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Performance and Risk: Empirical Evidence from Wah Seong Corporation Berhad

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Abstract

Wah Seong Corporation Berhad is a company oil and gas. Method used in the analysis are as SPSS system, operational ratio, credit risk and liquidity. The ratio is used to study the operational risk are as ROA, ROE and profit margin ratio. While the liquidity ratio is study about the current ratio, quick ratio and cash ratio. Next, credit risk is the debt to equity ratio, debt to asset ratio and interest coverage ratio. Moreover, external factors also studied which is GDP, inflation, exchange rate and unemployment. Besides that, Pearson correlation coefficient and significant (one-tailed). The study use ROA as the dependent variable and 13 items as the independent variable. The finding found the ratio of debt to equity ratio and significant index score but does not affect ROA.

Keyword: company performance, liquidity risk, credit risk, operational risk, return on asset, return on equity, profit margin ratio, debt to equity ratio, current ratio, quick ratio, cash ratio, interest coverage ratio, GDP, inflation, exchange rate, unemployment.

1.0 Introduction

1.1 Background of Company

Wah Seong Corporation Berhad Malaysia is a medium-sized company. Wah Seong Corporation Berhad which was established in 1994 evolved into the group Oil & Gas and Industrial Services international. The company has also been listed on the Main Market of Bursa Malaysia Securities Berhad and have established footprints in more than 14 countries worldwide. Besides, Wah Seong Corporation Berhad is a group of integrated energy infrastructure globally and resigned as the company's Oil and Gas Division and Industrial Services Division as a key pillar of the company's business strategy.

Wah Seong Corporation Berhad provides world-class services in the oil and gas. The services provided are as pipe coating, corrosion protection services, provides EPC, fabrication and rental of gas compressors and process equipment and also a wide range of product and services E & P for the international oil and gas sector. Industrial services division is also involved in renewable shrinks, estate development and infrastructure materials. The service has also grown to become one of the leading service providers in Europe in the preparation process equipment process equipment is supplied to the plantation, oleo-chemical, petrochemical and power generation industries. in addition, Wah Seong Corporation Berhad is also the infrastructure and building materials distributor in Malaysia. Wah Seong Corporation Berhad also managed the operations of local and global operations.

Wah Seong Corporation led by 6 Board of Director, which is Dato 'Seri Robert Tan Chung as Non-Independent Non-Executive Chairman, Chan Cheu Leong as Managing Director, Giancarlo Maccagno as Deputy Managing Director, Halim Bin Haji Din as Independent Non-Executive Director, Professor Tons Sir Yan Lin See as a Senior Independent Non-Executive Director and Tan Jian Hong as Non-Independent Non-Executive Director.

2.0 Literature Review

According to Waemustafa and Sukri (2015), credit risk is the risk faced by lenders when the borrower cannot repay the loan and may cause liquidity risk as well as the risks faced by the bank whether the internal and external risks to meet the credit needs. The higher the liquidity the lower credit risk exposure and it will effect cash and liquid asset as suggested in Waemustafa and Sukri (2015)

According to Waemustafa and Sukri (2016) Liquidity risk management is the process of identifying risks before proceeding with the establishment of the management processes and help the bank to take steps reaction when faced with liquidity risk. Liquidity ratio is relation with return on asset. When liquidity ratio is higher, the return on asset become higher as suggested in Waemustafa and Sukri (2016)

According to Waemustafa and Abdullah (2015), Shariah Supervisory Board (SSB) is the internal governance mechanisms that include monitoring the activities of Islamic banks which involves the legal accordance with the principles of Islamic Shariah governance and Shariah

Supervisory Board (SSB) is a good should be based on accountability, fair, transparency, independence and responsibility (Waemustafa and Abdullah, 2015)

According to Wm. Gerard Sanders and Donald C. Hambrick (2007), increased profit is inclined towards high risk taken and the company expects these risks can benefit performance and shareholder interests According to Ching-Ping Wang, Hung-Hsi Huang & Kai-Jei Tu (2012) unsystematic risk will cause fluctuations affect profits return to the company systematically.

3.0 DESCRIPTIVE FINDING

3.1 Size

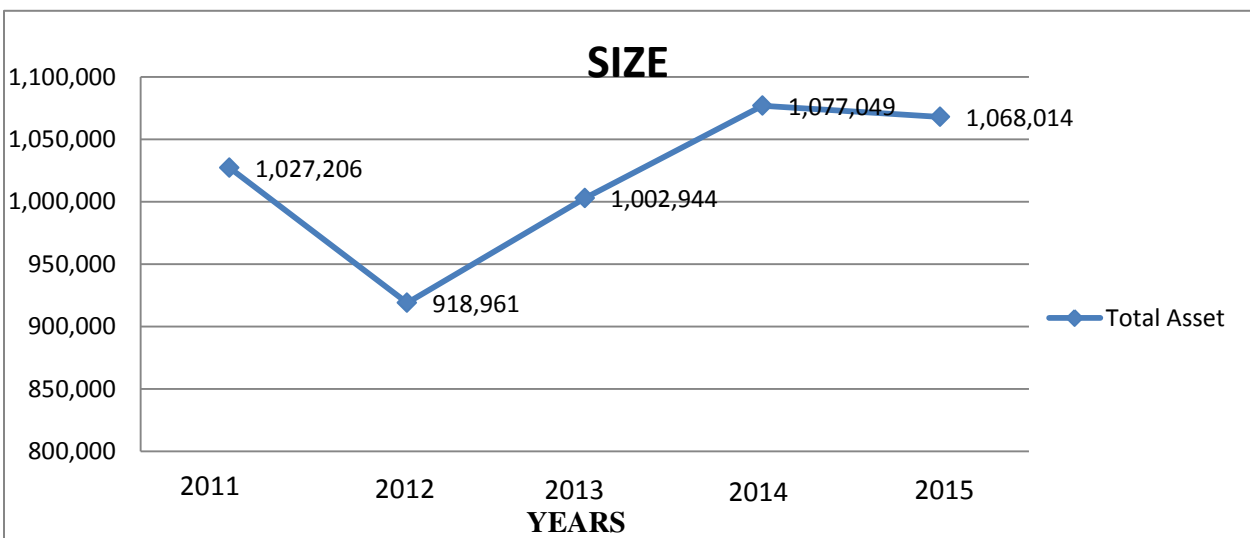


Figure 1: Size

Based on figure 1, size of Wah Seong Corporation Berhad shows uptrend. At year 2011, the total asset is increase compared in 2012 which is RM1,027,206. Next, it decreases in 2012 to RM918,961. At year 2013, it increase again to RM1,002,944. After that, in 2014 it continuously increases rapidly to 1,077,049. Finally, it decline to RM1,068,014 in 2015.

3.2 PERFORMANCE

3.2.1 Operational Risk

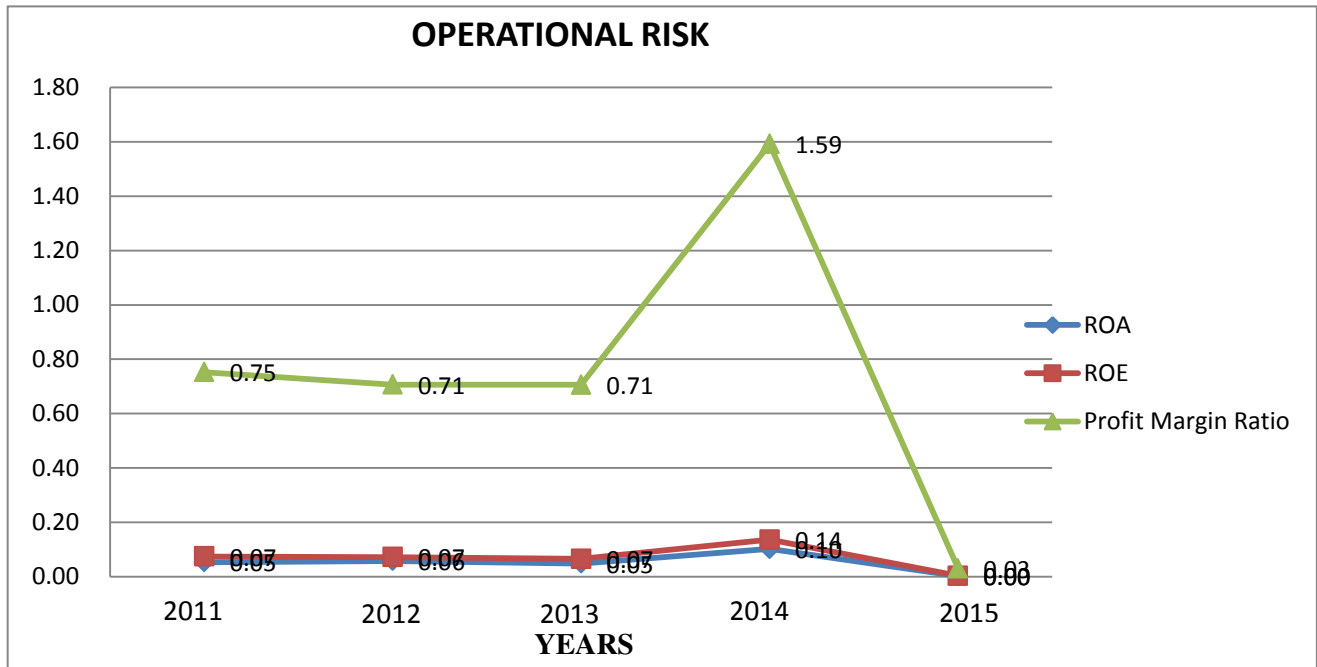


Figure 2: Operational Risk

Based on figure 2, Return on Assets (ROA) of Wah Seong Corporation Berhad in 2011 is decreased. ROA in 2011 decreased due to the loss in fair value from changes of derivative financial instruments which is forward currency contract. In addition, tax expenses in 2011 also increased among which affects decrease the ROA. At the 2012, increases back to 0.057. This is because an increase in company assets such as property, plant and equipment, investment properties and investment in subsidiaries. Next, it decreases to 0.048 at year 2013. In 2013, the downturn in company gross revenue which is dividend income and interest income decreased compared to the 2012. In addition, the number of administrative and general expenses also increased influence ROA. After that, it increases rapidly in 2014. The increase in total assets in property, plant and equipment and cash were among the causes of the increase in value of Rate on Asset. Besides that, the value of tax expense also decreased. At the year 2015, it decrease again rapidly to 0.002. The declines in the ratio of ROA show the company administrative and general expenses and tax expenses increase in the year. This illustrates the management is bad employing the company's total assets to make a loss. The incline in the ratio of ROA shows the management is less efficient in utilizing its asset base.

Next from figure 2, the trend for return on equity (ROE) For Wah Seong Corporation Berhad is downtrend. In year 2011, the graph show decrease to 0.07. It remains constant from year 2011 to year 2013 which is 0.07. after that, at year 2014, it increase rapidly to 0.14 in year 2014, the company shows an efficiency in management of utilizing its equity to generate better return to investor. It decreases rapidly in 2015 which is 0.00. At year 2015 shows that Wah Seong Corporation Berhad lowers efficiently use their money to generate net income.

Lastly, the trend of graph for profit margin ratio is downtrend. At year 2011, it increases to 0.75. After that, in year 2012 it decreases to 0.71. It remains constant from year 2012 to year 2013 which is 0.71. Next, the profit margin in year 2014 is increases rapidly to 1.59. It means Wah Seong Corporation Berhad has effectively in converting sales into profit and the company very stable in 2014. But, in year 2015 it decreases rapidly. It shows the company not stable for the year.

3.2.2 Liquidity Ratio

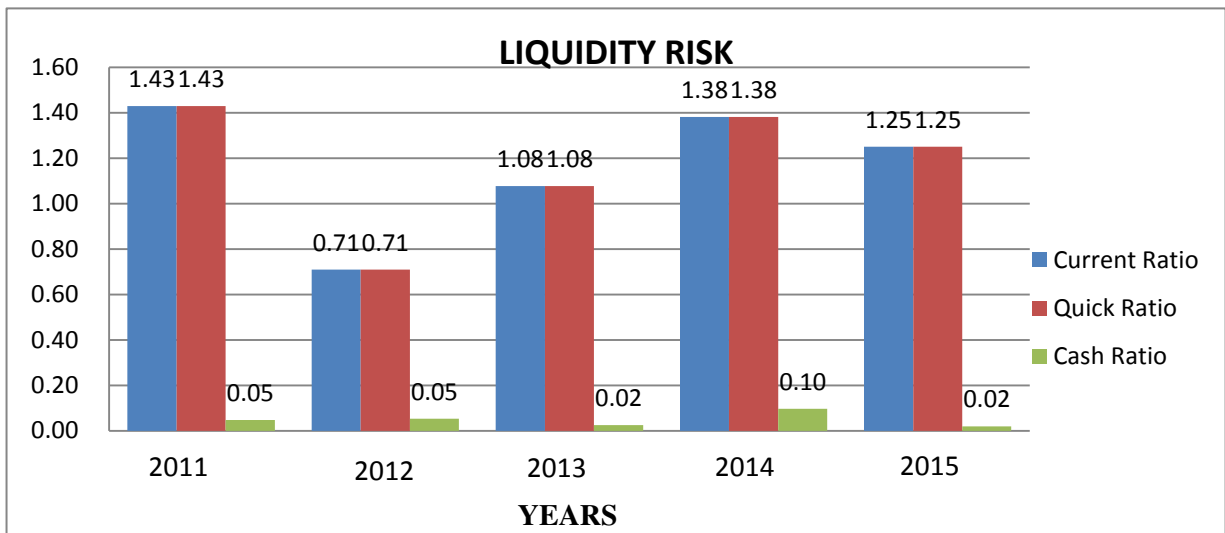


Figure 3: Liquidity Ratio

Based on figure 3 in appendix, liquidity ratio consist three types which is current ratio, quick ratio and cash ratio. Current ratio of Wah Seong Corporation Berhad shows a uptrend. It increases to 1.43 in 2011. At year 2012, it decreases rapidly to 0.71. After that, at year 2013 it increases again to 1.08. Next, it continuously increases to 1.38 in 2014. Finally, at year 2015 it decreases again to 1.25. This shows that Wah Seong Corporation Berhad has bad financial

health. Since it has a smaller proportion of asset value relative to the value of its obligations, it is less capable to pay its obligation.

From figure 3, the quick ratio show that downtrend. At year 2011, the quick ratio for Wah Seong Corporation Berhad is increase to 1.43. It becomes decrease to 0.71 in year 2012. Next, it increases again to 1.08. It continuously increases to 1.38 in 2014 from 1.08 in 2013. After that, it decreases again to 1.25 in year 2015. It means the company has very liquid asset to cover current liabilities.

Next, for cash ratio in Wah Seong Corporation Berhad is downtrend. At year 2011, the cash ratio is increases to 0.05. It remains constant from year 2011 to year 2012. After that, it decreases to 0.02 in year 2013. It increases rapidly from 0.02 to 0.10 in year 2014, Finally, at year 2015 it decrease again to 0.02. The company have efficient use the cash.

3.2.3 Credit Risk

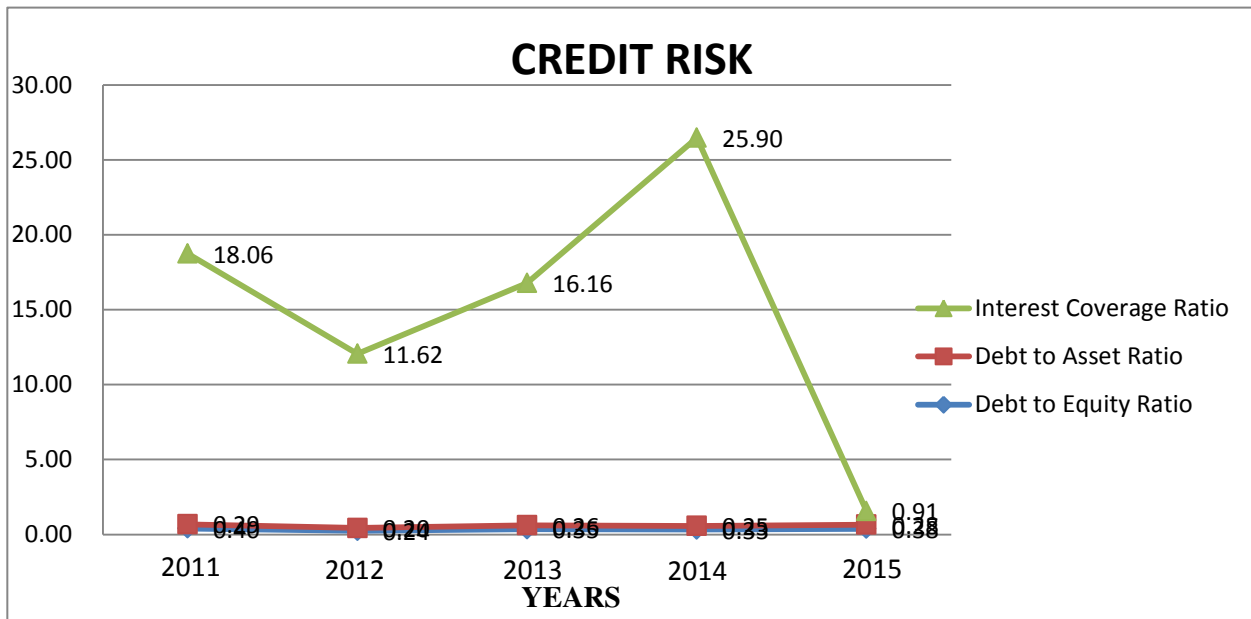


Figure 4: Credit Risk

Based on figure 4 in appendix, credit risk consist three ratios which is debt to equity ratio, debt to asset ratio and interest coverage ratio. The trend of graph in debt equity ratio is uptrend. The debt to equity ratio of Wah Seong Corporation Berhad in year 2011 is 1increases to 0.40. At year 2012, it decreases to 0.24. After that, it increases again to 0.35. Next, at year 2014 it decreases

again to 0.33. Finally, at year 2015, it increases to 0.38. This is because the total equity more than total liabilities and it low risk for company.

Next, the figure 4 also shows debt to asset ratio. The trend of debt to asset ratio is uptrend. At year 2011, it increases to 0.29. Next, it decreases in year 2012. It increases again to 0.26. After that, at year 2013, it decreases again and at year 2015 it increases again to 0.28. It mean the Wah Seong Corporation Berhad have less amount of debt from business asset that financed by company

Lastly, the figure 4 also shows the interest coverage ratio of Wah Seong Corporation Berhad. The trend of interest coverage ratio is downtrend. At year 2011, the interest coverage ratio is increases to 18.06. It decreases at year 2012 to 11.62. After that, it increases again at year 2013. Next, for year 2014 it continuously increases to 25.90. Finally, it decreases rapidly to 0.91 at year 2015. It mean in 2015 Wah Seong Corporation Berhad burdened by debt expenses.

3.2.4 Gross Domestic Product (GDP)

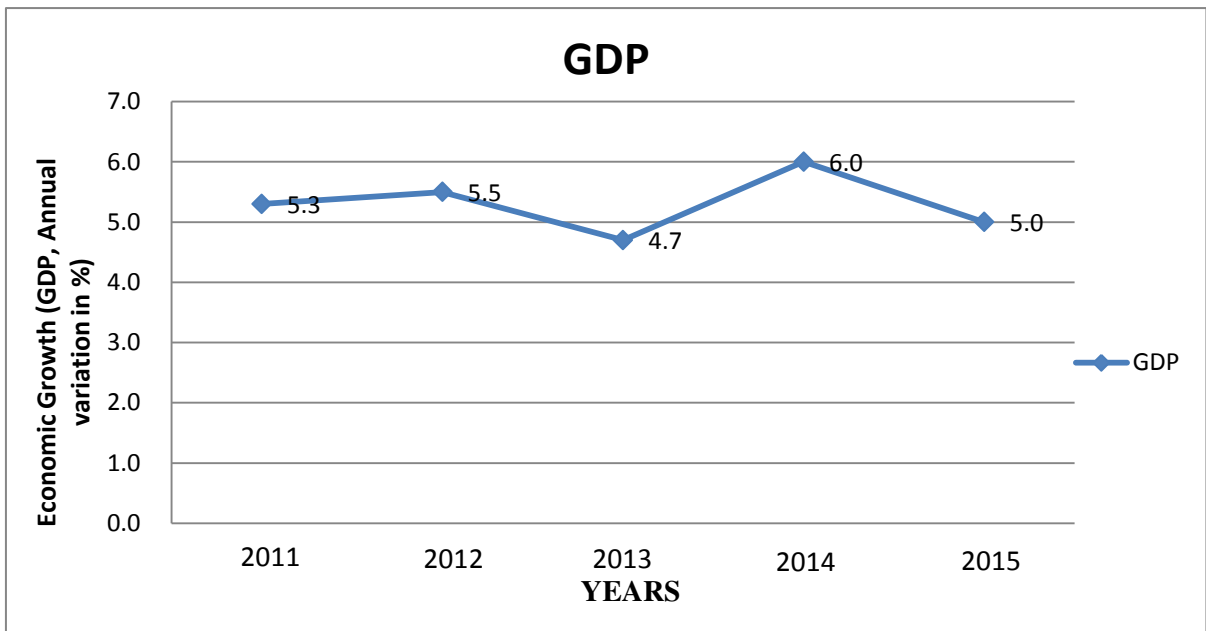


Figure 5: Gross Domestic Product (GDP)

Gross domestic product in 2011 decreased by 5.3%. Global economic and financial landscape in 2011 was characterized by five major trends which is first, global growth momentum moderated after a strong recovery in 2010 affected due to increased uncertainty about fiscal issues in

advanced economies, geopolitical tensions and natural disasters. For example, the Japanese earthquake and tsunami that caused disruptions in the global manufacturing supply chain. Second, commodity prices rise strong due to supply disruptions and bad weather conditions amid sustained demand. Third, these uncertainties contributed to heightened volatility in the international financial markets, while the rise in global risk. Fourth, the establishment monetary policy in some countries switch of efforts to restore basic or tightening direction accommodation to support growth and an increasingly challenging economic environment and the Fifth, inflation pressure remains high in most of this year driven by supply and demand, particularly in the increase in commodity prices are major contributor in inflation pressures. However, Malaysia economic growth in 2011 is still supported by growth in domestic demand driven by household and business spending. In addition, the use of the private sector remained strong, supported by earnings growth that expands due to an increase in the employment market situations.

While in 2012 the gross domestic product increased by 5.5% compared to 2011 of 5.3%. Malaysian economy experienced higher growth and strong due to domestic demand and reduce the negative impact of weak external environment. Domestic demand registered a high rate that is supported by consumption and investment spending. Besides diverse economic structure and balance between the impact on gross domestic product.

In 2013, gross domestic product decreased by 4.7 compared to 2012. This is due to several key sectors such as mining and quarrying, manufacturing, construction and services experienced a decline compared to 2012. The increase in unemployment rate is one of the causes of deterioration in gross domestic product. However, the agriculture sector increased by 2.0% compared to 2012 of 1.0%.

Next, in 2014 gross domestic product(GDP) increase rapidly by 6.0% compared to 2013 which is 4.7%. The improvement occurred due to many factors which is in 2014 driven by growth in private domestic demand and an increase in foreign trade. In addition, the export industry also increased through the export of goods and services.

Finally, gross domestic product in 2015 decreased by 5.0% compared to 2014. It influenced by a several sectors in Malaysia that experienced a decline such as agriculture manufacturing, construction and services. For example, the construction sector decreased by 8.2% in 2015

compared to 2014 of 11.7%. Construction sector recorded the highest decrease compared to the other sectors in 2015.

3.2.5 Inflation

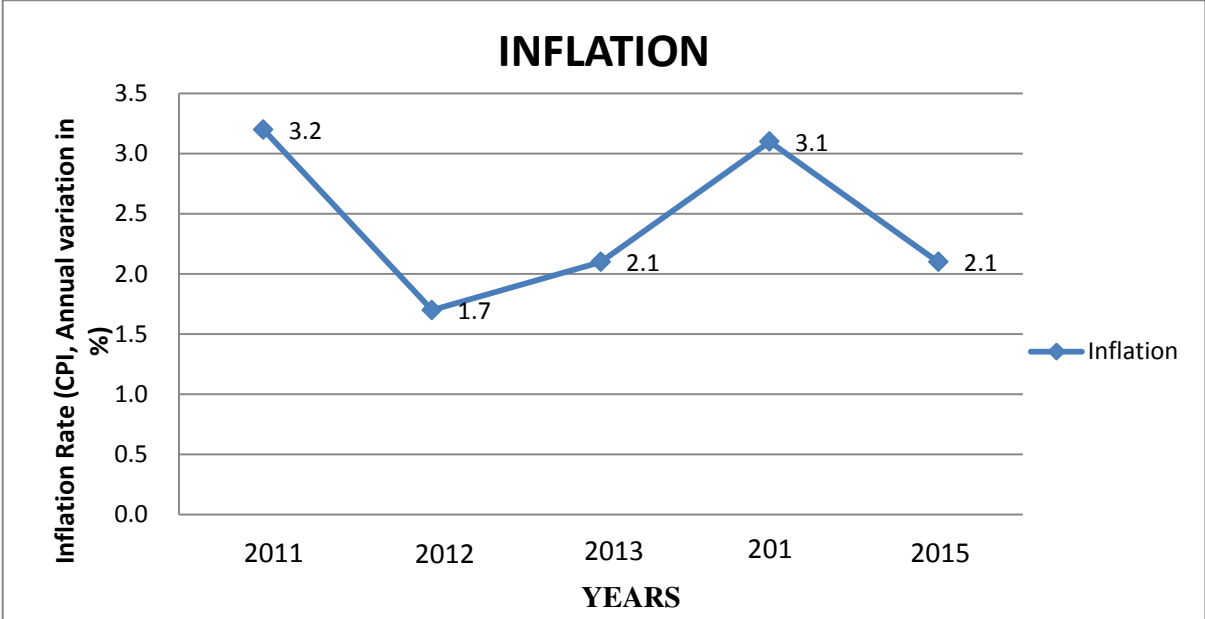


Figure 6: Inflation

Based on figure 6, inflation in 2012 is increases to 3.2%. It decreases rapidly in 2012. After that, it increases again to 2.1% at year 2013. At year 2014, it continuously increases to 3.1%. Finally, in 2015 it decreases to 2.1% in inflation. The decline in inflation in 2015 due to lower rate of water, electricity, gas, transportation and housing and fuel. The main cause of inflation prevailing in Malaysia is due to various factors like increases in energy prices, minimum wage policy and globalization

3.2.6 Exchange rate.

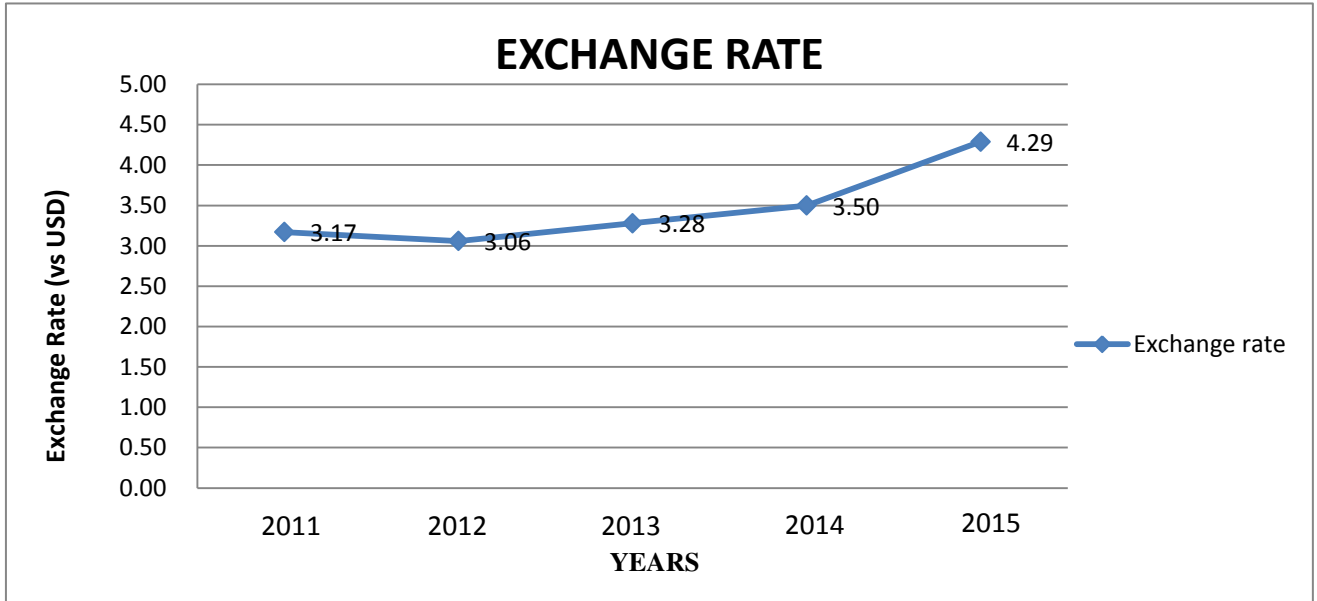


Figure 7: Exchange rate.

From figure 7 in appendix, the trend of exchange rate for five year is uptrend. The exchange rate for year 2011 is increases to 3.17%. It decreases in year 2012. Next, in 2013 it increases rapidly to 3.28%. It continuously increases to 3.50%. Lastly, in 2015 it decreases again to 4.29%.

3.2.7 Unemployment

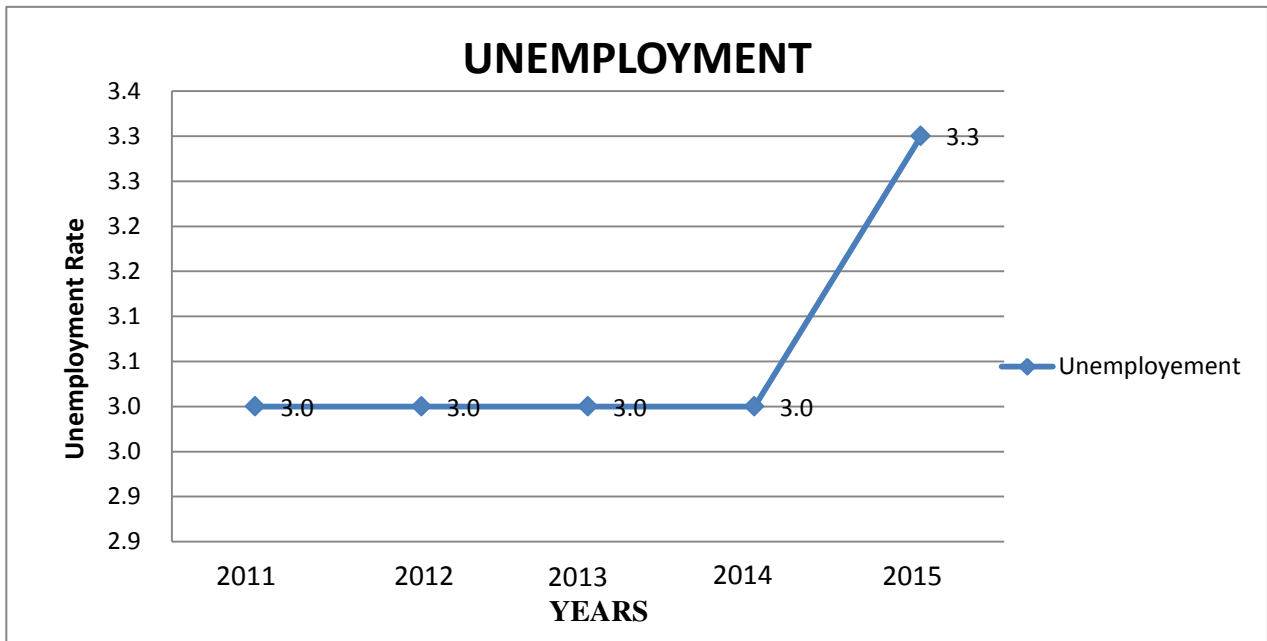


Figure 7: Unemployment

Based on figures 7 in appendix, the trend of unemployment graph is uptrend. Figure 7 shows that from 2011 until 2014 it remains constant to 3.0. At year 2015, the unemployment become increases to 3.3. In addition, the average unemployment also increased by 3.3% compared to the year 2011 until 2014 by 3.0% and it affects the economy of Malaysia.

4.0 DISCUSSION AND RECOMMENDATION

4.1 Discussion

The finding of this study shows in table 1, 7 of the 15 items were significant with ROA. Firstly, index score is significant with positive ROA with P value < 0.053. Secondly, remuneration is negative significant with ROA. Third, cash ratio is also positive and significant. The fourth item of interest coverage ratio is significant with positive ROA. Next, the GDP is positive significant with ROA. Besides, unemployment is also negative significant.

Table 1: Correlation matrix

Pearson Correlation	ROA	Index Score	Remuneration	Size	ROE	Profit Margin Ratio	Current Ratio	Quick Ratio	Cash Ratio	Debt to Equity Ratio	Debt to Asset Ratio	Interest Coverage Ratio	GDP	Inflation	Exchange rate	Unemployment
ROA	1.000															
Index score	0.797	1.000														
Remuneration	-0.832	-0.955	1.000													
Size	-0.005	-0.433	0.195	1.000												
ROE	0.998	0.797	-0.848	0.038	1.000											
Profit Margin Ratio	0.990	0.733	-0.796	0.132	0.994	1.000										
Current Ratio	0.110	-0.155	-0.132	0.892	0.168	0.225										
Quick Ratio	0.110	-0.155	-0.132	0.892	0.168	0.225	1.000	1.000								
Cash Ratio	0.914	0.527	-0.613	0.162	0.906	0.918	0.210	0.210	1.000							
Debt to Equity Ratio	-0.348	-0.349	0.124	0.733	-0.286	-0.244	0.844	0.844	-0.337	1.000						
Debt to Asset Ratio	-0.334	-0.347	0.122	0.748	-0.271	-0.227	0.850	0.850	-0.325	0.999	1.000					
Interest Coverage Ratio	0.942	0.828	-0.912	0.123	0.961	0.953	0.319	0.319	0.787	-0.059	-0.045	1.000				
GDP	0.758	0.339	-0.430	0.124	0.742	0.749	0.152	0.152	0.950	-0.389	-0.384	0.576	1.000			
Inflation	0.502	0.284	-0.554	0.632	0.552	0.572	0.875	0.875	0.550	0.566	0.569	0.667	0.468	1.000		
Exchange rate	-0.593	-0.944	0.856	0.669	-0.586	-0.495	0.351	0.351	-0.323	0.427	0.435	-0.608	-0.198	-0.090	1.000	
Unemployment	-0.797	.	0.955	0.433	-0.797	-0.733	0.155	0.155	-0.527	0.349	0.347	-0.828	-0.339	-0.284	0.944	1.000

Table 2: Correlation matrix

Sig. (1-tailed)	ROA	Index score	Remuneration	Size	ROE	Profit Margin Ratio	Current Ratio	Quick Ratio	Cash Ratio	Debt to Equity Ratio	Debt to Asset Ratio	Interest Coverage Ratio	GDP	Inflation	Exchange rate	Unemployment
ROA	.															
Index score	0.053	.														
Remuneration	0.040	0.006	.													
Size	0.497	0.233	0.377	.												
ROE	0.000	0.053	0.035	0.476	.											
Profit Margin Ratio	0.001	0.079	0.054	0.416	0.000	.										
Current Ratio	0.430	0.402	0.416	0.021	0.393	0.358	.									
Quick Ratio	0.430	0.402	0.416	0.021	0.393	0.358	0.000	.								
Cash Ratio	0.015	0.181	0.136	0.397	0.017	0.014	0.367	0.367	.							
Debt to Equity Ratio	0.283	0.282	0.422	0.080	0.321	0.346	0.036	0.036	0.289	.						
Debt to Asset Ratio	0.291	0.284	0.423	0.073	0.329	0.357	0.034	0.034	0.297	0.000	.					
Interest Coverage Ratio	0.008	0.042	0.015	0.422	0.005	0.006	0.300	0.300	0.057	0.463	0.471	.				
GDP	0.069	0.289	0.235	0.421	0.076	0.072	0.403	0.403	0.007	0.259	0.262	0.155	.			
Inflation	0.194	0.322	0.166	0.126	0.167	0.157	0.026	0.026	0.169	0.160	0.158	0.110	0.213	.		
Exchange rate	0.146	0.008	0.032	0.108	0.150	0.199	0.281	0.281	0.298	0.236	0.232	0.138	0.375	0.443	.	
Unemployment	0.053	0.000	0.006	0.233	0.053	0.079	0.402	0.402	0.181	0.282	0.284	0.042	0.289	0.322	0.008	.

Based on table 3, the items that can influence ROA have 3 items. ROA is positively to ROE and negatively equity ratio and index score. Debt to equity indicates that negative significant with ROA with t value = -295.821. Even the debt to equity not effective but it not give impact to ROA. This is because the company not enough equity to cover their debt and it cause the ROA also decreases. Besides that, index score also negative influence with ROA with t value=-55.889. Index score become not affected the ROA even company have family bonding. Eventhough, company have strong corporate governance, they still not influence the company because they have family bonding among their board. The company effective but not give effect. Waemustafa and Sukri (2015) opined that the good corporate governance should be based on accountability, fair, transparency, independence and responsibility.

Table 3: Coefficients

Model	Coefficients ^a						
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
3 (Constant)	0.028	0.000		116.453	0.005		
ROE	0.750	0.000	0.994	2652.791	0.000	0.364	2.747
Debt to Equity Ratio	-0.042	0.000	-0.071	-295.821	0.002	0.878	1.139
Index score	-0.015	0.000	-0.021	-55.889	0.011	0.348	2.873

4.2 Recommendation

Company should improve their corporate governance. Corporate governance is refer to the way in which enterprise of governed and to the rules for governing people. Waemustafa and Abdullah (2015) opined that the good corporate governance should be based on accountability, fair, transparency, independence and responsibility. Companies need to improve the corporate governance structure. Besides that, the company must also pay attention to family bonding because it can affect the profit and performance. In the organization must have a sense of fairness that he protects shareholder rights.

Besides that, company also should improve Return on Asset to reduce unemployment. The rate of unemployment is increases from 2011 until 2015. It affects indirectly to benefit the company. With an increase in profit of the company, it can reduce the level of unemployment in Malaysia. The company can provide employment opportunities to the local community can improve the performance of the company. With decreasing unemployment rate can increase productive production company. Therefore unemployment is also affecting profit and national economy

5.0 CONCLUSION

In conclusion, company performance can be affected by many aspects. These aspects can give a good impression and give disadvantages to the company by various types of risk such as operational risk, credit risk and operational risk especially credit risk. The study found that credit risk of companies Wah Seong Corporation Berhad but it does not affect ROA significant toward ROA. In addition, corporate governance also affected the performance of the company due to the emergence of family bonding that indirectly affected the company. In addition, the company needs to cut spending that can affect profitability. Company need to used risk management to manage the risk that unexpected. The finding of study show that three variable have significant to return on asset. The trend of return on asset of company from 2011 until 2015 also downtrend and it show the return on asset is not stable for 2015.

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