Study of Relationship Between Performance (ROA) And Internal And External Factors On Axiata Group Berhad

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ABSTRACT

The purpose of this study is to examine the relationship between the various variables that include internal factors and external factors and the overall performance of Axiata Group Berhad. The measurement of return on assets is used to see the overall performance of Axiata Group Berhad in 5 years. The additional measurements that used in this study are total asset size and remuneration of board, these variables used to measure whether there is significant to the performance of the company. For the purpose to measure the relationship of risks factors to the profitability, this paper is using liquidity risk, market risk, leverage risk, GDP, inflation rate, unemployment rate and exchange rate. Data was analyzed by SPSS System which interpret the data by using descriptive statistic, correlation and regression analysis. The result of these analysis show only one factor is significant to performance of the group which is debt to equity ratio with the highest significant to the profitability. However, the inflation rate and GDP is insignificant to profitability.

Keyword: Specific risk, liquidity risk, credit risk, profitability and macroeconomics.

1.0 Introduction

TM International Bhd (TMI) was established on 12th of June 1992 and it is the former name for Axiata Group Berhad. Before it become the listed company, it was only operated as the mobile and international arms for Telekom Malaysia Bhd. In the year 2008, it demerged with Telekom Malaysia and become listed company. On the subsequent year, TMI rebranded the corporation with new name, Axiata and a new logo on March 2009. After it changed its name, Axiata started it new journey with new commitment which is fulfilling the unsatisfied communication needs of human with reasonable and advance digital products and services. Now, Axiata Group Berhad owned 290 million subscribers in ten countries and offered a various telecommunication services and mobiles. Not only that, Celcom in Malaysia, XL in Indonesia, Dialog in Sri Lanka, Robi in Bangladesh Smart in Cambodia, Ncell in Nepal, Idea in India and M1 in Singapore were the mobile operators that are controlled by Axiata. For advancing Asia, Axiata Group always adapt quickly with changing to take advantage in the development of digital world.

Besides that, ‘edotco’ is a new business unit for Axiata Group Berhad which established in 2012. It is operating in six countries and offers various telecommunications infrastructure services. This infrastructure company has accumulated more than 16,000 towers and 12,000 kilometers of optical fibers for the purpose to being one of the top local tower organizations and focus on operate as a responsible and sustainable development of enterprises. While Axiata Digital had been established in year 2012 with the purpose to sustain in Internet-based businesses to increase the core business revenue of company in this rapid growth generation. Axiata Digital is providing services in mobile money, mobile adverting, e-commerce, entertainment and education as the demand of these services is increasing. It has always been in a leading position and established a combination of 24 digital brands.

In order to change people's lives and help in changes of country, Axiata Group Berhad promised to carry out its business fairly and lawfully in Malaysia and also others countries. Besides that, the employees in the Group must show their professional and sincerity all the times when dealing with the customers. Axiata Group Berhad also undertake a Code of Conduct as the rules for every employee.

2.0 Literature Review

The objective of this study is to measure the relationship between how the performance of a company being influenced by the various financial risks and the profitability of a company. A company’s performance is one of the important guiding to determine whether the company is doing well or not. In this situation, the financial ratio is important to use in analysis the circumstances of a company.

The performance of a firm is affected by the traditional portfolio theory, diversification or modern corporate finance theory, portfolio specialization has been widely discussed by the finance and banking field recently. Due to the imperfect correlation of project returns, diversification portfolio can decrease the occurrence of financial crisis (Diamond, 1984). However, there is a high probability of insolvency bring to a company if specialization applied instead of diversification. Furthermore, corporate governance play an important role to assist bank in the business activities. It is not only to make the operation of the bank transparent, but also helps the bank to minimize the failure risk of a bank by taking the proper steps at the right time. Waemustafa and Abdullah (2015) The choice of Islamic mode of financing in Malaysia does not bring significant impact to performance of Shariah Supervisory Board (SSB) but remuneration of the committees has.

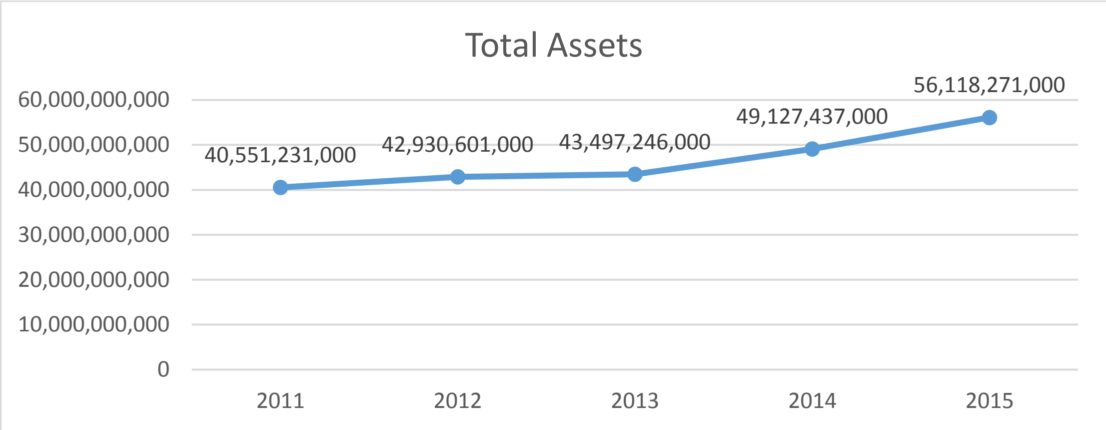
In additional, there must have some financial risk need to face by the company, the risk may include systematic risk or unsystematic risk. Not all the risk can be eliminated, so that we need to understand how risk can affect the performance of a company. We need to understand how the internal and external factors will created the credit risk in Islamic Banking and Conventional Banking. Waemustafa and Suriani (2016) explained that bank's assets mostly include loan and liabilities which is deposit payable, any mistake in matching the assets and liabilities will lead to liquidity risk and credit risk. Based on the research of (Mohsen Jafari, Arezoo Aghaei Chadegani, and Vahid Biglari, 2011), risk management is characterized as measures that are taken to reduce the potential risk effect of specific phenomenon namely price variation, accidents, political harzards, disruption in supply of raw material, economic development, etc.

(Larry P. Pleshko, Richard A. Heiens, Plamen Peev, 2014) has stated that ROA was originate from government-commanded accounting reports in the state of Florida and represented profits as a percentage of assets held by the firm. (Abu-Tapanjeh, 2006) indicated that debt ratio is a useful factor influencing firm performance. Based on (Noor Azila Mohd Zaid , Wan Muhd Faez Wan Ibrahim and Nurul Syaqirah, 2014), the proficient management of the wider measure of liquidity, working capital, and its limited measure, cash, are both essential for a company's profitability and well-being. These has indicated the financial ratios from the financial information can be used to evaluate performance of company.

3.0 Decriptive Analysis

3.1 Trend Analysis

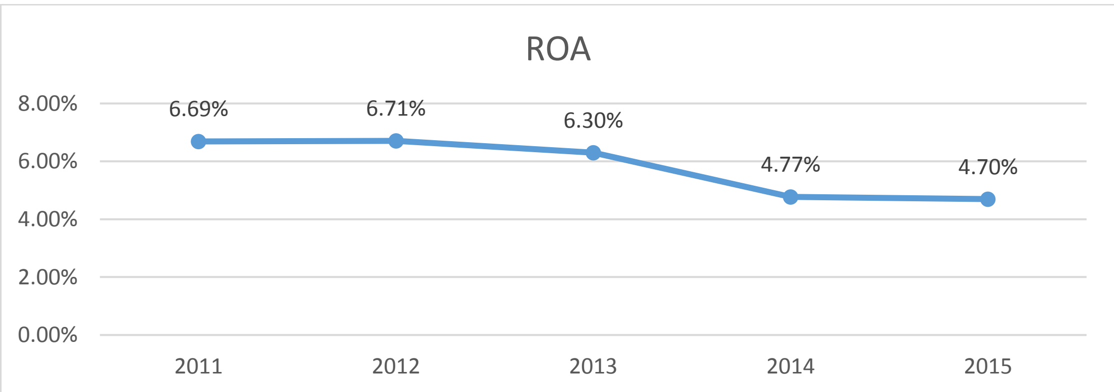
3.1.1 Size of the Company



Graph 1: Total asset of Axiata Group Berhad from 2011 to 2015.

Based on the graph above, we can see that the trend of the total assets in the company is in the increasing trend. This mean that the company size become bigger as it is a good signal to a company because they have enough assets to support their business. As we can see from the financial report, more than half of the total assets came from non-current assets, it means that the liquidity of the company will be slightly low from year 2011 to 2013. In year 2014, it showed the most significant increase in the amount of total assets compare with the previous year. This is because Axiata Group brought several new businesses to market such as digital commerce platform, Celcom Planet, a joint venture with SK Planet and a subsidiary of SK Telecom which will success in the market.

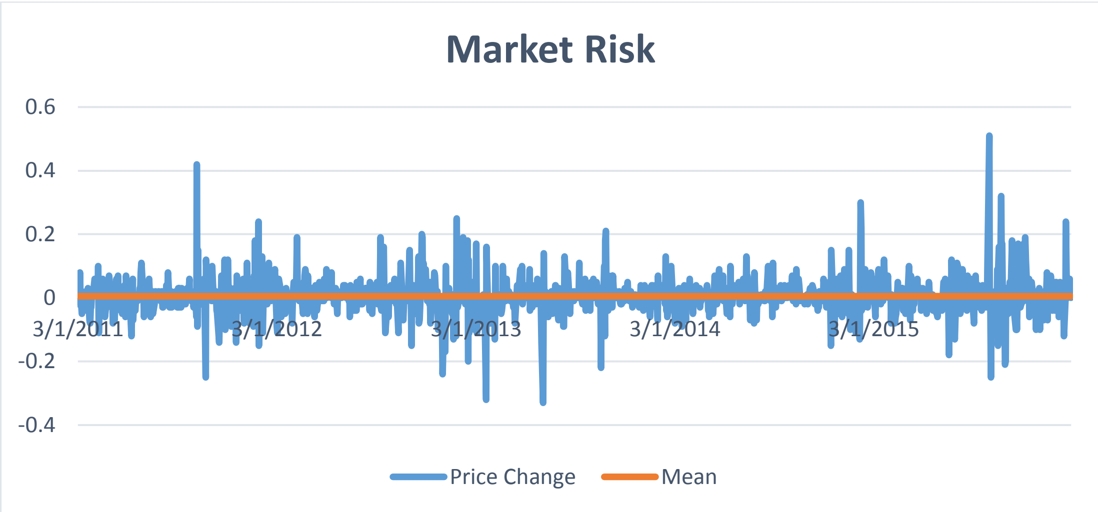
3.1.2 Performance of the Company



Graph 2: Return on Asset of Axiata Group Berhad from 2011 to 2015.

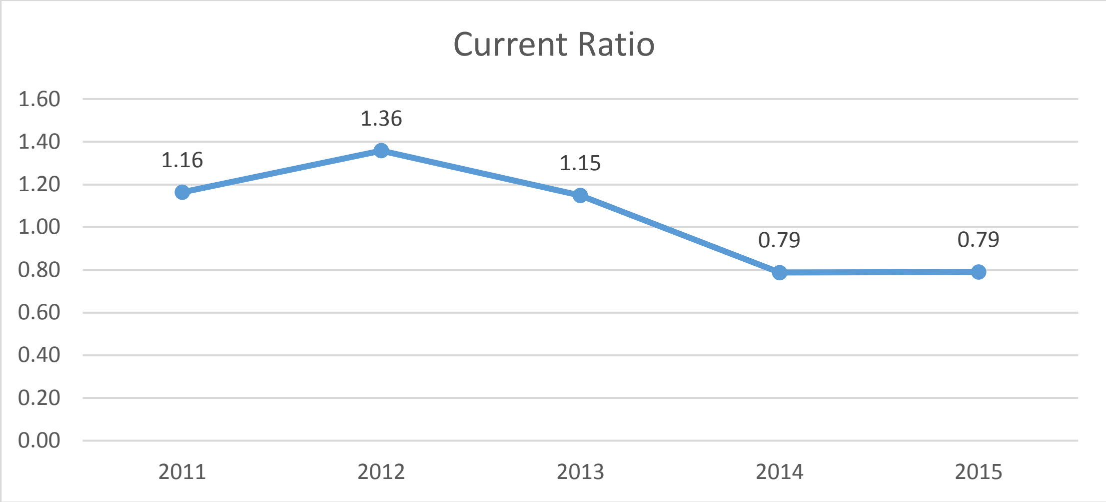
From the overall trend, ROA of the company show a down trend between year 2011 to 2015. There is slightly increase in ROA between year 2011 to 2012 as the net profit of year 2012 increasing too. However, the ROA decrease continuously from year 2012 to 2015. There is a significant drop happened in the year 2014 which is from 6.3% to 4.77%. The main reason that pull down the performance of the company is an increase in operating cost because of the losses in foreign exchange. This problem lead the decreasing in net profit of the company. Besides that, Axiata Group Berhad didn't manage well their assets in generating profit as the total asset of company increase but the net profit is decreasing.

3.1.3 Risk of the Company



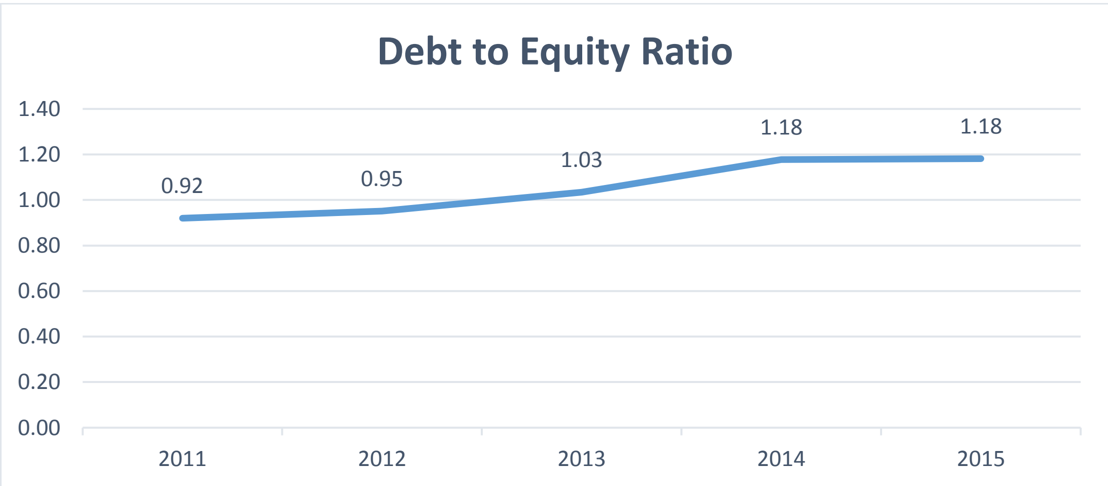
Graph 3: Market Risk of Axiata Group Berhad from 2011 to 2015.

Based on the graph above, the average of the changing prices for the Group is RM0.005 per unit stock. Besides that, standard deviation used as the measurement to the volatility of the prices of the company. In this situation, the more volatility of a company stock, the bigger the standard deviation. From the overall trend, market risk of Axiata Group Berhad is decline from year 2011 to 2014 while increase in year 2015. From the graph above, we can see that the market risk increase slightly in year 2012 due to the reason of no derivative financial instrument used to hedge the equity securities price risk. Among these five years, Axiata Group Berhad reached the highest market risk in year 2015 years caused by the economic unstable over the last year. Thus, this reason brought the negative effect to the revenue of Axiata Group because most of the customers will choose the cheaper tariff services.



Graph 4: Liquidity risk of Axiata Group Berhad from 2011 to 2015.

Liquidity risk is using current ratio to measure how many dollars of short-term assets are available for every dollar of short-term liabilities owed. From the overall graph, the current ratio was showed a downward trend from year 2012 to 2015 which indicated less liquidity for this company compare to year 2011. Current ratio of Axiata Group Berhad in year 2012 was the highest compare in five years. This is because Axiata Group invested in derivative financial instrument, CCIRS and increase the balance of deposits, cash and bank balances while the current liabilities decrease in year 2012. For the year 2014 and 2015, we can get the information from annual report which is the current asset is less than the current liabilities with the high liquidity risk because the current ration is less than one. This indicates the company unable to pay off the short-term debt by using the current assets and it is a bad signal to a company.



Graph 5: Leverage risk of Axiata Group Berhad from 2011 to 2015.

Debt to Equity ratio used to measure how much debt the company used compared to how much stockholders' equity used in supporting its business. The higher the ratio, the higher the leverage risk. From the overall trend, it showed an upward trend which represented as the leverage risk is increasing. From the data collected, we can see that the total liabilities increase around RM11000million in this five years while total equity only increase around RM4000million. From this situation, we can know that Axiata Group increase their liabilities instead of equity. This is a bad signal to a company because this company use more debt to support their business operation. Besides that, the more liabilities the company borrow, the more cost they should bear.

3.2 SPSS Data Analysis

3.2.1 Descriptive Statistic Analysis

Exhibit 1 shows the result of the descriptive statistic for the all variables that carrying out in this study. Based on the table, the mean of the Return on Assets of Axiata Group is 5.83% from year 2011 to 2015. It represents that Axiata Group use the assets to generate 5.83% profit for the company. While Standard deviation used to measure the volatility. From the data gathered, we can see that the ROA is still in stable condition because the standard deviation is only 1.02. The most significant variable to the performance of company is leverage risk which its average is 1.05 during this five years. It is less varied from the average as its standard deviation is 0.123.

3.2.2 Correlation Analysis

Based on the table above, the variables used to evaluate the performance of company include internal factors and external factors. For instance, internal factors like index, remuneration, total assets, liquidity risk, leverage risk and market risk while external factors like GDP growth rate, inflation rate, unemployment rate and exchange rate. This study chooses Return on Assets (ROA) as the dependent variable for the performance of Axiata Group Berhad. The result of the study will be discuss based on the SPSS System that will be more accurate compare with others. Exhibit 2 showed the result of the correlation relationship between the variables and the dependent variable.

Internal Factors to Performance

Based on the table, index score of the group has a negative relationship with the ROA of the company. This represented when the board committee is increasing, the performance of the company will be deducted. In additional, there is no significant relationship between index score and the ROA because the P value > 0.10 which is 0.212. This indicates that the changes in index score will not bring the big effect to the performance of the group.

Besides that, remuneration has a strong positive relationship with performance of the company because the score is 0.896 which is near to the 1.0. This means that while the performance increase in the group, the remuneration to the board also will increase. Also, remuneration has a significant relationship to the performance of the company as the P value < 1.0 which is 0.02. Based on the table, remuneration of the board has a significant effect to the performance of the company as a good compensation for the board of directors will definitely encourage the board of directors to performing in term of monitoring or building a good corporate framework which will improve the corporate's performance.

Leverage risk measured by the debt- to- equity ratio with P value < 0.10 which indicates that the leverage risk has the significant with the ROA company. In this situation, the changes in the leverage risk will also lead the changes in the performance of the company. However, leverage risk has a strong negative relationship with the ROA company because the score is -0.980. This represented that when the leverage risk rise, the performance of the company will be drop. When the leverage risk increase represented the debt used in operating the company is more than the equity used, this will bring the negative effect to the performance of the company.

Current ratio used to measure the liquidity risk where the lower the current ratio, the higher the liquidity risk. Current ratio's P value is showing 0.004 that is smaller than 0.10 which means that there is significant relationship with performance as the changes of current ratio will change the performance of the company. Besides that, the pearson correlation between current ratio and performance is 0.963 which they have the strong positive relationship with each other. In this situation, when the current ratio increase, the performance of the company will be increasing too. For example, the current assets increase more than current liabilities will lead the current ratio increase, this means that the company is performing well.

Other than that, standard deviation used to measure the market risk of the company. Based on the data gathered, pearson correlation between market risk and

ROA is 0.055 which represented weak positive relationship for each other. At the same time, market risk insignificant to the ROA company because the P value> 0.10 which is 0.465. This indicates that the changes in market risk will not bring the big effect to the performance of the group. When the market risk increase indicates the volatility of share price increasing, indirectly affect the confidence level of the customers. However the company performance remaining stable probably because of the loyalty of the customers towards the services provided by the Axiata as Axiata is the main listed company in Asia telecommunication industry.

Total assets of the company show the pearson correlation -0.917 which represented a strong negative relationship between performance and size of the company. The increasing in the assets of the company will reduce the performance of the company. Besides, there is a significant relationship as the P value < 0.10 which is 0.014 between ROA and total assets. This is because Axiata Group Berhad didn't use the assets efficiency in generating profit of the company.

External Factors to Performance

Based on the exhibit 2, inflation rate is showing a weak negative relationship with performance of the company. The pearson correlation is only -0.172, this represented when the inflation rate increase 1%, the performance of the company will only drop 0.172%. Also, it is insignificant to the ROA of Axiata Group as the P value > 0.10, 0.391. As the telecommunication sector contains too many competitors, if the inflation rate leads the increasing to the price of the products, the customers will switch their product to others brand. In this situation, switching of the customers will bring the negative effect to the performance of the company.

GDP Growth Rate means the changing of the local productions. It showed a negative relationship to the performance of the company as the pearson correlation is -0.251. This means that the increasing in production will bring the negative effect to the ROA of the company. Also, it is insignificant relationship to the performance as the P value >0.10 which is 0.342. The changing of the GDP growth rate will only less influence to the performance. Due to the GDP growth rate is include the production of all sectors, so it is less influence to the performance of company.

Besides that, unemployment rate show the negative relationship with the ROA company which mean that the increasing of unemployment rate will decrease the performance of the company. Besides, it is also insignificant with ROA company as the P value> 0.10. When the unemployment rate increase, the ability of the customers to purchase will decrease, this will directly influence the performance of the company.

Lastly, the external factor that will influence the performance of the company is exchange rate. Exchange rate has the strong negative relationship with ROA company which the pearson correlation is -0.834. Also, it is significant to the performance of the company. For example, the company is facing the fluctuating currency exchange currently. This will increase the financing cost for the medium and long-term borrowing from the foreign exchange. Thus, it will bring the negative effect to the performance of company as the currency of Ringgit Malaysia drop and the company need to pay more for the financing cost.

4.0 Discussion And Recommendation

4.1 Discussion

Exhibit 3 shows the result after all the test and all variable conducted. The stepwise method shows that R value of leverage risk is 0.980 and shows a highest level of correlation between all the variables. Its R^2 is 0.948 which indicates that around 94.8% of variation in ROA is explained by this independent variable, leverage risk. Therefore, this variable is the most significant influence to the performance of the company because it has the lowest P value compare with other variables, 0.002. Besides that, leverage risk had strong negative relationship, -0.98 and significant relationship to the performance of the company with the P value < 0.10. From the overall performance of Axiata Group Berhad, it shows an inefficiency in managing the risk from year 2011 to 2015. From the table, we can see that the liquidity, leverage and market risk is increasing over the year. Also, leverage risk has the result with the highest T value -8. 587 which represented this has much influence toward the performance of the company. Therefore, Axiata Group Berhad need to pay more attention into leverage risk from year 2015 instead of the liquidity risk and market risk.

4.2 Recommendation

Due to the Axiata Group Berhad does not have the risk management committee, the risk that faced by the company is getting serious over the year. As we can see from the trend analysis, the liquidity risk, leverage risk and market risk is increasing from year to year. Therefore, I suggest that Axiata Group can improve their performance by set up the risk management committee. By using this method, the company can find the problem that will affect the performance of the company promptly. Besides that, the risk management committee can keep up a sound procedure of risk management and internal control practices to protect shareholders' capitals and the Group's advantages. This also can use as a set of principles for guiding the effective risk management and make the risk management system more systematic.

Besides that, the lower the liquidity ratio, the more difficult of a company to meet daily operating expenses or the short-term obligations at the maturity date. In this situation, Axiata Group Berhad needs to overcome this liquidity risk as the risk is become higher if compared to the previous year. The company must measure the liquidity risk by using different ratios to make sure the actual assets availability and make the data more accurate. As we can see, the current liabilities in year 2014 and 2015 was exceed current assets. The company need to decrease the current liabilities by paying off the account payables and the borrowing. If Axiata is intended to raising fund, it can choose to public offering shares instead of borrowing. Whilst, Axiata can exercise the corporate employee loans which enable employees to access low interest loans. Therefore, the current assets will increase while the current liabilities can reduce, current ratio will improve, liquidity risk reduce.

Not only that, leverage risk is the significant variable that affect the performance of the company. Therefore, the risk management for leverage risk is very important to Axiata Group Berhad. For the purpose to reduce the leverage risk, Axiata Group Berhad can offering their share to the public in order to increase the equity of the company. As a backup solution to overcome the leverage risk, Axiata Group Berhad can offer debt-for- equity swap to increase their equity. By adopt this solution, the company will renegotiate with the creditor to cancel some of their debts and replace by the equity. This method can be use if a company is facing the serious financial problem.

Although market risk did not significant related to the performance of the company, Axiata Group Berhad still need to pay more concern on their company’s market risk to enhance the company’s performance. Since the market risks consist of the foreign exchange risk, interest rate risk, cash flow interest rate risk and price risk, Axiata is recommended to use the natural hedging to hedge against the foreign exchange risk. Example of natural hedging is matching assets and liability exposure to match the futures inflows with the borrowing. It means that the Axiata can increase the future inflows in USD dollars to against the long term borrowing which denominated in USD. Besides of natural hedging, Axiata can use transactional hedging such as interest rate swaps, forwards foreign currency contracts or call spread options.

5.0 Conclusion

As a conclusion, Axiata Group Berhad is one of the leading company in telecommunication sector within Asia. However, there are still many risk factors that can influence the performance of the company. From the finding, the internal factors which can affect the profitability of the company are leverage risk and liquidity risk, while the external factor that bring significant effect to the performance of the company is exchange rate. Besides that, we can see that there is a negative relationship between size of the company and the performance of the company. This indicates that the company didn't perform well in using their assets. However, the most significant variable that affect the performance of Axiata Group is leverage risk which has the highest t value compare with others variable. Therefore, the company suggested to put the priority in overcoming the leverage risk. To reduce the risk that face by company recently, some method is suggested such as bill the customers immediately, set up the risk management committee, public offering the shares, debt to equity swap, natural hedging and transactional hedging.

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APPENDIX

Descriptive Statistics

	Mean	Std. Deviation	N
ROA	5.8323%	1.01564%	5
Index	.780	.0447	5
Remuneration	11444800.000	750628.8697	5
Debt to Equity Ratio	1.052930925977750	.123084840592484	5
Current Ratio	1.049430141183210	.252179556914861	5
Standard Deviation	5.9128%	.85069%	5
Total Assets	2.440	.6693	5
Inflation Rate	5.300	.4950	5
GDP Growth Rate	3.060	.1342	5
Unemployment Rate	3.4600	.49168	5

Exhibit 1

Correlations

		ROA	Index	Remuneration	Debt to Equity Ratio	Current Ratio	Standard Deviation	Total Assets	Inflation Rate	GDP Growth Rate	Unemployment Rate	Exchange Rate
Pearson Correlation	ROA	1.000	-.471	.896	-.980	.963	.055	-.917	-.172	-.251	-.625	-.834
	Index	-.471	1.000	-.161	.604	-.252	-.103	.527	-.635	.000	.250	.330
	Remuneration	.896	-.161	1.000	-.827	.921	-.299	-.913	-.215	-.019	-.830	-.950
	Debt to Equity Ratio	-.980	.604	-.827	1.000	-.924	-.102	.901	.059	.162	.584	.803
	Current Ratio	.963	-.252	.921	-.924	1.000	.089	-.835	-.385	-.207	-.577	-.808
	Standard Deviation	.055	-.103	-.299	-.102	.089	1.000	.321	-.493	-.591	.743	.487
	Total Assets	-.917	.527	-.913	.901	-.835	.321	1.000	-.143	.003	.864	.958
	Inflation Rate	-.172	-.635	-.215	.059	-.385	-.493	-.143	1.000	.468	-.284	-.090
	GDP Growth Rate	-.251	.000	-.019	.162	-.207	-.591	.003	.468	1.000	-.339	-.198
	Unemployment Rate	-.625	.250	-.830	.584	-.577	.743	.864	-.284	-.339	1.000	.944
	Exchange Rate	-.834	.330	-.950	.803	-.808	.487	.958	-.090	-.198	.944	1.000
Sig. (1-tailed)	ROA		.212	.020	.002	.004	.465	.014	.391	.342	.130	.040
	Index	.212		.398	.140	.341	.434	.181	.125	.500	.343	.294
	Remuneration	.020	.398		.042	.013	.313	.015	.364	.488	.041	.007
	Debt to Equity Ratio	.002	.140	.042		.013	.435	.018	.462	.397	.151	.051
	Current Ratio	.004	.341	.013	.013		.444	.039	.261	.369	.154	.049

	Standard Deviation	.465	.434	.313	.435	.444		.299	.199	.147	.075	.203
	Total Assets	.014	.181	.015	.018	.039	.299		.409	.498	.029	.005
	Inflation Rate	.391	.125	.364	.462	.261	.199	.409		.213	.322	.443
	GDP Growth Rate	.342	.500	.488	.397	.369	.147	.498	.213		.289	.375
	Unemployment Rate	.130	.343	.041	.151	.154	.075	.029	.322	.289		.008
	Exchange Rate	.040	.294	.007	.051	.049	.203	.005	.443	.375	.008	
N	ROA	5	5	5	5	5	5	5	5	5	5	5
	Index	5	5	5	5	5	5	5	5	5	5	5
	Remuneration	5	5	5	5	5	5	5	5	5	5	5
	Debt to Equity Ratio	5	5	5	5	5	5	5	5	5	5	5
	Current Ratio	5	5	5	5	5	5	5	5	5	5	5
	Standard Deviation	5	5	5	5	5	5	5	5	5	5	5
	Total Assets	5	5	5	5	5	5	5	5	5	5	5
	Inflation Rate	5	5	5	5	5	5	5	5	5	5	5
	GDP Growth Rate	5	5	5	5	5	5	5	5	5	5	5
	Unemployment Rate	5	5	5	5	5	5	5	5	5	5	5
	Exchange Rate	5	5	5	5	5	5	5	5	5	5	5

Exhibit 2

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.980[a]	.961	.948	.231884353818741	1.724

a. Predictors: (Constant), Debt to Equity Ratio

b. Dependent Variable: ROA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.965	1	3.965	73.736	.003[b]
	Residual	.161	3	.054		
	Total	4.126	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), Debt to Equity Ratio

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	14.349	.997		14.389	.001		
	Debt to Equity Ratio	-8.089	.942	-.980	-8.587	.003	1.000	1.000

a. Dependent Variable: ROA

Exhibit 3