor and investors than companies with lower ratio.

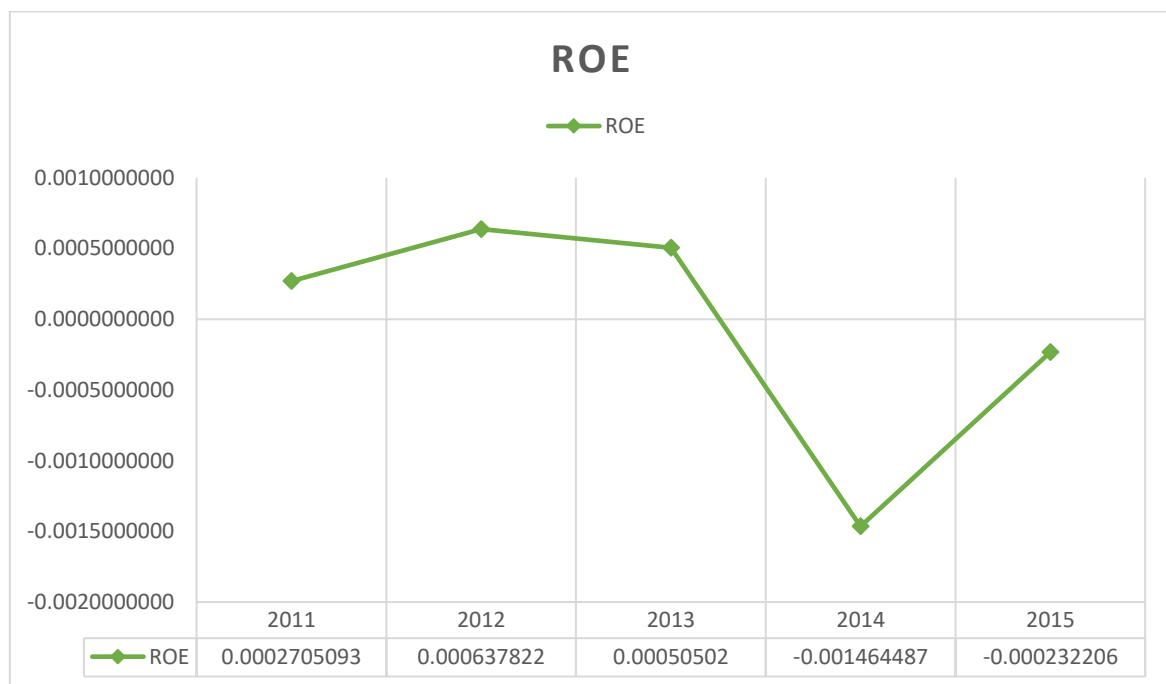
3.6 Liquidity Ratio



The graph above show that, liquidity ratio for A & M liquidity ratio. A & M liquidity ratio decline every year since 2011 until 2015. For 2011 the liquidity ratio are 831.357 for 2012 are 774.593 for 2013 741.387 for 2014 3.563 and for 2015 are 3.1856. For 2011 until 2013 company hold more cash. For 2014 and 2015 company total liabilities increase. Liquidity ratio show that how company measures the ability to pay off its liability with its assets. Besides that,

liquidity also means that companies with larger amounts of assets will more easily be able to pay off liabilities. As conclusion, a higher assets is always more favourable than a lower liquidity ratio because it shows the company can more easily make debt payments.

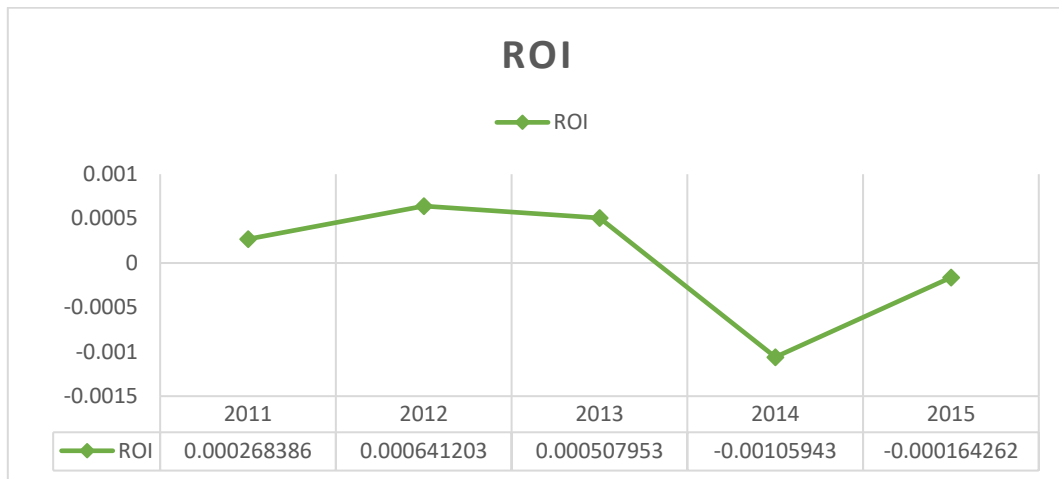
3.7 Return of Equity (ROE)



The graph above show that, the return on equity for A & M. For 2012 ROE increase from 0.027% in 2011 to 0.06378%. Meanwhile in 2013 the ROE decrease to 0.0505% and 2014 also decline to – 0.1464%. Meanwhile in 2015 the ROE are increase to – 0.02322% but the percentage still negative. This is because in 2014 and 2015 A & M Company make loss income from their business. ROE ratio measure the ability of a firm to generate profits from its shareholders investment in the company and shows how much profit each dollar of common stockholders’ equity generates. Because of that, investors want to see high ratio for ROE

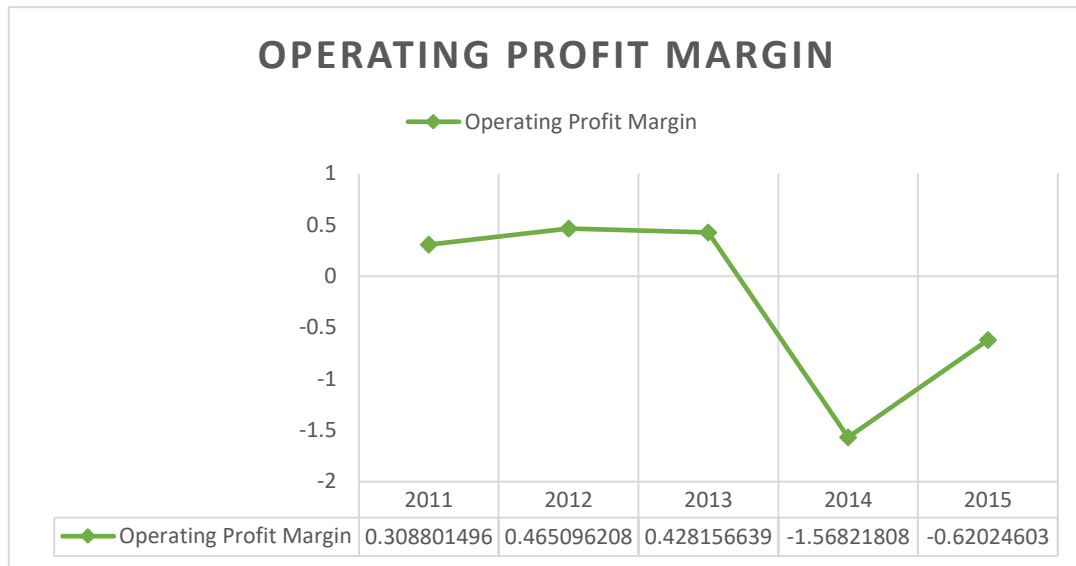
because this indicates that the company is using its investors, fund effectively. Conclusion, higher ratios are almost always better than lower ratios.

3.8 Return on Investment



The graph show that the return on investment for A & M. For 2011 the ROI are 0.02683% and increase to 0.06412% in 2012. Meanwhile in 2013 the ROI are decrease to 0.0508% and in 2014 also decline to – 0.1059%. Meanwhile in 2015 ROI are increase to - 0.0164% but still in the negative percentage. This is because in 2014 and 2015 A & M Company make loss income from their business. ROI measures how much company make money was made on the investment as a percentage of the purchase price. Besides that, when ROI ratio are positive is considered a good return and another words higher return rates are always better than lower return rates.

3.9 Operating Profit Margin



The graph above show the operating profit margin for A & M Company. In 2011 the profit margin are 30.88% and increase to 46.51% in 2012. Meanwhile in 2013 the operating profit margin are decrease to 42.82% and 2014 also decrease to -156.83%. Meanwhile in 2015 the operating profit margin increase up to -62.02% but still in negative percentage. This is because in 2014 and 2015 A & M Company make loss income from their business. Investors and creditors want to see the operating profit margin ratio to see how businesses are supporting their operating. As conclusion higher ratio for operating margin is more favourable compared with a lower ratio. This is because, this shows that the company is making enough money from its ongoing operations to pay for its variables costs as well as its fixed costs.

4.0 DISCUSSION AND RECOMMENDATION

4.1 Descriptive Statistic

	Mean	Std. Deviation	N
ROA	.0000397328 39666	.0006820132 40439	5
Net Profit after tax	-12402.80	216511.213	5
Total Assets	296705982.2 0	53072465.13 8	5
Leverage	.1702903770 0	.2326503876 92	5
Liquidity Ratio	470.8174646 7180	427.9259463 37174	5
ROE	- .0000566682 44	.0008540525 950	5
ROI	.0000387700	.0006861207 9	5
Operating Profit Margin	- .1972819534 0	.8866232560 44	5
GDP	5.300	.4950	5
Inflation	2.440	.6693	5
BOD_Remuneration	2573311.20	36015.232	5

Table: Descriptive Statistics

The results of descriptive statistics for the variables are in table above. For average five year (2011-2012) A & M Realty Berhad makes 0.04% profit from asset. Standard deviation quite small meaning that every year the company make profit not so far from average and it is good because it is not volatile, because risk and profitability the company do not want volatility. Leverage tells that proportion of debt to equity, in the table above shows that every 1 ringgit of debt is sponsored by 0.17 of equity on average. For five consecutive years A & M Realty Berhad have an average of 470.82 liquidity ratio. This is because company hold more assets compare to their liability. This study include two macroeconomic independent variable which is GDP 5.3 mean and Inflation rate 2.4 mean.

Correlation Table

		ROA	Net Profit after tax	Total Assets
Pearson Correlation	ROA	1.000	.998	-.835
	Net Profit after tax	.998	1.000	-.814
	Total Assets	-.835	-.814	1.000
	Leverage	-.813	-.790	.999
	Liquidity Ratio	.852	.835	-.996
	ROE	.998	1.000	-.814
	ROI	1.000	.998	-.836
	Operating Profit Margin	.986	.984	-.899
	GDP	-.641	-.668	.325
	Inflation	-.591	-.581	.185
	<u>BOD Remuniration</u>	.443	.446	-.581

4.1.1 Pearson Correlation

Based on the table we can see the relationship using Pearson Correlation between the variables and ROA. This study uses SPSS to see the relationship in correlation ROA as dependant variable with other variable. Based on table, net profit after tax is strong positive to ROA 99.8%, this means when ROA increase net profit after tax increase by 99.8%. It shows that net profit of A & M Realty Berhad is making profit more from its total asset.

Liquidity ratio has positive relationship with ROA 0.852. It mean that when ROA increase liquidity ratio also increase. This means A & M Realty Berhad have higher liquidity risk because many of the assets were fixed assets. So the ability for Apollo to convert its assets to cash are very difficult. Is not good when company hold many cash, so company must manage their cash very well.

Based on this Durbin Watson Pearson Correlation shows leverage ratio shows that negative relationship between ROA and leverage on average. Negative relationships shows that the company have lower return when debt increase.

Return on investment in average compared to ROA was 1.0, which is means that both variable have a positive relationship. This shows that, A & M Realty Company, do diversified their investment.

Remuneration in average was 0.443. This shows that remuneration have positive relationship with ROA. That means when Apollo increase their remuneration their total assets also increase.

Macroeconomics variables that used are GDP and inflation rate. These both variable have weak relationship with ROA on average. This study shows the evident that that external factors does not affect too much on the performance of A & M Berhad. It is because A & M Realty Berhad active in their export. That why A & M does not being affected by the external factors.

4.2 RECOMMENDATION

My recommendation to A & M Realty Berhad for improve their performance. First, I would like to suggest they must have more independent and non- executive directors to avoid conflict interest between their director's members. This is because A & M Realty Berhad have more non independent and executive directors it is eight directors. When conflict interest happen that means company don't have good corporate governance

Secondly, A & M Realty Berhad must manage their liquidity risk efficiently. This is because according to their annual report they hold current assets more than 1 million compare to their liability that amount less than 1 million. That why their liquidity ration more than 1 this is more than 100. So, they can do investment from their cash or current assets to provide more capital to their company.

Lastly, they must do more sales to cover their expenses. This is because they gate loss in 2014 and 2015. But they improve their profits in 2015 even though A & M Realty Berhad get loss in that year.

5.0 CONCLUSION

In conclusion, it is show that liquidity risk, operational risk (unsystematic risk) and also systematic risk is faced by all companies and also my study of the property development and construction firm and company. A & M Realty Berhad could handle the liquidity risk and operational risk effectively and efficiently. In to 2011, 2012, and 2013 the liquidity ratio show that A & M Realty company ratio more than 100. That means A & M Realty Berhad hold many assets and cash, this is because according to their annual report they hold current assets more than 1 million compare to their liability that amount less than 1 million. In 2014 and 2015 their liabilities increase up to 90 million. Besides, it is shows that A & M Company cannot manage their cash very well. However, A & M cannot maintain their profits and making loss for 2 years (2014&2015). In terms of corporate governance, their Directors must always involves in Board meeting because previous year some Directors cannot came to meeting. Lastly, A & M Realty Berhad have higher conflict interest between Board of Directors because most of their Directors are executive Directors and non-independent but they can handle very well.

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