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**Study of Relationship of Company's Performance with Internal and External
Factors on Maxis Berhad**

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Abstract

The purpose of the study is to investigate how the Maxis Berhad internal factors and external factors influence the company's performance. The financial information is obtained from annual report of Maxis Berhad starting from year 2011 to 2015. The measurement of return on assets is used to see the overall performance of Maxis Berhad in 5 years which beyond benchmark. The additional measurement is the corporate index score, board remuneration, asset size, net profit margin, GDP growth rate, inflation, unemployment rate and exchange rate. To see the relationship of risk factors to the profitability, this paper is utilizing liquidity (current ratio), leverage (debt to equity ratio) and market risk (standard deviation). Data was analysed by utilizing regression and correlation. The regression analysis and correlation shows only one variable is significant to ROA which is market risk with the highest impact to the company's performance. However, the liquidity risk is not significant to ROA with p value = 0.130. While for the macroeconomic factor, GDP growth rate is also not significant to the company's performance with low impact to the return on assets.

Keywords: Liquidity risk, Market risk, Leverage, Return on Assets

1.0 Introduction

Maxis Berhad was established by its founder, Ananda Krishnan in year 1993. On 19 November 2009, Maxis Berhad was listed in Bursa Malaysia. It is the leading communications service provider in Malaysia. Through its subsidiaries, the company provides mobile telecommunications products and services, wireless internet access, broadband services, multimedia related services, Global System Mobile (GSM) cellular services, and telecommunications consultancy services.

From the year 2011 to 2015, Maxis Berhad is changing, regardless of the size of the board of directors or the chief executive director or the performance of Maxis. Before the year 2013, the CEO of Maxis is Sandip Das, which is an Indian citizen. Morten Lundal, which is a Norwegian has been hired as CEO on 1 October 2013 after Sandip Das resign his position. He has more than 16 years of experience in the telecommunications industry and once was the CEO of the DiGi.Com Berhad Group. During this 5 years, the stock price of the Maxis remaining stable between 6.2 and 7.2. It has indicated Maxis Berhad is having a good performance although they is facing varied type of risk.

By having a good corporate governance structure, Maxis will be able to perform better when comparing to its competitors. Different types of committee within the corporate will improve the efficiency and independence of the company. At the same time, it will helps the company to excel in financial risk management. The existing risk such as credit risk, liquidity risk, operational risk, legal risk and market risk will be avoid, mitigate or transfer in the efficient ways. Without a proper understanding about risk and proper management of the risk will leads to an undesired consequences.

2.0 Literature Review

The aim of this study is to investigate the relationship of company's financial risk and the company's performance. The performance of the company will be measured by using the varied types of ratios according to the financial information that can be obtained from the annual reports. This study will also relate to the corporate structure and the risk management of the company.

(Dr. Majed Abdel Majid, Dr. Said Mukhled Ahmed, & Dr. Firas Naim, 2012) stated that financial ratios were used by internal and external financial data users for making their economic decisions; including investing, and performance evaluation decisions. Profitability ratios measure earning capacity of the firm, and it is considered as an indicator for its growth, success and control. Activity ratios are another measure

of operational efficiency and performance. (Zaid, Ibrahim, & Zulqernain, 2014) presented that profit is the residual of sales revenue once all costs, including interest payments on debt, have been deducted, it thus constitutes the return to equity holders.

(Hwang, 2015) mentioned that in financial markets, risk emanates from both natural and man-made phenomena. According to (Waeibrorheem & Suriani, Bank Specific and Macroeconomics Dynamic Determinants of, 2015) presented 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. (Waeibrorheem & Suriani, Systematic and Unsystematic Risk Determinants of Liquidity, 2016) stated that liquidity could throw solvent bank into insolvency since it has to sell its assets far below their value to fulfill its current financial obligations. It has indicated worst consequences if the company doesn't implement a good financial risk management with the objective to mitigate the financial risk. Based on the (Jafari, Chadegani, & Biglari, 2011) indicated that is a significant positive relationship between performance level as a behavioral function and total risk management. If companies try to control unfavorable conditions that result from exposure to risk, they can improve corporate performance.

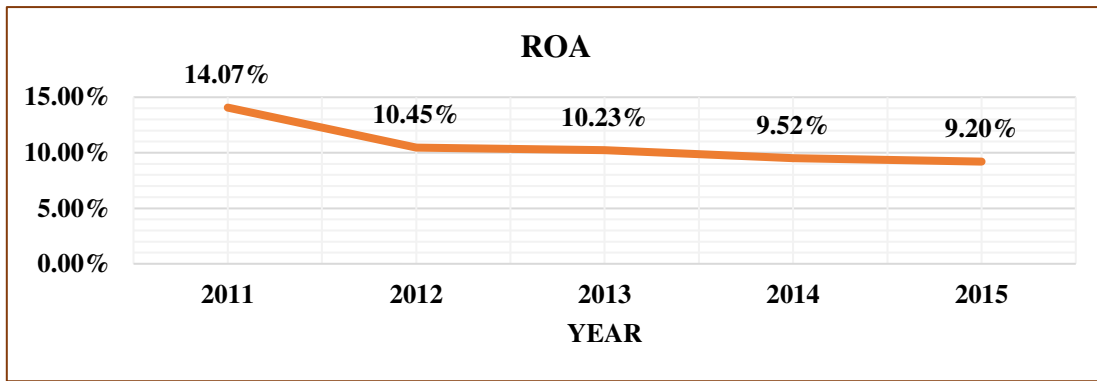
Besides of financial risk management, the corporate governance will also influence the performance of the company. (Abdussalam Mahmoud, 2006) presented that firm structure emerges as an important factor affecting profitability. From the analysis of (Waeibrorheem & Suriani, Mode of Islamic Bank Financing: Does Effectiveness of Shariah Supervisory Board Matter?, 2015), an effective Shariah Supervisory Board does not have significant bearing towards the choice of Islamic mode of financing in Malaysia but their remuneration have. (Subramaniam, McManus, & Zhang, 2009) proposed that the risk committee is in charge of identify the risks, and also opportunities, identified on a timely basis and that the group's objectives and activities are aligned with the risks and opportunities identified by the board.

3.0 Descriptive Analysis

3.1 Trend Analysis

The study employed a model specification in order to measure the Maxis Berhad's performance, using profitability measured by the return on assets (ROA) along with other independent variables. Based on the annual report, the ROA can be obtained by using the formula below:

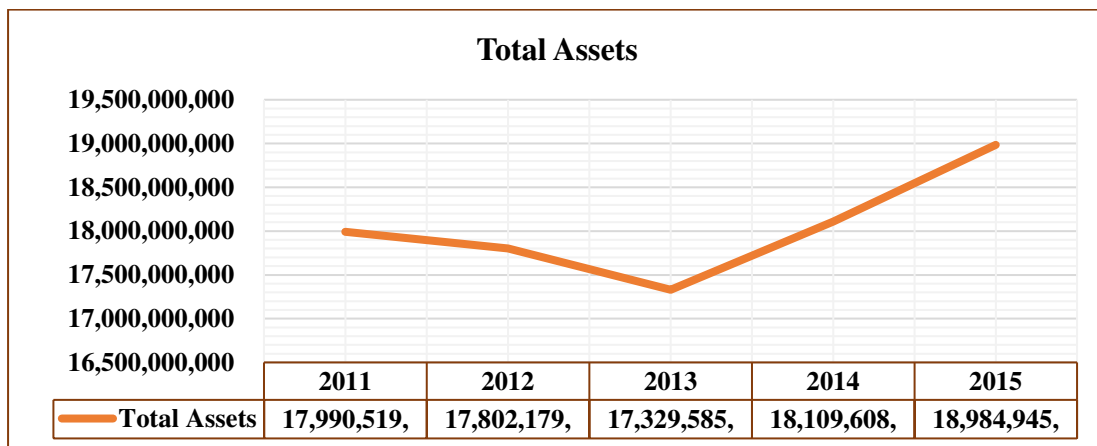
$$\text{ROA} = \text{Net profit after taxes} / \text{Total average assets}$$



Graph 1: Return on assets of Maxis from the year 2011-2015

Based on the graph, the return on assets has a downward trend from year 2011 to year 2015. It implied that the efficiency of Maxis in utilizing its assets to make profits has become lower. The reasons of the downward trend of ROA are the Maxis making less net profit after taxes and the rise of total assets during this 5 years. Maxis faced a significant drop in ROA in the year 2012 as the huge amount of cost of sales, operational and administration cost increasing. While the total assets is decreasing in term of property, plant and equipment.

Size of the company



Graph 2: Total asset of the Maxis from the year 2011-2015

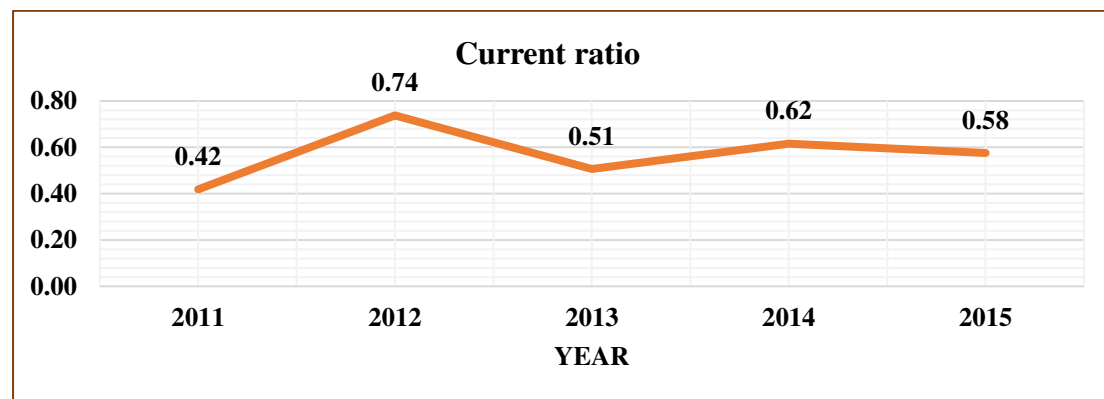
The graph indicates the decreasing of total assets of Maxis in the year 2011 to 2013 and rise back until the year 2015. Since more than 80% of the total assets in Maxis are non-current assets, the changes of non-current assets have a significant impacts to the company's size. For the further information, the decreasing of the total assets at the beginning of the first 3 years is mainly affected by the depreciation, amortization or impairment of the property plant and equipment. For the last 2 years, the total assets

rise back is because of the increasing of receivables, deposits and prepayments and derivative financial assets that included cash flow hedge.

Liquidity risk

Since liquidity ratio is measuring the company's ability to meet day to day operating expenses and satisfy short term obligations. The current ratio has been chosen as the measurement to evaluate the liquidity risk. Below is the formula to form the current ratio:

Current Ratio= Current assets / Current liabilities



Graph 3: Current ratio of Maxis for the year 2011-2015

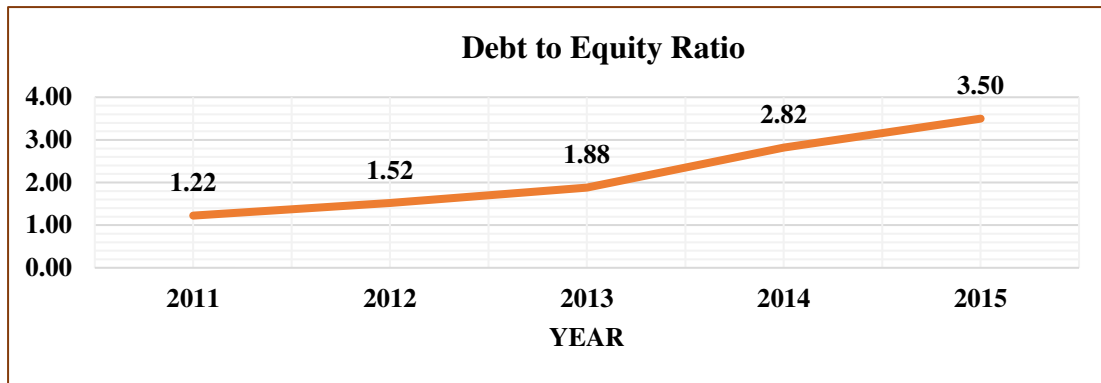
Based on the graph above, there is an irregular rising and falling from the year 2011 to 2015. However, the Current ratio has increased to 0.58 at the end of the year 2015 if compared to 2011 which is 0.42. For the year of 2012, Maxis achieve a 0.74 Current ratio is because of the dramatic drop in the amount of borrowing. The current ratio is lesser than 1 from the year 2011 to 2015 also indicated the Maxis is facing a high liquidity risk due to the increasing of current assets is lesser than the increasing of current liabilities. It also means that Maxis will struggle to pay short-term financial obligations.

Leverage risk

In order to measure the leverage risk of Maxis, debt to equity ratio has been chosen as the financial measurement which can access the ability to meet the financial obligations.

The formula for debt to equity ratio is:

Debt to Equity Ratio = Total liabilities / Total equity

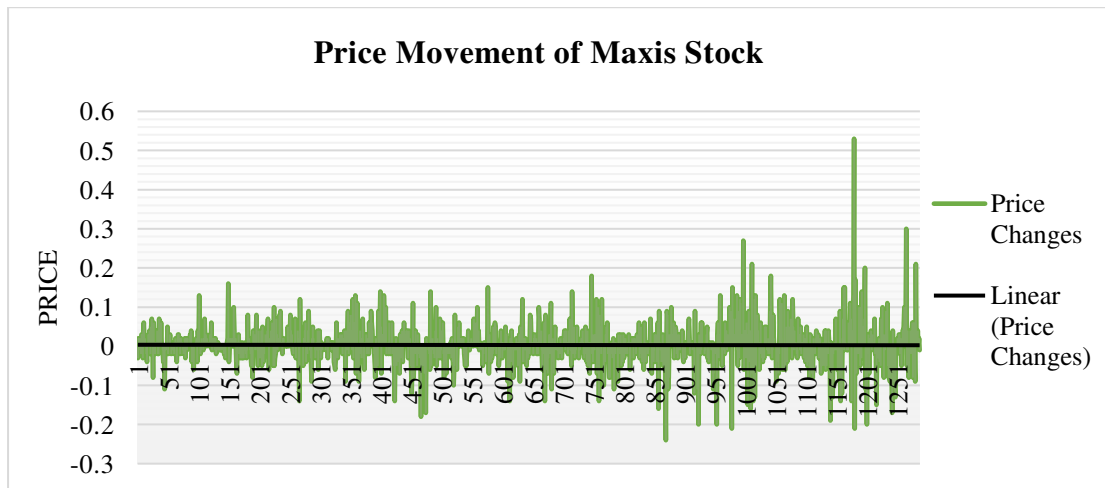


Graph 4: The leverage ratio of the Maxis from 2011-2015

According to the graph above, there is an uptrend movement of the debt to equity ratio. It indicated that the Maxis use a lot of debt to finance its company's operations and investment in order to generate shareholders' wealth. For the further information the rising of the leverage is due to the increasing in the borrowing and the decreasing of the retain earnings. The rise of the leverage implied that the Maxis has high credit issues and high burden in term of obligations.

Market Risk

Market risk is the risk related to the market prices of currencies, interest rate instruments, equities or commodities which may affect the market volatility and lead the companies to financial losses. Market risk can be measured by using the changing on the share prices and the mean which can determine the degree of the risk.



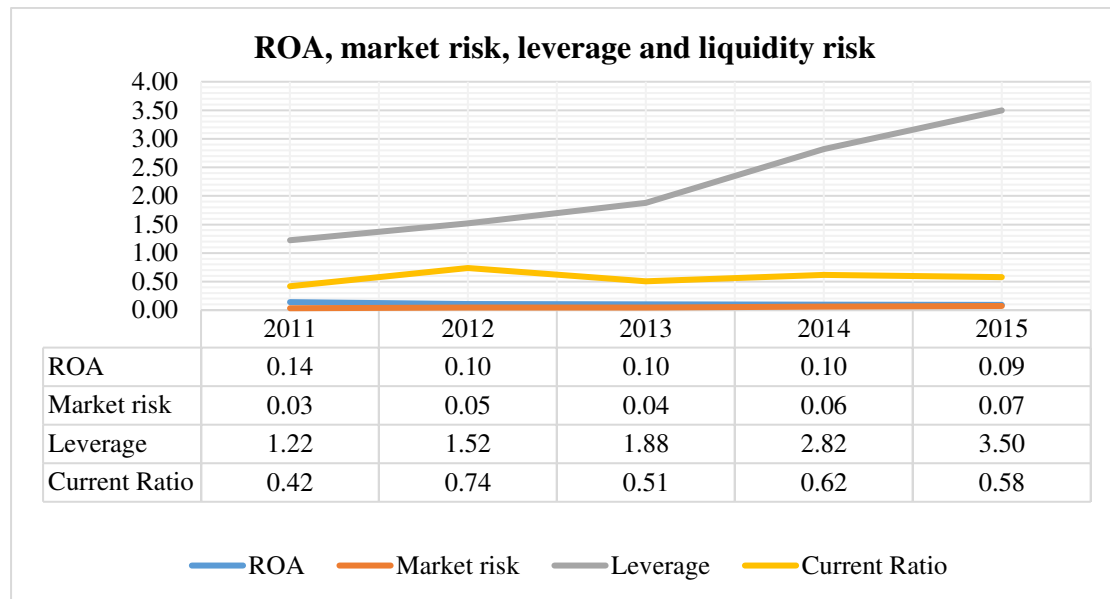
Graph 5: The price movement of the stock of Maxis from the year 2011 to 2015

According to the graph, the price is less volatile at the beginning of the first 5 years until the end of year 2014. The price started to fluctuate dramatically due to the currency exposure and interest rate risk which caused by the unstable local currency. The average

mean of the price changes is 0.0032 and the standard deviation is 5.33%. It means the range of price movements are not huge and implied the stability of the share price.

For the further investigation, standard deviation has been chosen as the indicator to measure the volatility of company's share prices year by year, which affected by the market risk during the year of 2011 to 2015. High fluctuation of the share price will affects the confidence of investors toward Maxis stock.

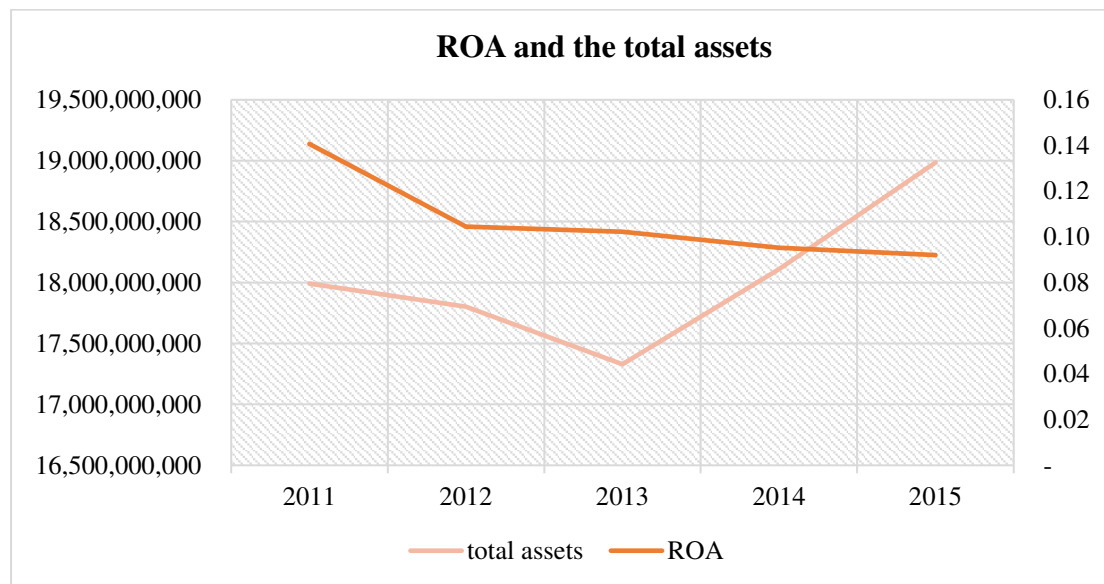
The relationship between the ROA and Financial Risks



Graph 6: Relationships between the ROA and the market risk, leverage and liquidity risk

From the graph, the Maxis experienced decrease in return on assets during this 5 years. Moreover, the debt to equity ratio has increase apparently from 1.22 to 3.50 and indicating a serious credit issues existing. The overall of the current ratio is increasing although there is an up and down trend. While the market risk which measure by using standard deviation of yearly price changing, shows an upward trends in overall, although there is a slightly drop in the year of 2013. This situation shows that the return on assets is having a negative relationship with leverage ratio and market risk. However the current ratio does not have a significant impact on the return on assets.

The relationship between the ROA and the total assets



Graph 7: Relationship between the ROA and total assets

The Graph above shows the overall trend of the ROA is decreasing, while the total assets which representing the company's size has irregular downward and upward trend. The rebound of total assets at the year 2014 is due to the increasing of account receivables, deposits, prepayments and financial derivative instruments. These trends indicate the performance of a company will be influenced by the company's size but not comprehensive. This is because there are significant elements in total assets which has negative relationships with the return on assets such as the account receivables, deposits and prepayments which will reduce the net profit after taxes.

3.2 SPSS Analysis

3.2.1 Descriptive Statistics

Based on the appendix 1, it shows the average of the return on assets of Maxis is 10.69% during the year or 2011 to 2015. While the 1.95% standard deviation means there is less vary so much from the average in the five years. While the average from index score is 76%. While the net profit margins which is most significant to ROA is having 21.98% average and the 3.82% standard deviation. Higher the standard deviation, greater the variables vary from the average. The second significant variable to ROA is market risk which has an average of 0.0513 and standard deviation 1.53% in this 5 years.

3.2.2 Correlation

The study involved the variables from external and internal factors for the purpose to evaluate the company's performance. Examples of internal factor are index score, board

remuneration, company's size, net profit margin, leverage, market risk, and liquidity risk. External factors included GDP growth rate, inflation, unemployment rate and exchange rate. The study used return on assets (ROA) as a proxy for the performance of Maxis. The influence of these external factors and internal factors will be discussed in the regression results.

i) Internal factors

From the results of appendix 2. The index score from the board of the company is -0.732 is having a strong negative relationship with the ROA. When there is an improvement or increases of board committees, the cost will incur and reduces the ROA of the company. Significant 0.08 means that the changing of the board structure is significant relate to the ROA. For the variables of board's remuneration, it is -0.501 which indicates the negative correlation with the ROA. It means that the increases in the remuneration of Board of directors will reduce the ROA as the net profit after taxes will be used as compensation for board of directors. However it has no statistically significant to ROA. Besides that, the company's size, which is -0.269 shows a weak negative relationship to the ROA, but not significant related to company's performance. It means that the increases of the total assets will reduces a less portion of return on assets as there are some of the total assets does not being used effectively in generate profits.

For the net profit margin, which has positively a strong relationship and definitely significant related to ROA as the correlation is +0.954 and sig. 0.006. It indicates the increase of net profit margins will directly improve the performance of the company. The Pearson correlation of the leverage is -0.763, indicates the strong but negative correlation with ROA and has significant relationship as sig. less than 0.1. Increases of debt-equity ratio will reduce the ROA due to the payment in interest rate, exposure to the drop of currency values. For the market risk, it is having a negatively strong relationship with the company's performance as the -0.829 correlation and sig. 0.041. At the same time, it is significant related to the ROA. The increasing of market exposure risk is having a strong impact on the company's performance. In addition to the market risk, current ratio, which has -0.625 indicates negative correlation with the ROA and significant to ROA. The reason of increasing in liquidity ratio but reducing in ROA is probably because of the increasing of the account receivables, prepayment and the deposits which will reduce the net profits.

ii) External factors

For the external variables, Gross Domestic Product (GDP) shows that -0.036 in correlation with ROA and sig. 0.477. It implied a weak negative relationship with company's performance, which means increasing of GDP has a few impacts which will reduce the Maxis performance. Since the GDP is involving different industry's contribution, so it is not significant related to Maxis. The correlation of inflation with the ROA is 0.469 but not significant related. It indicates the return on assets will increase when having a high inflation rate as the repurchase intention or loyalty of customers on the best services provided by Maxis regardless on the incline of the products' prices. The unemployment rate, shows the negative relationship with the ROA but no statistically significant. Since the unemployment happens, purchasing power of citizens reduce, and the net profit after taxes will decline. For the last variable, exchange rate is having -0.542 strong negative relationship with company's performance and not significant relation as sig. 0.173 greater than 0.1. The negative relationship implied that the increase in exchange rate or the decrease in value of Ringgit Malaysia has reduced the net profit of the company as the costly foreign products or the high interest and principal to pay back for the foreign loans.

3.2.3 Model Summary

Based on the appendix 3, the R Square of the market risk is 99.4%, indicates that this variable is more reliable and significant in influencing the ROA of the company. Therefore, market risk is the best model that significant to company's performance as its lowest p value, 0.006 in Anova table.

4.0 Discussion

The most significant variable is market risk due to its lowest p value = 0.006 in Anova table. At the same time, it is the most reliable variable due to 99.4% R-square in model summary table. The existing of market risk has negative strong correlation (-0.829) with the ROA and significant related to ROA as the p value = 0.041 lesser than 0.1. Therefore, the performance of the Maxis is vulnerable to the internal factor, market risk which involves the movements of market price of currency, interest rate, commodities and equities. In order to reduce the market exposure risk of the company's performance, the company is necessary to pay more attention and using different methods to avoid, reduce and transfer this risk.

5.0 Recommendation

First of all, Maxis should establish a risk committee in the boards in order to assessing the different types of risk, such as serious liquidity issues, credit risk, currencies exposures, interest rate exposures within the years of 2011 to 2015. By having risk committee in executing the risk management policy and oversight of the company's performance, the ROA of the Maxis will increase as ROA is having negative correlation with the liquidity, leverage and market risks exposure.

Besides of improvement in Board committee, Maxis should improve the efficiency in collecting the account receivables. This is because the major component that caused the total assets increase is account receivables, deposits and prepayments which may indirectly reduce the net profit after taxes of the company. In order to reduce the liquidity risk which the current ratio remaining lesser than 0.8 from 2011 to 2015 and high leverage at the last 3 years in this 5 years, Maxis is suggested to reduce the short term and long term borrowing before both of this risks bring disastrous impacts to the company.

For the purpose to reduce the market risk which is most significant related to company's performance, Maxis is recommended to hedge against the foreign exchange risk by using different types of derivative instruments. For example, Maxis can use the forward foreign exchange contracts to hedge against the movement in exchange rates. So, the price of commodities which denominated in foreign currency will not affected by the arising of foreign exchange exposures. For the currency exposure from the financial liabilities which denominated in foreign currency, Maxis is suggested to use cross currency interest rate swap contracts. It is use to hedge against the fluctuation of interest rate in the foreign currency denominated loans at the maturity of the loan borrowings.

Besides of the transactional hedging, Maxis is recommended to apply the natural hedging which is low cost and easier to implement due to only changing the internal structure. For example, Maxis is having high leverage due to the long term borrowing which denominated in foreign currency, Maxis can use matching assets and liability exposures to match the future inflows with borrowing or match the future outflows with lending. Maxis can use the increase the future inflows in USD dollars to against the long term borrowing which denominated in USD. Besides that, Maxis can implement

the asset and liability adjustments by holding monetary assets in strong currencies and monetary liabilities in weak currencies.

In order to reduce the leverage level which increased dramatically, Maxis can issue the shares to the public instead of borrowing. It can rise the company's equity while reduce the leverage ratio. So the borrowing can be reduced by using the capital gain from public offering. Maxis also can use debt to equity swaps to reduce the amounts of liabilities by agreeing to subscribe new shares to the creditors to reduce the amount of debt.

6.0 Conclusion

In conclusion, Maxis is remaining as a top performing telecommunication company in telecommunication industry due to the services and products provided by them. However, based on the data from annual reports of the year 2011 to 2015, the ROA of the Maxis is declined while the financial risks exposure is increasing. It indicates the situation of company's underperformed. Instead of the existing risks, there are having another external and internal factors which will influence the performance of Maxis.

From the study, it shows the rise of leverage risk, market risk and net profit margin have significant impact on the company's ROA. Whilst the finding shows market risk is the variable which has highest impact to the Maxis performance if compared to others variables. Therefore, Maxis should focus on the alternatives which can avoid, mitigate, or transfer the market risk which come from the foreign exchange risk and interest rate risk. Types of alternatives should be included the improvement in corporate structures and also the financial instruments. For examples, natural hedging, transactional hedging, and establish the risk committee. The liquidity risk which the current ratio remaining lesser than 0.8 from the year 2011 to 2015 has indicated inability to meet the short term obligation when due date. In order to rise the Maxis performance, Maxis should focus on the liquidity management although the study shows the current ratio is not significant to the company performance.

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Appendix

Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.106945	.0195265	5
Index score	.760	.0548	5
Board-Remuneration	17609000.00	9546208.619	5
Size	18043367200.00	604443195.457	5
net profit margin	.219785570894007	.038202342461398	5
Leverage	2.189519	.9467901	5
Market risk	.051339	.0153814	5
Current ratio	.570894	.1197197	5
GDP growth rate	5.30000	.494975	5
Inflation	2.43600	.681124	5
Unemployment rate	3.06000	.134164	5
Exchange rate	3.460000	.4916808	5

Appendix 1

Correlations

	ROA	Index score	Board-Remuneration	Size	net profit margin	Leverage	Market risk	Current ratio	GDP growth rate	Inflation	Unemployment rate	Exchange rate
Pearson Correlation	1.000	-.732	-.501	-.269	.954	-.763	-.829	-.625	-.036	.469	-.427	-.542
Index score	-.732	1.000	.478	.222	-.663	.787	.664	-.055	-.184	.028	.408	.641
Board-Remuneration	-.501	.478	1.000	.958	-.237	.905	.899	.139	.104	.027	.886	.944
Size	-.269	.222	.958	1.000	.004	.746	.758	.076	.120	.068	.871	.862
net profit margin	.954	-.663	-.237	.004	1.000	-.556	-.634	-.629	.098	.605	-.244	-.329
Leverage	-.763	.787	.905	.746	-.556	1.000	.966	.201	.055	-.033	.773	.920
Market risk	-.829	.664	.899	.758	-.634	.966	1.000	.423	.100	-.224	.785	.877
Current ratio	-.625	-.055	.139	.076	-.629	.201	.423	1.000	.433	-.582	.024	-.021

	GDP growth rate	-.036	-.184	.104	.120	.098	.055	.100	.433	1.000	.470	-.339	-.198
	Inflation	.469	.028	.027	.068	.605	-.033	-.224	-.582	.470	1.000	-.276	-.071
	Unemployment rate	-.427	.408	.886	.871	-.244	.773	.785	.024	-.339	-.276	1.000	.944
	Exchange rate	-.542	.641	.944	.862	-.329	.920	.877	-.021	-.198	-.071	.944	1.000
Sig. (1-tailed)	ROA	.	.080	.195	.331	.006	.067	.041	.130	.477	.213	.237	.173
	Index score	.080	.	.208	.360	.111	.057	.111	.465	.383	.482	.248	.122
	Board-Remuneration	.195	.208	.	.005	.350	.017	.019	.412	.434	.483	.023	.008
	Size	.331	.360	.005	.	.497	.074	.069	.452	.424	.457	.027	.030
	net profit margin	.006	.111	.350	.497	.	.165	.125	.128	.438	.140	.346	.295
	Leverage	.067	.057	.017	.074	.165	.	.004	.373	.465	.479	.063	.013
	Market risk	.041	.111	.019	.069	.125	.004	.	.239	.436	.359	.058	.025
	Current ratio	.130	.465	.412	.452	.128	.373	.239	.	.233	.152	.485	.487
	GDP growth rate	.477	.383	.434	.424	.438	.465	.436	.233	.	.212	.289	.375
	Inflation	.213	.482	.483	.457	.140	.479	.359	.152	.212	.	.327	.455

Exchange rate	5	5	5	5	5	5	5	5	5	5	5	5
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Appendix 2

Model Summary^c

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.954 ^a	.910	.881	.0067484	
2	.997 ^b	.994	.988	.0021628	2.971

a. Predictors: (Constant), net profit margin

b. Predictors: (Constant), net profit margin, Market risk

c. Dependent Variable: ROA

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	30.489	.012 ^b
	Residual	.000	3	.000		
	Total	.002	4			
2	Regression	.002	2	.001	162.022	.006 ^c
	Residual	.000	2	.000		
	Total	.002	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), net profit margin

c. Predictors: (Constant), net profit margin, Market risk

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.000	.020		-.012	.991		
	net profit margin	.488	.088	.954	5.522	.012	1.000	1.000
2	(Constant)	.051	.012		4.364	.049		
	net profit margin	.367	.037	.717	10.010	.010	.598	1.673
	Market risk	-.474	.091	-.374	-5.216	.035	.598	1.673

a. Dependent Variable: ROA