



Munich Personal RePEc Archive

Risk Performance of Kawan Food Berhad

Kamaludin, Sabrina

Universiti Utara Malaysia

5 April 2017

Online at <https://mpra.ub.uni-muenchen.de/78506/>
MPRA Paper No. 78506, posted 18 Apr 2017 15:05 UTC

Risk Performance of Kawan Food Berhad

Absract

This paper examines the relationships between Kawan Food Berhad company performance with specific risk. The Kawan Food Berhad performance also being evaluated by an index based on 9 attributes score. The data obtained from annual report of Kawan Food Berhad from 2011 till 2015. The measurement of liquidity ratio and return of asset used to see the overall performance of Kawan Food Berhad in 5 years which beyond benchmark. To see the relationship of risks factors to the profitability, this paper examined operating risk, leverage risk and counterparty risk. Data was analyzed by utilizing regression and bivariate correlation.

Key Words: Company performance , Liquidity ratio, Return on asset.

1.0 Introduction

Kawan Food Berhad had been established since 1970's it based in Shah Alam till now it almost 30 years. This company is Malaysia's leading exporter and largest manufacturer of frozen foods in Asean.

This company providing their customer safe, authentic and high quality products at affordable prices , while making a difference in the lives of their sahareholders, consumers and the community .

This company vision is "We aspire to be a reowned and significant player in the food and beverage industry globally" and their mission is "to be the best in supplying high quality , affordable and convenient food.

This company also have their own advantages where unique in the way use quick-freezing technology , which is more commonly applied to higher margin products in other industries, but they made it possibly by their economic of scale.

Quick freezing is essential as it enables us to provide the highest level of freshness to their consumers.

2.0 Literature review

2.1 Introduction on literature review

All of this research reviews support the hypothesis of factors that affect company performance in term of profitability which are liquidity risk and return on asset.

2.2 Liquidity risk

Liquidity risk is the risk that may be facing by company or bank where the situation they could not meet short term financial demands. This happen when company or bank failed to convert their asset into cash quickly. According to Waemustafa and Sukri (2016) “Islamic bank is currently facing an excess liquidity problem that results in the low return on investment.”(p.1321). Beside that, Waemustafa and Sukri (2016) also 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.”(p.1321). So we could see clearly that liquidity risk has big impact on company or bank performance in term of financial stability and it is one of the best indicator for us to measure company performance.

2.3 Return on asset.

Return on asset is measurement of net income dividing by total asset. According to Hagel, Brown, & Davison, (2004) “ROA is a better metric of financial performance than income statement profitability measures like return on sales. ROA explicitly takes into account the assets used to support business activities. It determines whether the company is able to generate an adequate return on these assets rather than simply showing robust return on sales. Asset-heavy companies need a higher level of net income to support the business relative to asset light companies where even thin margins can generate a very healthy return on assets”. Return on asset also one of the aspect that been consider by investors when they want to choose a good company that has capability to generate higher return for them. So all this prove that how important ROA in term of company performance measurement.

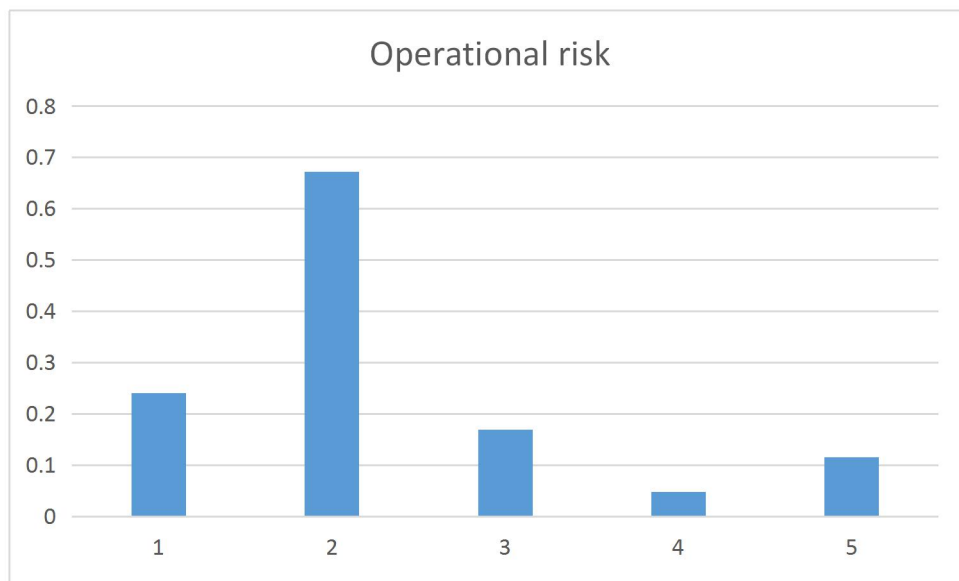
3.0 Descriptive analysis

	2011(RM'00 0)	2012(RM'00 0)	2013(RM'00 0)	2014(RM'0 00)	2015(RM'0 00)
Liquidity Ratio					
$\frac{\text{CA – Inventory}}{\text{Current Liabilities}}$	3.380154223	3.137975766	2.587935144	2.842308866	1.711922086
Operational Risk					
$\frac{\text{Operating Expenses}}{\text{Revenue}}$	0.240566	0.671797617	0.169193208	0.048562155	0.115541509
Counterparty Risk					
$\frac{\text{Account Receivable}}{\text{Annual credit sales/ 360}}$	45.09202922	77.45125755	66.65848935	12.58823699	15.9133007
Leverage Ratio					
$\frac{\text{Debt-to- Total Asset Ratio}}{= \frac{\text{Total Debt}}{\text{Total Assets}}}$	0.011509977	0.006080923	0.004920068	0.005377515	0.004381014

Operational Risk

Year	2011	2012	2013	2014	2015
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Operating Expenses	962,264	1,881,034	676,773	961,589	901,224
Revenue	4,000,000	2,800,001	4,000,001	19,801,201	7,800,002
Operational Ratio	0.240566	0.671797617	0.169193208	0.048562155	0.115541509

Graph



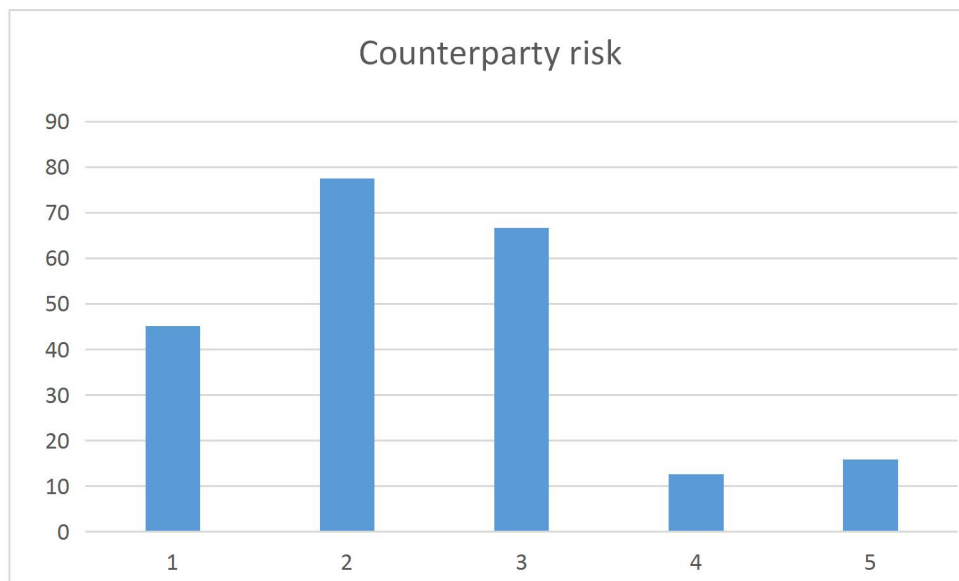
This graph show us operational risk trend year by year in Kawan Food Berhad. In 2011 the ratio is 0.24 and then it increased in 2012 which is 0.67. Then the trend decline from year 2013 till 2014 which are 0.17 and 0.05 then slightly increase in 2015 with 0.11. We could see clearly as overall from the graph the operational risk in this company is lower except for 2012. We can assume that company already know how to handle operational risk after having big impact on it in 2012 which is their operational risk ratio with reading 0.67 where the operating is the most large than others years which is 1,881,034.

Because as we know operational risk is the risk that may arise from failure of system, technology and people. This risk could be handle by company by ensure every documentations in the company are proper and updated. The staff in the company also need to be updated with current issues regarding the market of business so they could predict what could happen in the future and find out the best ways to manage the company .

Counterparty Risk

Year	2011	2012	2013	2014	2015
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Account Receivable	16,270,543	23,714,412	23,058,235	5,228,465	7,327,780
Annual Credit Sales/ 360	360,829.69	306,184.98	351,184.37	415,345.29	460,481.46
Counterparty Risk	45.09202922	77.45125755	66.65848935	12.58823699	15.9133007

Graph



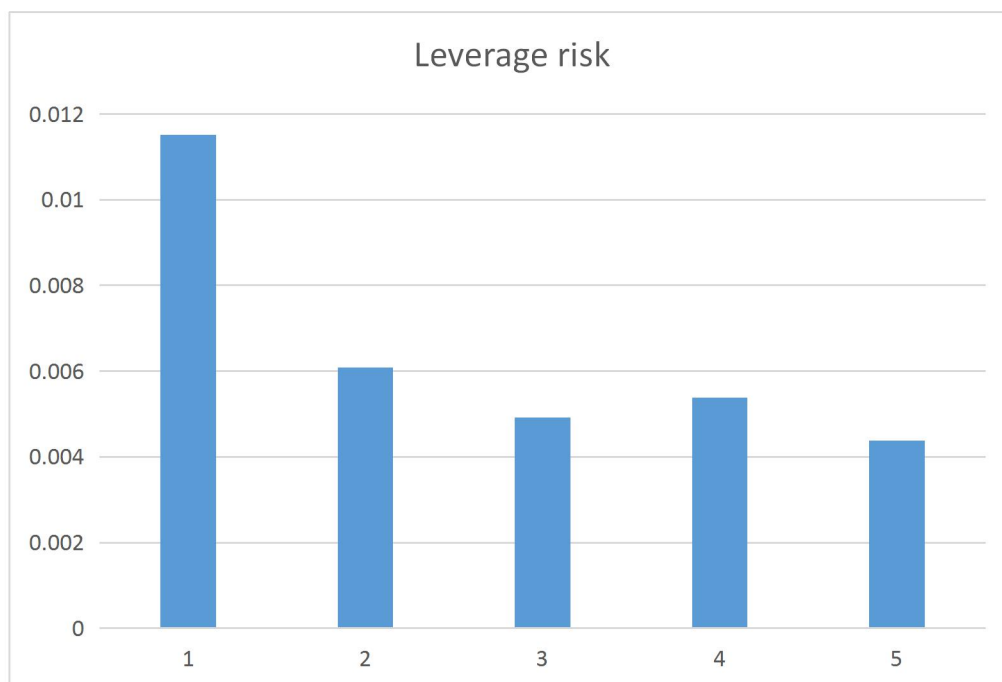
This graph show ratio for counterparty risk for Kawan Food Berhad for 2011 till 2015. In 2011 the ratio is 45.09 then it increased in 2012 with reading 77.45 then fell slightly in 2013 which is 66.65. Then it fell down significantly in 2014 which is 12.58 then increased back in 2015 with reading 15.91. So we can see , that the counterparty risks are quite high in 2011 till 2013 by looking at their account receivable which are amounted RM 16,270,543, RM23,714,412 and RM 23,058,235.

This situation is not good for company because counterparty risk is risk that a debtor or financial instrument issuer will not able to pay interest or not able to repay the principal at all and it will led another party suffered total loss if this scenario happen.

Leverage Ratio

Year	2011	2012	2013	2014	2015
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Total Liabilities	849,531	447,154	382,439	516,829	593,452
Total Assets	74,657,759	73,981,061	78,112,875	96,626,093	135,459,958
Leverage ratio	0.011509977	0.006080923	0.004920068	0.005377515	0.004381014

Graph



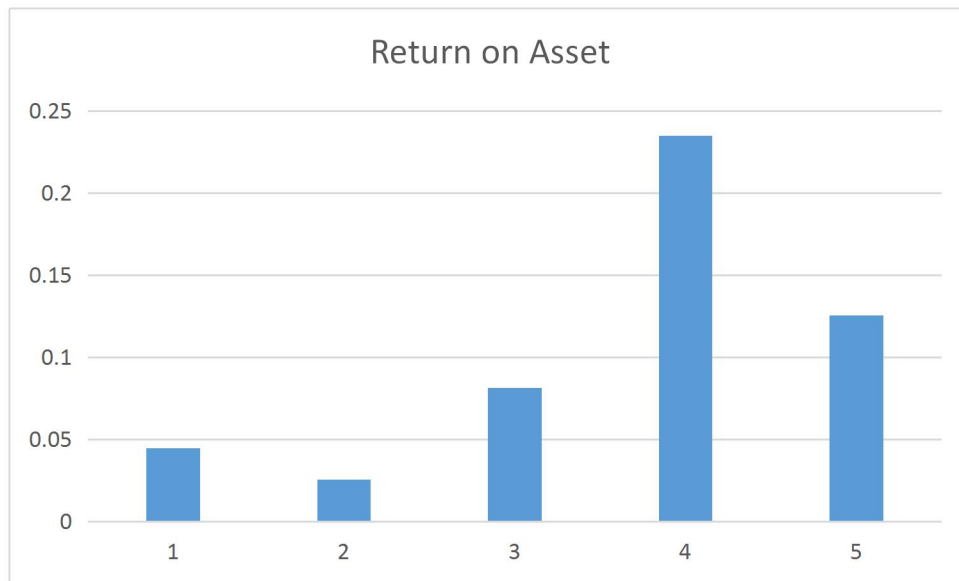
The bar chart show us leverage risk ratio from 2011 till 2015. In 2011 the ratio is the highest one among the other years which is 0.011 then fell down significantly in 2012 and 2013 with reading 0.006 and 0.004. Then in 2014 raised a little bit to 0.005 then declined to 0.004 again in 2015.

This clearly show us that this company is in good performance because as we know leverage risk is measure to indicate is the company manageable to cover their liabilities with capacity asset they have. So this company prove that they have a high financial strength which they could manage to control their debts declined from year to year.

	2011(RM'000)	2012(RM'000)	2013(RM'000)	2014(RM'000)	2015(RM'000)
-Return on asset					
<u>Net profit after tax</u> Total asset	0.044511649	0.025488672	0.081376201	0.234742328	0.125490346

Return on asset

Year	2011 (RM'000)	2012 (RM'000)	2013 (RM'000)	2014 (RM'000)	2015 (RM'000)
Net profit after tax	3,323,140	1,885,679	6,356,529	22,682,234	16,998,917
Total Assets	74,657,759	73,981,061	78,112,875	96,626,093	135,459,958
Return On Asset	0.044511649	0.025488672	0.081376201	0.234742328	0.125490346



This graph shows us percentage return of asset for Kawan Food Berhad from 2011 till 2015. This graph trend is fluctuated year by year. In 2011 the ratio is 0.04 then decreased in 2012 with 0.02 then increased back in 2013 and 2014 which are 0.08 and 0.23. Then it reduced in 2015 with ratio 0.12.

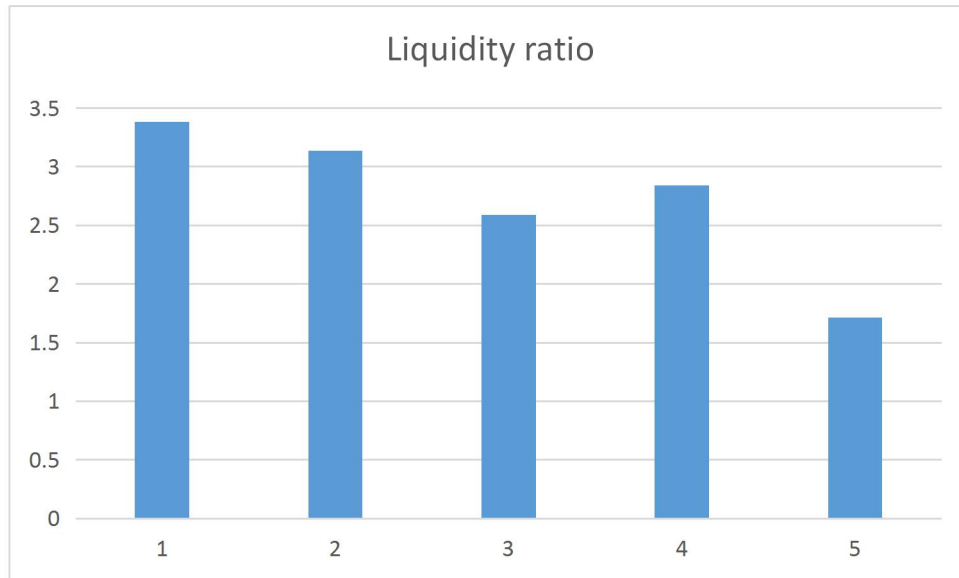
So from this graph we could see clearly that ROA in this company in good conditions from year to year. It's put company in a good reputation because if the investors look at this company ROA, they will know that, this company is compatible in this era of economy. So most of the investors will choose this kind of company in order to get a higher return on dividend. Because this company make more asset from year to year.

Liquidity Ratio

Year	2011	2012	2013	2014	2015
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Current Asset	58,664,685	58,534,679	74,280,720	37,032,486	63,018,086
Inventory	6,466,552	5,911,089	8,545,097	12,349,674	9,392,505
Current Liabilities	15,442,530	16,769,916	25,400,800	8,684,071	31,324,779

Liquidity Ratio	3.380154223	3.137975766	2.587935144	2.842308866	1.711922086
------------------------	--------------------	--------------------	--------------------	--------------------	--------------------

Graph



The bar chart illustrates liquidity ratio in Kawan Food Berhad for 2011 till 2015. It can be seen the trend of the graph fell slightly from 2011 till 2013 and then increased in 2014. However it fell down again in 2015 which is 1.71. The highest record is in 2011 which is the liquidity ratio significantly show 3.38 , then followed by 2012(3.14) , 2013(2.58) and 2014 (2.84).

Liquidity ratio is risk that company will experience demand for funds that are too large to meet when due. As we can see, liquidity ratio in Kawan Food Berhad is quite high for every years. So it show to us , this company have a good performance in term of financial stability. Because with this financial strength this company is less likely to have problem when they need to convert their asset into cash when it needed , especially in emergency cases.

Table 1**Model Summary**

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.832 ^a	.692	.231	.092425361600

a. Predictors: (Constant), Counterparty risk, Liquidity ratio, Operational risk

Table 2**ANOVA^a**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.019	3	.006	.750	.668 ^b
	Residual	.009	1	.009		
	Total	.028	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), Counterparty risk, Liquidity ratio, Operational risk

After the test conducted and all variables added. With the stepwise method shows that R value is 0.832 and shows higher degree of correlation between variables.

Table 3**Coefficients^a**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

1	(Constant)	.175	.206		.847	.553
	Liquidity ratio	.011	.083	.087	.135	.914
	Operational risk	-.089	.301	-.264	-.296	.817
	Counterparty risk	-.002	.003	-.651	-.720	.603

a. Dependent Variable: ROA

4.0 Discussion and recommendation.

4.1 Discussion

During year 2011 till 2015, overall performance of Kawan Food Berhad was showing positive result for all measurement of liquidity ratio and return of asset in annual basis.

This company having quite high risk between 2011 till 2013 , but they manage to control all the risk. They also manage to increase their ROA and liquidity ratio from year to year. This show us this company has a big potential to generate more profits in future and imposed lower liabilities in a way to do it, because their liquidity ratio is good enough to cover when due to something unpredictable.

4.2 Recommendation

As stated in the annual report this company has a good board committee such as audit committee and remuneration committee. But they lack of risk management committee, they don't have it. So as suggestion to Kawan Food Berhad they should have this board committee because it quite important for nowadays business as we know they are many risk possibilities from various resources. At least, by having this board they can rely this responsibilities for this board to cattle with all risks with a good risk management program and right framework.

5.0 Conclusion

In conclusion there are no company in this world not facing problem of risk because as we know , risk itself is unique and uncertainty even in our daily life activities we also face it. Nobody can't predict what could happen even though for tomorrow event, what we can do is learn from the past and being prepared. Because once it's hit us we may face catastrophic loss.

Overall from Kawan Food Berhad performance we could see clearly , this company have good performance in term of financial stability and they also good in term of control the risk that raised in the company, where by we could see that the level of the risks are decline from year to year.

6.0 References

John Bagel III, John Elysee Brown and Lang Davison. (2014, July 23). The Best Way to Measure Company Performance. Retrieved March 29, 2017, from <https://hbr.org/2010/03/the-best-way-to-measure-compan>

McClure, B. (2004, January 26). Use ROA To Gauge A Company's Profits. Retrieved March 29, 2017, from <http://www.investopedia.com/articles/fundamental/04/012804.asp>

Waemustafa, Waeibrorheem, and Suriani Sukri. "Systematic and Unsystematic Risk Determinants of Liquidity Risk Between Islamic and Conventional Banks." *International Journal of Economics and Financial Issues* 6.4 (2016).