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Jamalludin, Nadia

Universiti Utara Malaysia

16 April 2017

Online at <https://mpra.ub.uni-muenchen.de/78422/>

MPRA Paper No. 78422, posted 18 Apr 2017 15:08 UTC

Risk and Performance of SapuraKencana Petroleum Berhad

Nadia Binti Jamalludin

Universiti Utara Malaysia

1.0 Abstract

The purpose of this study is to examine the overall performance of SapuraKencana as an oil and gas in industry in Malaysia. The overall performance is being measured from 2011 to 2015 as measuring liability, operational and liquidity performance. These three performances are important for this company as this kind of industry is growing fast. The most significant one is liquidity performance where it contains of measurement of how well company in generating profit through its assets. Relationships of these three performances with GDP are also measured using SPSS in creating correlation and Annova in order to see the significant result. In order to find the result, most of the data output in SPSS is included ROA as dependent variable.

Keywords: Performance, liquidity, measurement, profit

2.0 Introduction

Oil and gas industries are one of the largest industries worldwide and are involved in the exploration, extraction, refining, transport and marketing of oil and gas products. Many industries are heavily dependent on oil and gas products in the form of energy, fuel or raw materials for chemical products. The present study has been undertaken to analyze the financial performance of top five oil and gas companies based on revenue, net income and market value as per the values stated in the 2014 Financial Times, Global 500 list and principal operations with reference to crude oil prices from 2007 to 2014. Like prices of other commodities the crude oil price experiences wide fluctuations in times of shortage or oversupply. The history of oil prices dates back to 152 years of economic and political events that shaped the price, wars, economy, domestic policy, OPEC (Organization of Petroleum

Exporting Countries) and price controls. (Indrani Hazarika, 2015)

SapuraKencana Petroleum Berhad ("SapuraKencana" or "Gathering") is a main worldwide coordinated oil and gas administrations and arrangements supplier working over the whole upstream esteem chain. As a completely fledged upstream player, the Group's range of capacities cover the investigation, advancement, generation, restoration, and in addition decommissioning and surrender phases of the esteem chain.

With a very talented and in fact skilled multinational workforce, key world-class resources, and solid venture administration capacities, the Group today has a worldwide nearness in more than 20 nations. SapuraKencana made the prestigious Forbes Asia's Fabulous 50 posting for the second progressive year, showing its dedication to greatness in all parts of its business. SapuraKencana was additionally voted Asia's Overall best oversight organization in Natural Resources for 2014 in a survey directed by the global money related distribution, Finance Asia.

2.1. Board of Director (BOD)

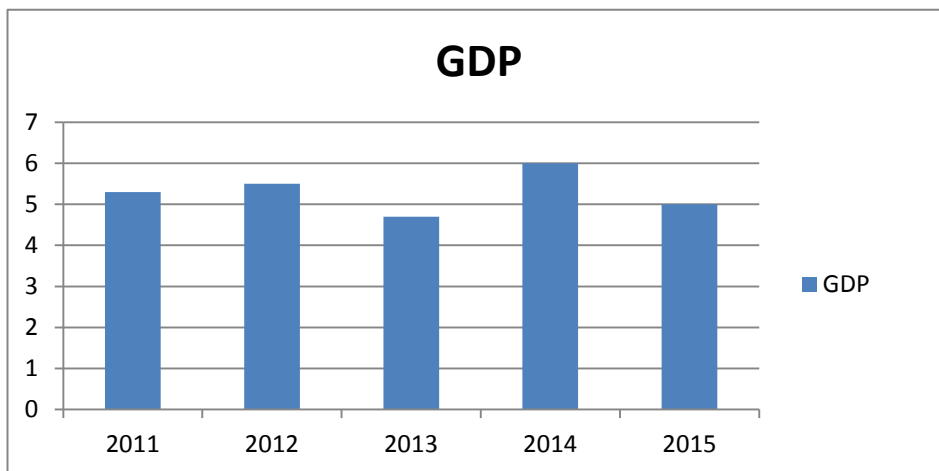
NAME	POSITION
Dato' Hamzah Bakar	Chairman, Non-Independent Non Executive Director, Malaysian
Tan Sri Dato' Seri Shahril Shamsuddin	President and Group Chief Executive Officer, Non-Independent Executive Director, Malaysian
Tan Sri Datuk Amar (Dr) Hamid Bugo	Senior Independent Non-Executive Director, Malaysian
Dato' Shahrizan Shamsuddin	Non-Independent Non-Executive Director, Malaysian
Mohamed Rashdi Mohamed Ghazalli	Independent Non-Executive Director, Malaysian
Gee Siew Yoong	Independent Non-Executive Director, Malaysian

Datuk Ramlan Abdul Malek	Non-Independent Executive Director, Malaysian
Datuk Muhamad Noor Hamid	Independent Non-Executive Director, Malaysian
Tunku Alizakri Raja Muhammad Alias	Non-Independent Non-Executive Director, Malaysian
Datuk Ramlan Abdul Rashid	Independent Non-Executive Director, Malaysian

2.2. Economic Factor (GDP)

Gross Domestic Product (GDP) is the broadest quantitative measure of a nation's total economic activity. GDP is a total value of the good and services produces by the nation's geographic borders during a year not including the value of income earned in others countries. The components of GDP are consisting of consumption, investment, government spending, and exports and imports. [GDP = C + I + G + (X- M)]

The World Bank Malaysia's economy expected to expand at a slower pace in 2016 and continue to moderate in 2017 result of slowdown in domestic demand. Based on the "Malaysia Economic Monitor: Immigrant Labor", World Bank forecast the Malaysia's real gross domestic product (GDP) growth at 4.7% in 2016 and 5.0% in 2017. To add more information to make it clear, this is based on three factors such as the easing of private consumption growth, the continuation of low oil prices, and the impact of lower commodity prices on exports activity.



Graph 1.0

3.0 Literature Review

Researcher has found that there are many factors impacting liability performance for some this industry such as rapid development and new technologies. However, these factors create an uncertain playing field that poses new exposure to liabilities piled on top of the well-known risks oil and gas businesses always have faced. That makes it more important than ever for owners and operators to work closely with an insurance broker that understands the industry and can help them identify the right coverage at the best price. (Jenkins, T., 2012).

Liability performance is being focusing on debt to equity and debt to asset where these two ratios are importance in determining costs that may have to be paid out in the future. These two ratios show in graph 1.0 shows the movement of the Sapura Kencana in order to maintain their liability performance. The more debt compared to assets a company has, which is signaled by a high debt ratio, the more leveraged it is and the riskier it is considered to be. Generally, large, well-established companies can push the liability component of their balance sheet structure to higher percentages without getting into trouble. (Loth, R., 2015).

Based on the graph 2.0, Sapura Kencana is measuring their operational performance through return on asset (ROA), return on equity (ROE) and profit margin ratio. These three ratios are important in measuring the company performance as there are many problem in others company such as in FC Barcelona and New York. In 2014, Riccardo Bertocco and John McCreery has explained that, “ oil and gas companies are not FC Barcelona or the New York Yankees, but our experience working with many of them suggests they view their own performance in much the same way. We see well-respected, world-class organizations where the sharp edge of performance is occasionally lacking. This typically means the organization is not meeting its own performance goals—which often results from inadequately managing performance. Sometimes this occurs because senior executives have not defined success clearly, or they have focused excessively on identifying benchmarks

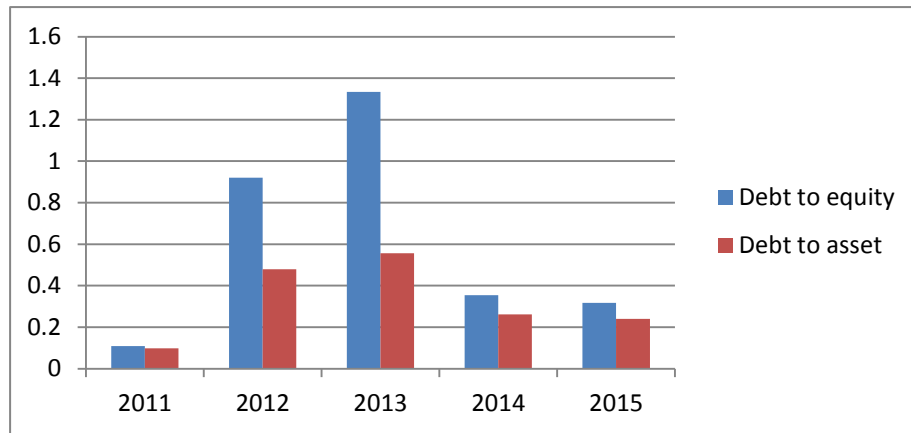
while avoiding more critical discussions on how they should use metrics to make better decisions about how they run the business”.

Under the study of these two economists, Joseph H. Jurkowski and Dion D. Daly, they found that multinational energy companies are some of the largest and most powerful businesses in the world. Historically the largest companies in this field were based in Western Europe or the United States. This is mainly due to the large amounts of capital needed for energy exploration and western countries having more developed capital markets. (2015). While in the study of systematic and unsystematic risk determinants of liquidity risk between Islamic and conventional banks by Waemustafa, W., & Sukri, S (2016), they 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.

Another two studies by Waemustafa, W., are about bank specific and macroeconomics dynamic determinants of credit risk in islamic banks and conventional banks (2015) and mode of Islamic bank financing: does effectiveness of shari’ah supervisory board matter? (2015). These two studies also discussing of liquidity performance in bank and it can be related to this oil and gas industry. The first study stated that, “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”.

4.0 Descriptive Analysis

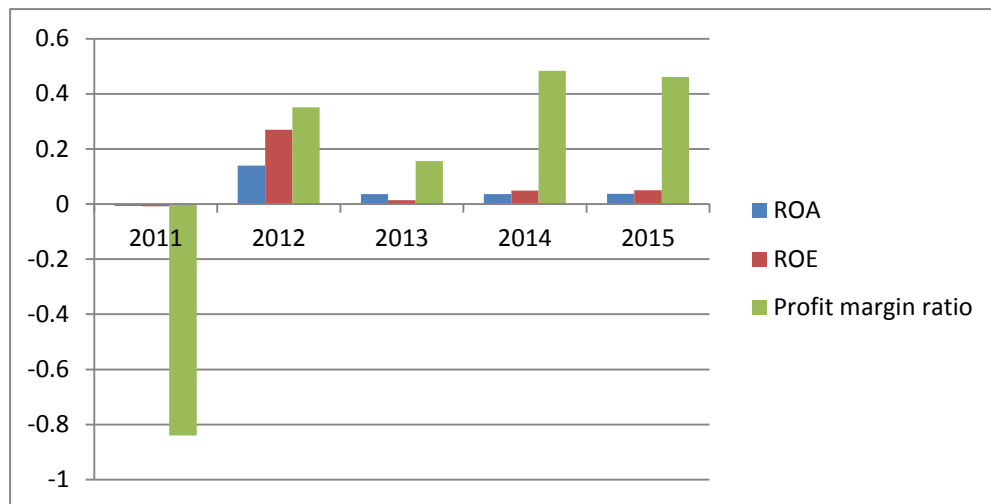
4.1 Liability Performance



Graph 2.0

Liability performance is consisting of debt to equity and debt to asset. Debt to equity ratio is used to measure a company's financial leverage where it is dividing total liabilities by stockholders equity. It indicates company is using how much debt to finance its assets due to the amount of shareholders' equity. On the graph above, it shows debt to equity and debt to asset has the same movement of fluctuation. It is increasing from 2011 until 2013 and it is decreasing from 2013 to the 2015. In 2013, debt to equity ratio has achieved the highest ratio where it indicates that indicates that a SapuraKencana may not be able to earn enough cash to satisfy its debt obligations. It is almost same in 2012. While debt to asset show the percentage of total assets financed by creditors, liabilities, debt. The higher the ratio, the higher the leverage of company directly caused to the higher financial risk. The most risky is in 2013 and 2012 where they are growing more than 0.4. In the pure risk perspective, a better debt to asset ratio is less than 0.4. Thus, the performance of debt to asset ratio in 2011, 2014 and 2015 are better.

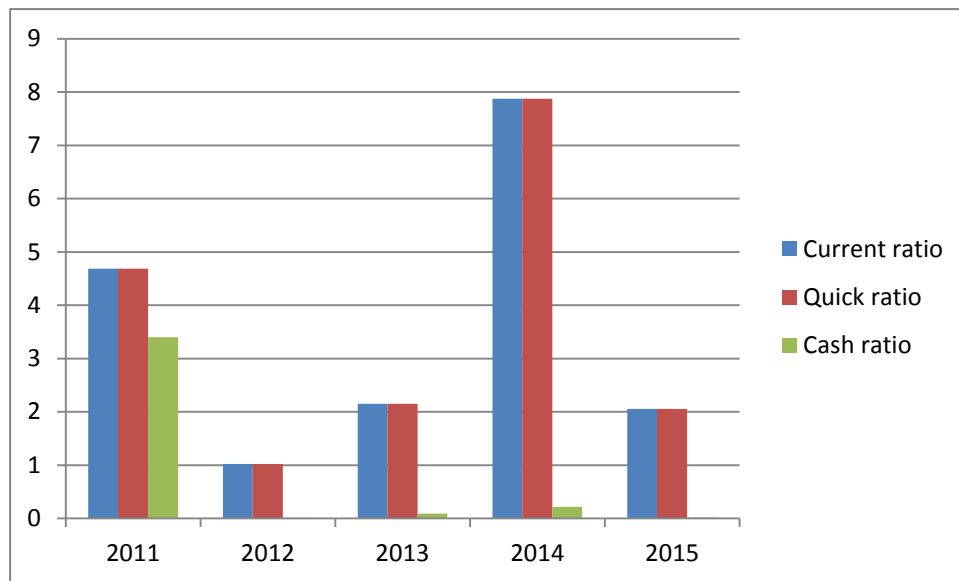
4.2 Operational Performance



Graph 3.0

Operational performance of Sapura Kencana is indicates these three ratios, return on asset (ROA), return on equity (ROE) and profit margin ratio. ROA shows a bad sign where it directly decreases from 2012 to 2015. It shows that Sapura Kencana is not able to well manage it company to make a profit. The higher the return on asset, the more efficient a company can generate the profits. The same movement is happened to the return on equity. It goes down from 2012 to 2015. ROE is important to measure how well the company in generating earning growth through the investment. Based on the graph 2.0, SapuraKencana is in lack of growth where ROE is decreasing from 0.26 to 0.04. The shareholder capitals is not generating too much in making a profit. Next, the most obvious is profit margin ratio where it started from the negative value move to positive one. In 2011, it is about -1 and it growth to 0.46 in 2015. In 2011, SapuraKencana is staying in the worst condition in remaining of percentage of the business's revenue after the cost of goods is deducted. However, SapuraKencana is not maintaining on that worst condition when it started to grow in 2012. There is a sign of generating a good business profit in maintaining the business revenues.

4.3 Liquidity Performance



Graph 4.0

The last measurement performance for SapuraKencana is liquidity performance. Current ratio, quick ratio and cash ratio has been used to measure liquidity performance. Current ration means that the ability of the company to turns it products in cash. The value lower than 1 gives a sign of poor performance where the company is not able to pay off its debt when it comes to due. However, Sapura Kencana shows a good sign where the most lower is 1 in 2012 and the other years are achieving a good value of current ratio, 4.6 in 2011, 2.2 in 2013, 7.9 in 2014 and 2.1 in 2015. While for quick ratio, the value for all years is just same with current ratio. Quick ratio can measure on how well a company can meet its short-term financial liabilities. This ratio also shows a good sign when it is higher than 1. Sometimes, a company cannot able to convert its less-liquid assets to cash. So, quick ratio is used to make a convenient way for this problem. Lastly is cash ratio. A cash ratio of 1.0 show that a company has an enough cash to cover its short term debt. Referring to the graph above, the company is not in a good condition where the cash ratio is higher in 2011, 3.4. Starting from 2012, it goes down from 0.1 and remaining same as 0.1 in 2015.

4.4. Relationship between GDP with liability, operational and liquidity performance

Table 1.0 Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.048351018547009	.054648072154829	5
ROE	.074558420800025	.111376026598822	5

Current. R	3.557932715654483	2.765823012529701	5
Cash Ratio	.748736675738365	1.484181179365692	5
Debt/Equity R	.607004080269312	.505751716923480	5
Net Profit Margin	.362653991419216	.149760253559830	4
GDP	5.300	.4950	5

Table 2.0 Correlations

Pearson Correlation	ROA	ROE	Current Ratio	Cash Ratio	Debt/Equity R	Net Profit Margin	GDP
ROA	1	.977	-.522	-.592	.486	-.046	.188
ROE	.977	1	-.468	-.439	.320	.087	.292
Current. R	-.522	-.468	1	.278	-.543	.498	.696
Cash Ratio	-.592	-.439	.278	1	-.560	.227	.032
Debt/Equity R	.486	.320	-.543	-.560	1	-.974*	-.463
Net Profit Margin	-.046	.087	.498	.227	-.974*	1	.690
GDP	.188	.292	.696	.032	-.463	.690	1

4.4.1 GDP performance to liquidity

From table 2.0, the most correlated with GDP is current ratio. Pearson Correlation is near to 1 where it indicates that there is a strong relationship between these two ratio. This means that changes in current ratio are strongly correlated with changes in the GDP. While there is a weak relationship between GDP and debt to equity ratio. Its Pearson correlation obviously shows -0.463 where negative correlation means that as one variable increases in value, the second variable decreases in value. Significantly, ROA, ROE, current ratio, cash ratio, and net profit margin are positively correlated with GDP. As one variable increases in value, the second variable also increase in value while as one variable decreases, the second variable also decreases. For example, when GDP is increasing, current ratio is also increasing.

Table 3.0 ANOVA

ROA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.012	4	.003	.	.
Within Groups	.000	0	.	.	.
Total	.012	4	.	.	.

4.4.2 Operational performance to GDP

The independent variable in table 3.0 is return on asset (ROA) correlating with GDP. Significant value showed in the table is 0.00 where the value might be too small to be represented. However, any value less than 0.05 this will result in significant effects. This result shows that GDP is giving a significant effect to ROA. As mentioned in Pearson correlation, as one variable increases in value, the second variable also increase in value while as one variable decreases, the second variable also decreases. ROA is in positive relationship with GDP. It is correlated with the significant value in data of Annova even though the value is not showing any value.

5.0 Discussion & Recommendation

5.1 Discussion

Based on the findings, SapuraKencana is in medium level of financial performance. The most significant is liquidity performance while operational and liability performance is not showing a good sign in growing process. SapuraKencana is well managed in generating profit through its assets. Current and quick ratio is equivalent to the liquidity performance in order to maintain this oil and gas industry.

5.2 Recommendation

5.2.1 Familiar risk

While new liability exposures are emerging, oil and gas companies need to continue to address the risks that always have been present in their operations. Workers' comp and contractual risk transfer are two areas that can strongly impact both the availability and pricing of insurance, if a company has not managed its risks well. (2012, Thomas Jenkins)

He added that, “another sound practice for reducing exposure to liability is careful scrutiny of all contracts and joint operating agreements. Typically, these documents delineate who is responsible when things go wrong and spell out requirements for liability coverage. For example, a joint operating agreement may require each party to carry \$1 million in general liability coverage and divide the expenses evenly for any liability incurred above that limit. To avoid costly problems, companies should consider whether the limits cited are high enough to cover potential claims”. (2012, Thomas Jenkins)

5.2.2 Improving liquidity (cash ratio)

Unproductive assets are not giving any benefits to the company. If the company has much kind of this asset, they just need to get rid of it. It is because they can spend more money on assets such as buildings, equipment and vehicles is to generate revenue. Thus, more assets can be generated in order to make more profit. Next, reviewing the profitability on the various products and service is one of the good ways in improving liquidity performance. Evaluate where costs can be expanded on a regular basis to keep up or increment gainfulness. As costs increment and markets change, costs may need to be balanced too. Then, assess overhead expenses and check whether there are chances to diminishing them. Bringing down the overhead can directly affects benefit. Overhead costs, including rent, publicizing, roundabout work and expert charges, are indirect costs that incur the business outside of direct material and direct work.

6.0 Conclusion

In conclusion, SapuraKencana as oil and gas industry is keep growing in liquidity performance. This study shows that liability risk, operational risk and liquidity risk is the most risk that faced by all of the industries. SapuraKencana is effectively managed liquidity risk in their company. Current ratio and quick ratio is showing a better movement rather than cash ratio. While another two risks, liability and operational risk are not showing a better performance because it values are keep decreasing from 2011 to 2015. In order to improve

their company performance, SapuraKencana has to be aware with the familiar risks to endure it will be well managed. Next, they have to improve the cash ratio in liquidity risk as cash ratio is also important in backing up the growth of the assets. Instead of focusing in these three risks, SapuraKencana has 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 to the all performances of the company. As the result shown on the above from the table and data, values of most risks are increasing when GDP is increasing while it will be decrease when value of GDP is also decreasing.

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