risk and performance of amtel holdings berhad

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ABSTRACT:

The purpose of this study is to examine the overall performance of Amtel Holding Berhad in the electronic sector. This study will investigate the relationship between company profitability and some specific risk factors and macroeconomic factor. The data was collected from the annual report of Amtel Holdings Berhad. Starting from 2011 until 2015. The measurement of liquidity ratio and operating ratio used to see the overall performance of Amtel Holdings Berhad. For the 5 years liquidity ratio still beyond the benchmark, however the operating ratio shows the higher percentage and across the benchmark, indicates that the company is not efficient in managing their operating expenses. The additional measurement is size of asset. This variable is not significant with the liquidity risk. To see the relationship of risks factors to the profitability, this paper is utilizing liquidity (current ratio), GDP and operating ratio. Data was analysed by utilizing regression and bivariate correlation. The regression analysis and bivariate correlation shows only one factor of profitability is significant to operating ratio which is ROA with the highest impact to the profitability. However, the liquidity and GDP is not significant to profitability with low impact to the profitability.

KEYWODS

Profitability, operating ratio, macroeconomic, Liquidity ratio

1.0 INTRODUCTION

Amtel holdings Berhad was founded in 9 november 1996, then was listed in second board in Bursa Malaysia in 26th November 1997 and currently listed in the main market of Bursa Securities under technology sector. The main activities of Amtel holdings berhad are real estate, management of company enterprises, electrical and electronic goods merchant wholesalers. For this study, it will examine the company's performance in electronic sector. The study will investigate the relationship between company performance with specific risk factor and macroeconomic factor.

The growth of electronic sector each year shows that Malaysia one of the major electronic producer and exporter. At the same time, the economic growth of the country as measured by Gross Domestic Product rate (GDP) was decreasing to 5.00% in 2015 from 5.30 % in 2011, however in 2013 the value was steeping down to 4.70% from 2012 has a value 5.50%, then progressively increasing to 6.00% as the highest value overall in 2015 (Focus Economics, 2017). The oil glut, post-election instability in the country and private expenditure slowdown for investment as well as consumption weakened the economic performance along the year from 2011-2016 (Cheng, M., 2015); (Suzy, 2017).

The parts of study will be divided into four parts where the second part will be literature review which discuss about the previous study done by different researches. The next part will discuss about the descriptive findings which examine the manufacturing specific risk factors and macroeconomic factors on profitability performance and includes the Panasonic Manufacturing Malaysia Bhd. overall performance. The last part contains some discussion, recommendation, and conclusion to the Amtel Holdings Berhad.

2.0 LITERATURE REVIEW

Miller K,D.(1992) conducted a study and discussion of uncertainties in international business. The article distinguishes financial and strategic responses to uncertainties. A significant shortcoming in much of the existing risk and uncertainty literature is the emphasis on particular uncertainties rather than a multidimentional treatment of uncertainty (miller, 1992)

There are 3 types of uncertainty that manager may perceive, general environmental, industry and firm specific variables. Each of these categories encompasses a number of uncertain components (miller, 1992). Managerial perception of each factor can, in fact , vary with individual and firm characteristic (yasai-ardekani, 1986)

Most of company especially those who involve in international business are facing country risk and company exposure. (damoran & aswath, 2003) was conducted a research about country risk. The result shows that investor can reduce country risk by diversifying across equities in many countries. The study also found how country risk premium should be reflected in the cost of equities of individual companies in that country by measuring the country risk exposure using lambda. The greater the percentage, the greater the lambda. The higher lambda indicates the higher sensitivity.

Another study was conducted to compare the liquidity risk between Islamic and conventional banks in Malaysia who analysed by (Waemustafa, W. 2016). The result found that Islamic Bank have better liquidity performance result compare to Conventional Bank, which IslamicBank has the highest mean percentage compare to conventional bank.The calculation of liquid variable measured by cash + short term market securities to total bank asset. The factor of this domination is due to the lack of lender last resort and interbank money market and another one is the asset and liability structure of Islamic bank. With the limited option for Islamic bank to obtain external financing which sourced from interbank money market and lender of last resort, this condition forced the Islamic bank to maintain an adequate liquidity provision to fulfil the expected loss from Islamic bank' financing activities. In addition, the uniqueness Islamic bank in terms of its asset and liability structure of profit and loss sharingbased investment account allows both risk and profit shared among Islamic banks and their customers

Further study conducted to see the specific determinants of credit risk which have analysed the sample of 15 conventional bank and 13 Islamic banks in Malaysia. The data analysed by Waemustafe, W and Sukri (2015) based on the information on annual report. One of determinant represented by liquidity indicates negative significant relation to credit risk for conventional bank meanwhile the Islamic bank shows positive value, however this study opined that there is no significant relation even positive value to credit risk of Islamic banks. The negative relation credit risk and liquidity for the conventional banks derived from risk taking behavior which said that the higher liquidity the lower credit risk exposure.

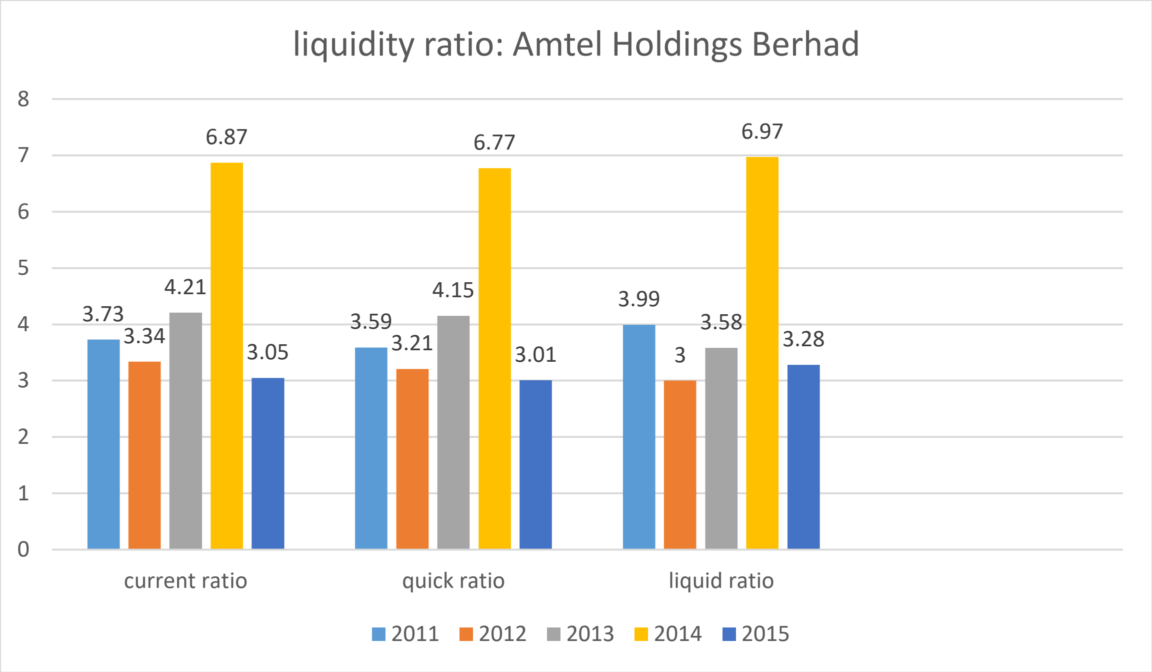
Other study examined whether there is any significant influence between Shariah supervisory boards and their remuneration towards Islamic banks choices in financing mode. The study used 18 Islamic banks from the year 2012 to 2013 which operated in Malaysia and analyzed by Waemustafa, W and Abdullah, A. (2015). The study reveal that the Shariah supervisory board may determine the mode preference of financing toward BBA.

Murabahah, however the SSB effectiveness does not have significant relationship into the financing mode but the remuneration have significant relation to the choice of Islamic financing mode where the notion lead to “cosmetic reason”.

3.0 DESCRIPTIVE FINDINGS:

3.1.0 Liquidity performance

3.1.1 Liquidity Ratio



Bar graph 1. Descriptive result

The ratio above can be calculated using the formula as following:

i. **Current ratio: total current asset/total liabilities**
ii. **Quick Ratio: total current asset-inventories/liabilities**
iii. **Liquid Ratio:total asset/ total liabilities**

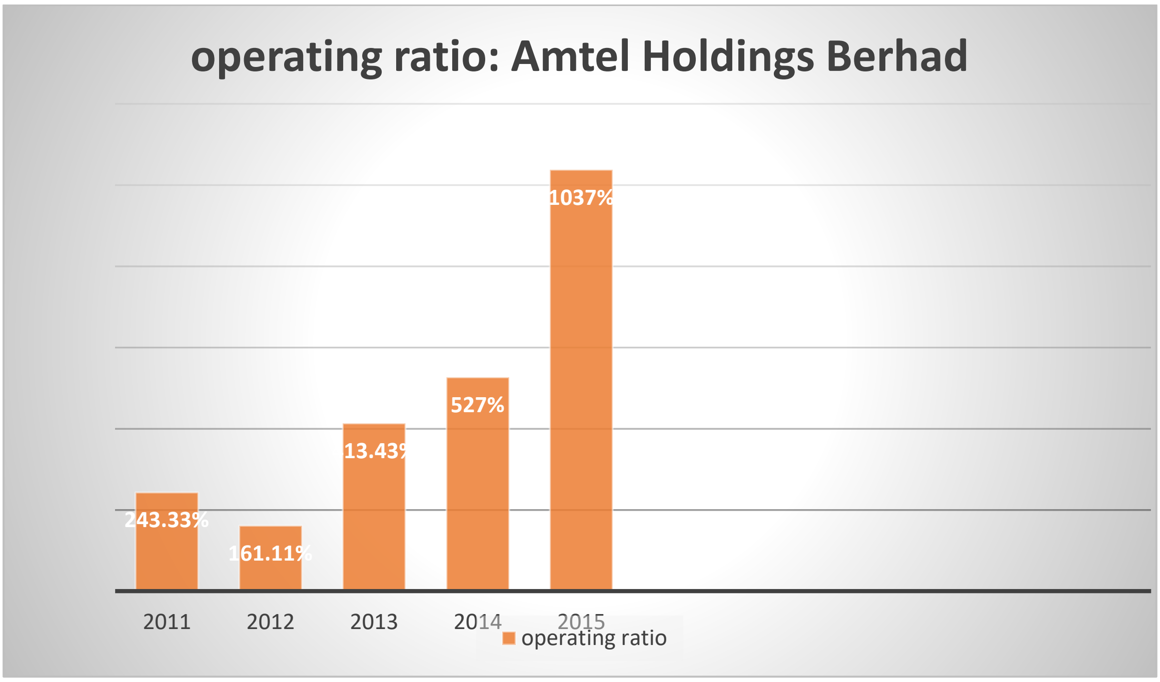
Year	liquid ratio	quick ratio	liquid ratio
2011	3.99	3.59	3.99
2012	3.00	3.21	3.00
2013	3.58	4.15	3.58
2014	6.97	6.77	6.97
2015	3.28	3.01	3.28

Table result 1. Descriptive result

Liquidity ratio is used to measure the company's ability to pay their debt obligations and its margin of safety of the company. Liquidity ratio is include current ratio, quick ratio, and liquid ratio.

Overall the liquidity ratio shows the same pattern among this three ratio. Amtel Holdings Berhad liquidity ratio is greater than 1 which mean the company is in a good financial condition and less likely to fall into financial difficulties. Their current asset can cover their current liabilities, however, the current ratio is too high which is greater than 2. This mean the company may not be using their current asset efficiently.

3.2.0 Operational Ratio:



Bar graph 2. Descriptive result

The formula to calculate the operating ratio is as follows:

Operating ratio(OR) = Total operating expenses/total operating income

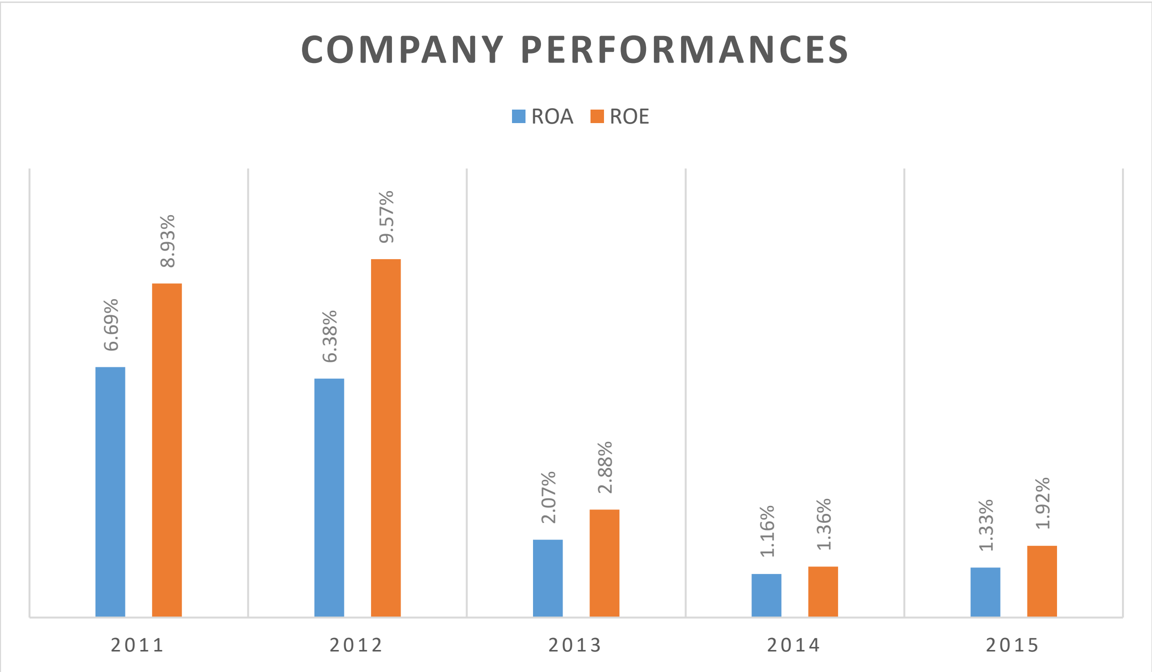
Table result 2. Descriptive result

Total Operating Expenses	Total Operating income	Operating Efficiency Ratio(%)
10401913	4274815	2.43
8642383	5364181	1.61
9169799	2218001	4.13
7983703	1515790	5.26
11286859	1087932	10.37

Operating ratio is used to calculate the managing efficiency of the company. It is useful to evaluate a company's core operation because it is based on operating income. The higher the ratio, the less efficient the company is creating profits. Overall, the performance of amtel holdings shows the inefficient performance. This is because, their operating ratio is above the benchmark, 70%-80%. Starting from 2012-2015 the percentage of ratio has increasing significantly. This indicates that the company is inefficient in their operations. Their operating expenses is higher than the operating income.

3.3.0 Company performance:

Bar graph 3. Descriptive result



Return on asset and Return on equity can be calculated using the following formula:

i. **Return on asset: Net income/total asset**
ii. **Return on equity: Net income/equity**

Table 3. Descriptive result

Year	ROA	ROE
2011	6.69%	8.93%
2012	6.38%	9.57%
2013	2.07%	2.88%
2014	1.16%	1.36%
2015	1.33%	1.92%

Return on asset ratio is important because it shows how company make profit by using their asset which mean it will reveal the how much profit gained by the company for every dollar of their asset. ROA widely use to compare two companies performances. On the other hand, return on equity (ROE) is used to measure how company effectively taking advantages of its base equity or capital. For Amtel Holdings Berhad, return on asset ratio of the company shows the downtrend. In year 2011-2015 the ratio is decreased. This indicates that, Amtel are less effective in managing its asset to produce greater amount of profit. However, the ROA still positive indicates an upward or positive profit trend of the company. ROE of Amtel Holdings Berhad also shows the same pattern as company's ROA. This indicates that company is not efficient in managing their equity to produce income.

3.4.0 Counter party risk

Table result 4. Descriptive result

Year	Leverage	Debt-To-Total-Assets
2011	0.33	0.25
2012	0.50	0.33
2013	0.39	0.28
2014	0.17	0.14
2015	0.44	0.31

The counter party risk is similar to the credit risk which mean the risk loss appear when the debtor default to pay his loan obligation in full amount or the debtor is failed to pay within the maturity period of the loan(90 days past due). For Amtel Holdings Berhad pattern of leverage ratio and debt-to-total ratio are mostly the same. In year 2011-2012, both leverage and debt-to-total ratio are increased indicates the company has been aggressively financing their company growth with debt. This can result in volatile earnings to the company as a result of the additional interest expense. However it is still acceptable because the ratio still under the benchmark (not more than 1). In year 2012-2014 the leverage and debt-to-total ratio drastically dropped indicates that the company has been decreased in their debt. However in year 2014-2015, the ratio aggressively increase but still favourable because still under the benchmark.

3.5 RELATIONSHIP BETWEEN GDP, LIQUIDITY AND OPERATIONAL TO THE PROFITABILITY

Correlations		ROA	GDP	Current Ratio	Operating Ratio	ROE
ROA	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	5				
GDP	Pearson Correlation	0.082	1			
	Sig. (2-tailed)	0.896				
	N	5	5			
Current Ratio	Pearson Correlation	-0.456	0.669	1		
	Sig. (2-tailed)	0.441	0.217			
	N	5	5	5		
Operating Ratio	Pearson Correlation	-0.759	-0.232	-0.063	1	
	Sig. (2-tailed)	0.137	0.707	0.92		
	N	5	5	5	5	
ROE	Pearson Correlation	.995**	0.071	-0.489	-0.753	1
	Sig. (2-tailed)	0	0.909	0.403	0.142	
	N	5	5	5	5	5

Table Results 6. Correlation Matrix Panasonic Manufacturing Specific Risk Determinants to Profitability

Model		Beta In	T	Sig.
1	Inflation Rate	.093b	3.415	0.076
	GDP	.011b	0.151	0.894
	liquid ratio	.055b	0.772	0.521
	Current Ratio	.041b	0.536	0.646
	Operating Ratio	-.023b	-0.214	0.85

** Correlation is significant at the 0.01 level (2-tailed).

Table result 5: coefficient stepwise regression analysis for Amtel Holdings Berhad

3.5.1 Liquid to profitability

Liquid measured by current ratio with P value > 0.10 indicates that liquidity have negative and insignificant relation to profitability in all respective variables of the measurement. In addition, the impact of changes liquidity to profitability is not quite high compared to the operate and GDP with the t value=.485. This negative relationship implied that when liquidity represented by current ratio increases, any profitability ratios will react by decreasing in value. This finding is consistent with findings Bhunia, Khan & Mukhuti (2011) and Pandey & Jaiswal (2011) implied that there must always be a trade-off between profitability and liquidity. This negative relation could relate to the cash conversion which this company is mostly maintaining cash in reserve with a conservative strategy which consistent to the result found in Waemustafa and Sukri (2015). The cash is retained for the company's development or debt obligation payment which it might not affect further profit generated in future. Another perspective of negative relation, the asset conversion is ineffectively converted to cash since receivable payment delayed. This lack conversion affects profitability since the company has not yet receive or hold actual cash value from transaction

3.5.2 GDP to profitability

GDP is a part of macroeconomic factor. GDP was tasted with p value>0.1 indicates that it has insignificant relation to profitability. 1 out of 2 profitability variable has positive insignificant which is ROA. This indicates that the grow of GDP will accelerate to overall profitability. This implies that the economic growth will increase the demand for Panasonic products. This could generate more income received which eventually it boosts profitability. On the other hand, GDP shows the negative insignificant relation with ROE indicates Although, the GDP grow boost profitability with more demand, the competition from the competitor in the same industry dampen the manufacturing profitability since there is lacking of competitive advantage of this company which consistent to finding of Tan, Y and Floros, C. (2012).

3.5.3 Operate to profitability.

for operating ratio as independent variable, it has been measured with p value > 0.1 indicate that it has insignificant relation with the profitability variable. The result shows that operate has negative insignificant with both profitability variable ROA and ROE. This indicates that a good operating management will give an impact through the profitability of the company.

Table Result 7. Stepwise Regression Analysis for Panasonic Manufacturing Specific Risk Determinants to Profitability Profitability

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.995[a]	.990	.987	.003205656660000	2.373

a. Predictors: (Constant), ROE

b. Dependent Variable: ROA

Anova Regression Analysis for Panasonic Manufacturing Specific Risk Determinants to Profitability Profitability

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.003	1	.003	295.437	.000[b]
	Residual	.000	3	.000		
	Total	.003	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), ROE

However, after the test conducted and all of variables added. With the stepwise method shows that R value is 0.958 and shows a high degree of correlation between variables. R^2 is 0.889 and indicates that 88.9% of variation in ROA is explained by independent variable ROE. There is no significant relation between liquidity, GDP and Operating independent variable.

4.0 DISCUSSION AND RECOMMENDATION

During the consecutive year 2011-2015, overall performance of Panasonic was showing favourable in the performance result for all measurements of liquidity and but not in operation in annual basis. The effective conversion asset into cash to repay the debt without any issue. But there is inefficient in company operation because the operating ratio shows the highest percentages each year and it was across the benchmark indicates it has increase the operating expenses but did not generate more income to the company. There is no significant relation with the profitability variable. Amtel Holdings Berhad need to manage their company operation to generate more income and reduce the operating expense because it is not bring more profit to the company besides the GDP and liquidity to enhance profitability.

5.0 CONCLUSION

As a conclusion, it is clear that all companies will face liquidity risk and operational risk(unsystematic risk) and systematic risk. Amtel Holdings Berhad show that they can manage the liquidity risk because the liquidity ratio is still favourable and below the benchmark, however the company faced the operational risk which is the operating ratio of company is too high and above the benchmark. This indicate the company’s operating expenses is higher than the operating income. High in operating ratio also indicates Amtel Holdings Berhad have the operational problem. High in operating expense does not bring more profit to the company. Therefore, this company should concern more to the corporate governance to reduce any inefficiency that reducing the ability of a company in generating more profit. Also, to maintain and improve continuous profitability of this company, the implementation of liquidity management and inventory control with following the trend or cycle of market should put into consideration as a part of profitability contribution although the findings shows liquid as well as GDP is not significant to profitability.

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