Telekom Malaysia Berhad (TM): Study of Relationship Between Performance (ROA) and Internal, External Factor

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ABSTRACT

This study is carried to determine the relationship between performance (ROA) of Telekom Malaysia Berhad (TM) and internal factor including financial risk and external factor including macroeconomic variable where ROA stand as dependent variable to be measured by the other variable. Data is collected from annual report of TM between year 2011 to 2015. The measurement of the financial risk is to discover the overall performance of the company in the period of 5 years. Additional measurement is involved which is the size of the company show a negative relationship as well as significant related with performance of TM. To examine the relationship of risk factor to the profitability, this study is utilizing current ratio, GDP, leverage ratio, standard deviation, unemployment rate, exchange rate, and inflation rate. Data was analyzed using statistic calculation and presented in the regression result including descriptive statistic, correlation, and model summary. Result showing that exchange rate is only one factor that strongly significant related to the performance of the company. The rest of the variable is less significant affecting and related to the performance of TM.

Keyword: Liquidity risk, profitability, ROA, and macroeconomy.

1.0 Introduction

Telecommunication is an industry which serve various of the facility such as communicating, internet, data streaming throughout the global. Nowadays, traditional phone calling remains the primary income generator to the industry but technology has brought the development which the convenience of internet.

Telekom Malaysia Berhad (TM) is a firm which provide the wide range of internet services as well as communication service in the form of broadband, data stream and fixed line. TM established as the Telecommunication Department of Malaya in year 1946 and has developed even improved in the communication infrastructure year by year. It is a public listed company in Bursa Malaysia which the share is majority owned by Khazanah Nasional Berhad comprises 26.21% of the total issued shared.

The company is led by Tan Sri Dato' Seri Dr Sulaiman Mahbob who hold position of Non-Independent Non-Executive Director. The structure of the Group company is divided to four main part which are Mass Market, Managed Account, Global and Whole sale, Mobile and Wireless. The company act as a market leader strongly mention on presenting customer experience through continuous customer service quality in the same time inclined the operational efficiency and productivity. Furthermore, TM is positioned to propel Malaysia as regional internet hub and digital gateway for South East Asia as well as broaden the market through communication, collaboration and connection.

Besides that, critical base for foundation of TM regarding the basic principles of Corporate Governance (CG), openness, integrity and accountability. Therefore, TM keep on track on fulfill integrity of process, people, reputation as well as sustainability of the corporate operation. Concentrating on Information Communication Technology (ICT) in three platforms such as education, community and nation building to reached the vision of the company besides promotes and improving digital lifestyle in local citizen.

At last, TM wish to keep providing service to customer with comprehensive of facility and promoting a seamless digital experience as well as integrate business solution to achieve and improve lifestyle besides lead to the vision and mission of the company "Life and Business Made Easier for a Better Malaysia".

2.0 Literature Review

In this study, the objective is to explain the performance of the company Telekom Malaysia Berhad (TM) by using various of financial ratio to measure and relate to the risk of the company. Performance is one of the crucial indicator to determine whether the company is operating well and represent the reputation to the community. Calculation is made by using financial information from the annual report.

Zongming Tang Ian (Yi) Liu Yong Lu Dan Yang (2012) discovered that asset injection by the shareholder plays a positive role in corporate financial index which measured by Tobin's Q or composite index. Asset injection means that increasing asset from various resources and act as channel to support parent company. While Waeibrorheem Waemustafa (2015) explained that Shariah Supervisory Board (SSB) have no significant bearing toward Islamic mode of financing in Malaysia but in the remuneration of the company they have which the leverage is measure based on the financing.

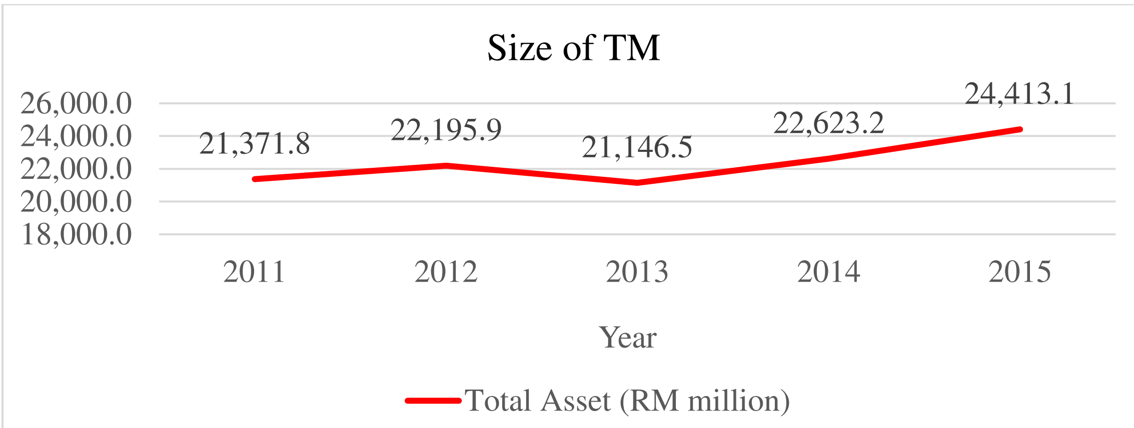
Next, understanding how credit risk occurred when Islamic bank and conventional bank by considering internal and external factor determinants as well as any mismatch of the asset and the liability will contribute to the liquidity risk and credit risk by Waeibrorheem Waemustafa (2013). Continuously from the same author Waemustafa and Sukri (2016) also mention liquidity risk significantly important to Islamic banking and if managed well in asset and liabilities can able to provide another liquidity option to others. Regarding to the leverage risk, Rami Zeitun Ali Salman Saleh (2015) say that financial leverage was vital to the corporate or company where their performance will have direct impact before or after the financial crisis. Financial leverage, firm growth and size has positive relationship toward firm performance.

Additionally, profitability is defined which net income generated to cover all cost incurred including investment and fair return to management. By using the financial ratio Return on Asset (ROA) is to measure how efficiently the agriculture farm use asset to generate profit which proposed by Christopher A. Wolf Mark W. Stephenson Wayne A. Knoblauch Andrew M. Novakovic (2016). Moreover, there is a positive relationship between dividend payout and cash flow, tax as well as profitability proved by Mohammed Amidu Joshua Abor (2006) where says that higher profit of company will pay higher dividend to shareholder.

3.0 Descriptive Analysis

3.1 Trend Analysis

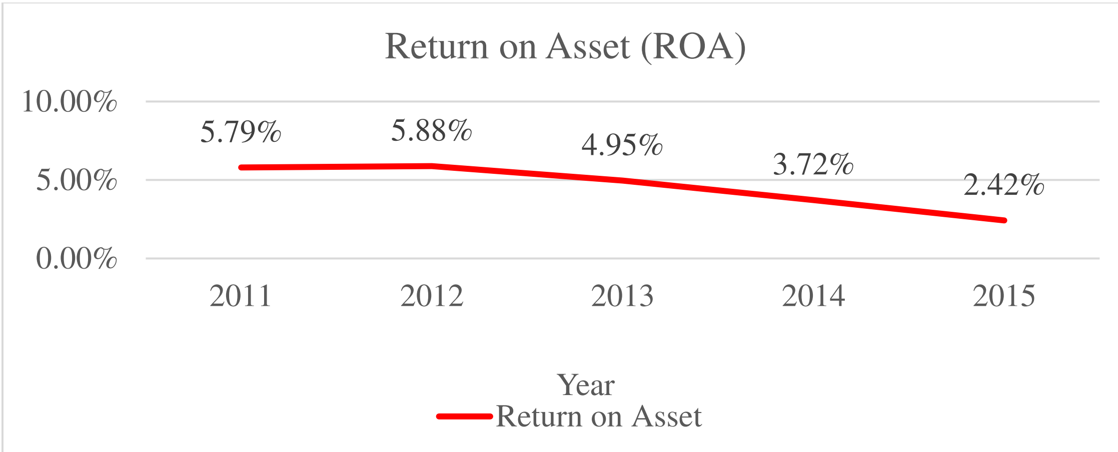
3.1.1 Size of Company



Graph 1 : Total asset of TM between year 2011 until 2015

As the graph above show, the total asset of the company is indicating an upward trend from year 2011 to year 2015. There is slightly decrease in between year 2012 to 2013 and it is recognized that main factor causes the decrease is drop value of the item in current asset which is cash and bank balance specifically deposit under Islamic principle drop RM 1767.5 million due to the deposit have maturities ranging from overnight to 90 days. Continuously, the trend keep increasing to the year 2015 where the company have balance increase in both current and non-current asset.

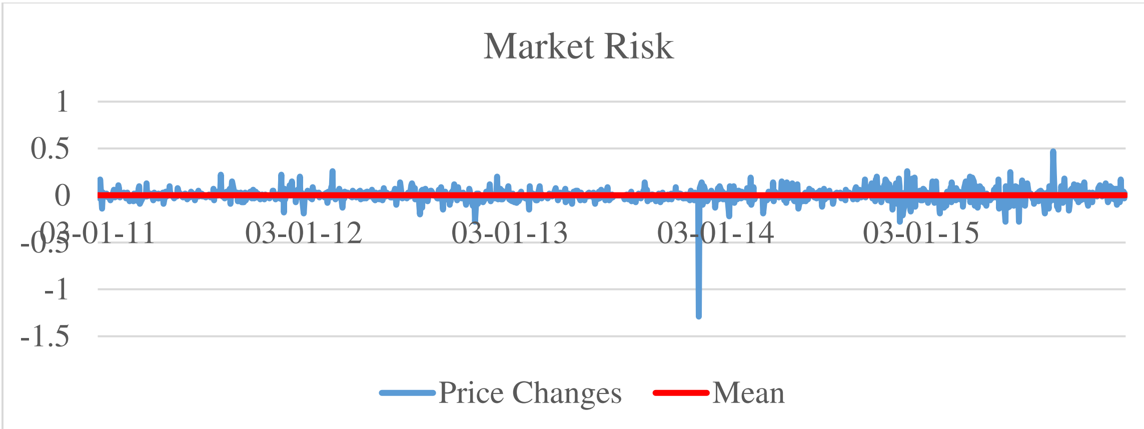
3.1.2 Return On Asset (ROA)



Graph 2: Return on Asset of TM bwtween year 2011 until 2015.

From the graph, TM have a down trend of ROA where decrease significantly between year 2012 to the year 2015. At the beginning, TM have increase of the ROA where the net profit for the year 2012 is incline from year 2011. But it is further discovered that the major factor contributes to the decrease in ROA due to the continuous increase of operating cost which the company engage external auditor to manage non-audit services as well as related approval process. Additionally, net profit of the company keep decreasing but simultaneously asset is increasing which mean that the company is not manage total asset of the company efficiently to generate profit. (Novakovic, 2016)

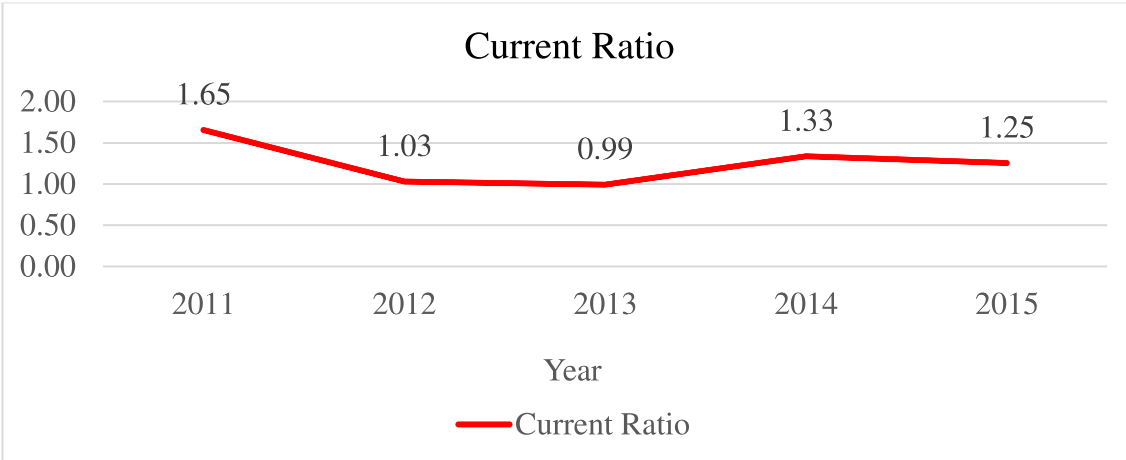
3.1.3 Market Risk



Graph 3: Market Risk of TM between year 2011 until 2015.

Market risk is measure by using price changing on the stock and mean which is common metric to determine the degree of risk. The higher the price changing indicate that high volatility, mean's that will be facing higher market risk. At the beginning the risk is less volatile between year 2011 to 2012 until at the end of year 2013 the price changes dramatically due to the increase of the basis point of 25 point in Overnight Policy Rate (OPR) by central bank of Malaysia where contribute in increase of the yield which indirectly increase risk for the company. Year 2015 also indicate high volatility because of the decreased in the quoted equity securities due to the decline of market value in portfolio. Mean of the company of 0.2 which show that the stock of the company mostly overvalued due to the market volatility is high and price fluctuate frequently.

3.1.4 Liquidity Risk



Graph 4: Liquidity Risk of TM between year 2011 until 2015.

Liquidity risk is measured with the current ratio as an index to show the degree of liquidity where indicate how company manage the asset in meeting short-term obligation. The current ratio of TM is showing a down trend which the significant decrease in year 2012 from 1.65 to 1.03 due to the company has major portion of borrowing under Islamic principle specifically TM Islamic Stapled Income Securities during the financial year. Although it is indicating down trend but the company is not illiquid where they are managed to meet short term obligation along the year. (Current ratio greater or equal to 1)

3.1.5 Leverage Risk

Graph 5: Leverage Risk of TM between year 2011 until 2015.

Graph above showing that TM has a high leverage risk along the year 2011 to 2015 as the ratio nearing to 2 indicating total liabilities almost twice to the total equity. The highest leverage risk is obtained in year 2012 which large amount of borrowing under Islamic Principles and in the same year of 24th February, the company declared that make capital repayment to the shareholder at RM 0.30 each ordinary share and payment is made in August which decrease the proportion in total equity. Throughout that, TM use a lot of debt to finance asset although the trend of leverage risk is seemed to be fluctuated.

3.2 Data Analysis

3.2.1 Descriptive Statistic

Based in appendix 1, ROA having mean value of 4.5% in the descriptive statistic where indicate that TM in the previous 5 years has average earning of 4.5% from asset which showing that it is relatively low efficient in using asset to generate profit. While the standard deviation of the ROA have the value of 1.47% means that there is less changes among the past 5 years. In addition, the most significant variable in the analysis in affecting the performance of the company which is exchange rate where have the mean of 3.46 value indicate that throughout the past 5 years has average of 3 times changes related to the changes in the performance. Standard deviation of the exchange rate has a value of 49.17% indicate that the exchange rate is change frequently among the past few years and is significantly affect the performance of the company.

3.2.2 Correlation

In appendix 2, ROA will be the dependent variable to be measured by the influence from internal factor such as index score, financial risk, size of company, remuneration as well as macroeconomic variable which is external factor. Analysis is carried out by using various of statistic data and presented in regression result.

Regarding to the internal factor based on appendix 2, index score and significant value of TM showing a blank or 0 which due to the index score is constant. It is indicating that from the past 5years company is remain the board of the committee where does not increase or decrease any member and are not affecting even related the performance directly to the company.

Next, board remuneration with correlation of 0.022 having not strong correlated with performance (ROA) of the company as any changes in the board remuneration will not direct impact ROA as well as not significant related with it as the significant value show 0.486 means would not move with company ROA in the same direction. Although remuneration in the company vary from year to year and reach highest in the year 2013 but performance of company still in the decreasing trend where it might be an excessive cost contribute to the decline performance of the company.

No doubt that the size of the company is negatively correlated with the company performance where carry (-0.851) value of correlation even it is significant to the company performance where significant value of 0.034. Obviously, the total asset increase sharply due to the injection of non-current asset and increase in the trade and other receivables cause ROA is decreasing which explained that the company is not utilizing the total asset in generating profit made the company is underperformed.

Continuously, positive correlation is obtained between leverage risk and performance where correlation of 0.284 means that decrease in leverage risk will decrease the ROA. Moving in same direction of the variable brought that the higher leverage of the TM, higher of the ROA. But leverage is not significantly related (0.322) with ROA of company due to the liabilities increase which the major increase of borrowing in the Islamic principles to use in financing cause the performance of the company in year 2015 is decreased. Financial leverage is important to the company in determine the performance (Saleh, 2015)

Furthermore, current ratio of the company also positive correlated with the performance of TM where carry the correlation value of 0.015 but less related with the ROA as it is closed to 0. Thus, TM have good liquidity position lead to increase of the performance but is not significantly correlated (0.490) which explained that liquidity decreased is less correlated and significant with performance although having positive relationship. TM liquidity from the past 5years showing enough ability to fulfill the short term and long term debt obligation where current asset is keep increasing more than current liability especially in inventories of the company. Liquidity is important as enough liquidity can provide another liquidity to others. (Waemustafa, Systematic and Unsystematic Risk Determinants of Liquidity Risk Between Islamic and Conventional Banks, 2016)

Additionally, relationship between ROA and market risk is negative correlated (-0.665) where increase in the price changes and mean in the stock due to company less performing. Indirectly bring higher volatility to the company where market risk is higher and the market risk is a little bit less significant (0.11) with performance of company. Reputation of company will be affected as the market volatility is high lose out shareholder confidence in which changes of the price is large but TM still have a high dividend payout ratio to maintain its shareholder. A good liquidity position of firm increase firm ability in paying dividend to shareholder. (Abor, 2006)

Besides that, external factor variable is also measure toward performance of TM. Correlation of Gross Domestic Product growth rate (0.029) is showing positive relationship with ROA. Indicated that higher the GDP where the output in the total production in the country increases due to the increase in demand, will lead to the increase of ROA but it is not significantly affected (0.482). With the increase in the GDP will stimulate economic condition in the market and make opportunity to the company to improve the performance despite fulfilling demand of the market.

Inflation rate (-0.031) determine where ROA will decrease as high inflation rate but not affected significantly (0.48). Thus, inflation rate is not significantly related to the performance of the company where TM performance is still low neither inflation rate is high or low. Inflation rate has been fluctuated in the past 5 years due to the economy of the country is not stable where increase of the inflation rate will cause the price increase and expensive, indirectly increase the operating cost of the company and performance affected.

Moreover, unemployment rate has strong negative relationship where carry value of (-0.809) implement that high employment rate will lead to the decline in the in ROA. High unemployment rate show that a lot of people or labor is available in the market which surplus of the labor supply. Performance of company is indirectly affected as the market demand is low due to the purchasing power is less and it is significant related. As the telecommunication is become important nowadays, therefore purchasing power of the consumer is important where the source of the purchasing power come from income that job generated.

Last but not least, exchange rate having the strongest negative relationship (-0.954) toward performance of TM. Obviously, it is saying that higher of the exchange rate will make the ROA decline as the company underperforming. In addition, exchange rate is also most significant related to the performance as the TM is involved in borrowing in foreign currencies. According to the annual report, company realized that foreign exchange risk is predominantly increase especially US dollar and Japanese Yen where means that Malaysia Ringgit is weakened therefore company need more fund to exchange the foreign currencies while making repayment for the borrowing.

3.3 Model Summary

Data in the appendix 3 explaining that the significant variable is exchange rate where have the R square value of 91%. This figure is declared that this variable is most reliable and constant that affect the performance of the company. From all the variable involved, exchanged rate is the key point in indicating company relatively compare to other variable as the significant value is 0.012 in the ANOVA table.

4.0 Discussion

From the data result, it is observed that exchange rate is the most significant variable where it carries the significant value of lower than 0.1. Additionally, it is proven by the statistic measure where the most reliable variable is exchange rate (91%) where any changes in the exchange rate will directly affect company performance. Exchange rate have the strongest negative relationship (-0.954) where almost approaching to -1 recognized that totally converse with the relationship with ROA as well as it is strongly significant related (0.006) to the ROA. Thus, TM is more toward to the foreign involvement as the exchange rate high enough to affect the company performance and based in the preceding TM is more to debt financing in the operation of the company. As the result indicate the decline trend of the ROA, then company should concentrate and make alternative to ensure the performance is growing in different environment as well as encounter certain risk. Main of the challenge is to mitigate exchange rate as it involves the foreign currency.

4.1 Recommendation

Without a tinge of doubt, TM facing the main risk that affecting the performance directly which is exchange rate. In the exchange rate is included foreign currency, interest rate which can bring the volatility of the changes in the market. If the exchange rate is varied high enough, it can bring large impact to the company performance. Thus, TM should take alternative to encounter with the risk for instant can use derivatives instrument such as forward contract, futures, option to lock on the currency or by using swap to control the floating rate avoid facing large changes. It is an effective way to hedge the risk where directly help TM in secure the cost of foreign borrowing as well as reduce uncertainty regardless of the appreciation or depreciation of the currency.

Undoubtedly, some significant recommendations for TM is also advised to manage the risk encountered based on the preceding discussion. TM should adjust the board remuneration based on the performance to avoid unnecessary expense occur as burden of the company which will contribute to the higher cost. Besides that, company also need to be aware of relying debt financing although liquidity position is good based on the preceding 5 years as too much of the debt will increase then leverage of the company unless the cash inflow is relatively high or generating high profit.

TM can use other source of financing such as investment or increasing more capital. Total asset should be pay attention as exceeding asset but not efficiently managed will be the cost of the company. TM may increase the receivable turnover period to collect back the sales which increase the revenue to the company and directly improved the performance of the company in the future aspect further contribute to reduce market risk as the company is capable to face with the volatility in the market.

It is realized that corporate governance (CG) of TM does not comply with Shariah Supervisory Board (SSB) as the company did not provide any financial product to fulfill customer. Therefore, TM is not necessary to follow but can refer as a guideline on how to fulfill fiduciary duties to their shareholder as well as it is important in company CG mechanism. Basically, every company have debt or loan involved to run on operation. Thus, TM can cooperate with bank that have compliancy of SSB will be more effective (Waemustafa, Mode of Islamic Bank Financing: Does Effectiveness of Shariah Supervisory Board Matter?, 2015) as their corporate governance indicate strength of the bank building a good reputation. Loan and advances provide to the subsidiaries will also be more effective and smooth cash flow.

5.0 Conclusion

In conclusion, TM is a medium perform of operation where they are still in a good position as compare to other company in the same industry. Although the competition is high but TM can manage to maintain their reputation well.

Additionally, based on the past 5years data, TM is indicating underperforming in term of financial risk where the ROA is keep decreasing while in the same time the financial risk is in inclined trend as well as the size of the company is growth. Theoretically, it is showing negative relationship where TM is not efficient and effective in generating profit but the fact TM must be more efficient to generate income for future aspect follow with the market effect. TM is suggested to concentrate more to the performance.

Correlation of the company also showing the parallel relationship where the result indicate financial risk is move in the same direction with ROA but not significant affected to the performance of the company while macroeconomic variables such as GDP and inflation rate is move inversely and not significant too but the significant variable will be exchange rate. Recommendation to the TM concerning board remuneration and committee, financial risk, and size of the company even focus on macroeconomic variables especially exchange rate is given to improve company performance.

Lastly, TM should keep track with it performance and develop from time to time as to have high competency to compete other as well as manage efficiently and effectively in the financial asset to further ensure the performance is capable to encountered. Internal and external factor also need to be counted in as influence to be aware where environment and technology keep transforming

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APPENDIX 1

Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.045550213	.0147288372	5
Index Score	.900	.0000	5
Board Remuneration	7596344.240	1097410.7917	5
Size	22350100000.00	1300005201.913	5
Leverage risk	1.983355846701291	.118544418836072	5
Current ratio	1.252370221435950	.267669384008193	5
Market risk	.068437649011350	.017623841302541	5
GDP growth rate	5.300	.4950	5
Inflation rate	2.4360	.68112	5
Unemployment rate	3.060	.1342	5
Exchange rate	3.4600	.49168	5

APPENDIX 2

Correlations

		ROA	Index Score	Board Remuneration	Size	Leverage risk	Current ratio	Market risk	GDP growth rate	Inflation rate	Unemployment rate	Exchange rate
Pearson Correlation	ROA	1.000	.	.022	-.851	.284	.015	-.665	.029	-.031	-.809	-.954
	Index Score	.	1.000	.	.	.	.	.	.	.	.	.
	Board Remuneration	.022	.	1.000	-.460	-.580	-.483	.701	-.581	-.129	-.233	-.121
	Size	-.851	.	-.460	1.000	.224	-.015	.308	.102	-.200	.887	.894
	Leverage risk	.284	.	-.580	.224	1.000	-.155	-.480	-.132	-.632	.253	-.059
	Current ratio	.015	.	-.483	-.015	-.155	1.000	-.540	.318	.838	.002	.046
	Market risk	-.665	.	.701	.308	-.480	-.540	1.000	-.475	-.276	.426	.571
	GDP growth rate	.029	.	-.581	.102	-.132	.318	-.475	1.000	.470	-.339	-.198
	Inflation rate	-.031	.	-.129	-.200	-.632	.838	-.276	.470	1.000	-.276	-.071
	Unemployment rate	-.809	.	-.233	.887	.253	.002	.426	-.339	-.276	1.000	.944
	Exchange rate	-.954	.	-.121	.894	-.059	.046	.571	-.198	-.071	.944	1.000
Sig. (1-tailed)	ROA	.	.000	.486	.034	.322	.490	.110	.482	.480	.049	.006
	Index Score	.000	.	.000	.000	.000	.000	.000	.000	.000	.000	.000
	Board Remuneration	.486	.000	.	.218	.153	.205	.094	.152	.418	.353	.423
	Size	.034	.000	.218	.	.359	.491	.307	.435	.374	.022	.020
	Leverage risk	.322	.000	.153	.359	.	.402	.207	.416	.126	.341	.463

	Current ratio	.490	.000	.205	.491	.402	.	.174	.301	.038	.499	.471
	Market risk	.110	.000	.094	.307	.207	.174	.	.209	.327	.237	.158
	GDP growth rate	.482	.000	.152	.435	.416	.301	.209	.	.212	.289	.375
	Inflation rate	.480	.000	.418	.374	.126	.038	.327	.212	.	.327	.455
	Unemployment rate	.049	.000	.353	.022	.341	.499	.237	.289	.327	.	.008
	Exchange rate	.006	.000	.423	.020	.463	.471	.158	.375	.455	.008	.
N	ROA	5	5	5	5	5	5	5	5	5	5	5
	Index Score	5	5	5	5	5	5	5	5	5	5	5
	Board Remuneration	5	5	5	5	5	5	5	5	5	5	5
	Size	5	5	5	5	5	5	5	5	5	5	5
	Leverage risk	5	5	5	5	5	5	5	5	5	5	5
	Current ratio	5	5	5	5	5	5	5	5	5	5	5
	Market risk	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
	Inflation 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

APPENDIX 3

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.954[a]	.910	.880	.0051086348	1.810

a. Predictors: (Constant), Exchange rate

b. Dependent Variable: ROA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	30.250	.012[b]
	Residual	.000	3	.000		
	Total	.001	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), Exchange rate