The Impact Of Corporate Environmental Performance Of Market Risk On Tropicana Corporation Berhad

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Abstract

The purpose of this study is to examine the overall performance of Tropicana Corporation Berhad with specific risk factors and macroeconomic factor on profitability performance. The data obtained from annual report of Tropicana Corporation Berhad is starting from year 2011 until year 2015. The measurement of liquidity ratio, operating ratio and leverage ratio is used to see the overall performance of Tropicana Corporation Berhad in 5 years which allegedly beyond benchmark. The additional measurement is the asset size, this variable has a negative and no significant relationship with liquidity risk. To see the relationship of risks factors to the profitability, this paper is utilizing liquidity (current ratio), leverage ratio and operating ratio. Data was analyzed by utilizing regression and bivariate correlation. The regression analysis and bivariate correlation shows only one factor of profitability is significant to leverage ratio which is ROA with the highest impact to the profitability. However, the liquidity and operational is not significant to profitability with low impact to the profitability.

Keywords: Specific Risk, Liquidity Risk, Operational Risk, Leverage Risk, Profitability

1.0 INTRODUCTION

Tropicana Corporation Berhad is an investment holding company that is listed on Bursa Malaysia in 1992 and their company was established in the year 1979 in Shah Alam, Selangor, Malaysia. As the incorporated in 1979, Tropicana Group has successfully managed the area of their business that includes the property and resort development, property investments, manufacturing and investment holding. Since then, the company has through a large scale of successful to encourage the Group to venture onto the Main Board of Bursa Malaysia. After that, the company has consistently explored the new of frontiers that has the potential for growth significantly some sector such as retail and office space, hotel and education sectors.

Tropicana Corporation Berhad operates in three segments that is property development, resort operation and property investment. The segment of property and resort operation is involved in the development of residential and commercial properties and the company also provide a provision of golfing and other facilities such as sporting and recreational area.For the segment property investment, it involved in investment holding and also in the operation of the clubhouseand shopping mall.

Moreover, Tropicana Corporation Berhad also brings the ideals of the company that wants to devote the range of diverse companies and consistently providing the attraction and sustainability of the development to the customer while the company is extracting the high value of the land that they develop. The company wants to deliver the value to their customers and also investors by creating a good quality development in which people want to live in two kind situation that is your workplace is the place that you play and enjoy it. This situation is matched to the concept of their company that as a pioneer in resort style home concept with a strong track record in residential and commercial developments. Next, 90% of the Group's revenue also has been generated by their three segments that is property development, resort operations and property investment.

Furthermore, over the two decades ago Tropicana Corporation Berhad has debuted the Tropicana Golf & Country Resort and Tropicana Indah Resort Homes and it was established in the unique DNA that set them apart. The unique DNA that the companyfocuses on isthe accessibility, connectivity, innovative concepts and designs, generous open spaces, amenities, facilities, multi-tiered security and quality of the resort that match with their concept. Through emphasizing into their customer need, the companyhas enhanced and rethinking the specialty of the living through the making improvements of their development by consolidating of the private and business parts to make flourishing townships that are deliberately associated.

The parts of the study will be divided into four parts where the second part will be a literature review, which is discussed about the previous study done by different researchers. The next part will discuss about the descriptive findings, which is examining the real estate factors and macroeconomic factors on profitability, operational, liquidity and leverage performancethat include of the five years of Tropicana Corporation Berhad performance. The last part is contains some discussion, recommendation, and conclusion of the Tropicana Corporation Berhad.

2.0 LITERATURE REVIEW

Current ratio indicates how the management can be able to meet current liability which demand deposits with the current asset. The lower current ratio is more preferable to measure the ratio of current assets. Furthermore, the high of current asset ratio can indicate that a bank has more liquid assets. A lower ratio is a sign for liquidity as more of the assets are long term in nature. Thus, the higher the ratio, the higher the liquid assets of the management or the bank. Credit risks are known as the risk of default on a debt that may arise from a borrower fail to make required payments. According to the Invetopedia it definite that the credit risk is significantly affected by GDP Growth, housing price indices, unemployment rates, interest rates, credit growth, real exchange rates and the recent financial crisis. W Waemustafa, S Sukri (2015) found that the formation of credit risk includes, inappropriate credit policies, poor lending practice, limit institutional capacity, volatile interest rate, poor management, inappropriate laws, direct lending, massive licensing of banks, low capital and liquidity risk, laxity in credit assessment, and poor lending practice. Therefore, credit risks are important for any management or bank to know the ability to repay any payment back later.

Then, the profitability ratio that can be found and measured by return on asset (ROA), return on equity (ROE) anda profit expense ratio (PER). ROA and ROE are the indicators of measuring managerial efficiency. ROA is net earnings per unit of a given asset. Besides that, liquidity has a positive relationship to profitability. W. Waemustafa, S Sukri (2016), defined that liquidity ratio is positively significant with ROA this implies that Islamic banks adopt a conservative strategy in managing liquidity problem by maintaining sufficient cash reserve and at the same time banks are able to generating profits. Based on the article, it can be concluded that there a positive relationship between liquidity and ROA which the company can have enough cash in managing their business.

Further study conducted to compare the liquidity risk between Islamic and Conventional banks in Malaysia who analyzed by (Waemustafa, W., 2016). The result showed that the Islamic bank dominates the liquidity, performance result compared to Conventional bank, which represented with the mean percentage. The calculation of liquid variable measured by cash + short term marketable 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 banks. With the limited option for Islamic bank to obtain external financing, which sourced from the interbank money market and lender of last resort, this condition forced the Islamic bank to maintain an adequate liquidity provision to fulfill 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 sharing-based investment account allows both risk and profit shared among Islamic banks and their customers.

Another study examined whether there is any significant influence between Shariah supervisory boards and their remuneration towards Islamic banks choices in financing mode. According to the study by Waemustafa, W and Abdullah, A. (2015), they analyzed that 18 Islamic banking from the year 2012 to 2013 are operating in Malaysia. Next,the study reveals that the Shariah supervisory board may determine the mode preference of financing toward BBA and Murabahah. However the SSB effectiveness does not have a significant relationship into the financing mode, but the remuneration have a significant relation to the choice of Islamic financing mode where the notion lead to "cosmetic reason".

According to Cummins, and Nini (2002), regarding return on equity, monetary hypothesis predicts that organizations with generally highest equity (less leverage) are less unsafe and in this way ought to have bring down expenses of capital. Subsequently, it is expect the proportion of ideal cash-flow to-resources for have a negative coefficient in the arrival on value relapses. On the off chance that holding extra capital is a sane system, the proportion of problematic cash-flow to-resources is additionally anticipated that would have a negative coefficient of generally an indistinguishable extent from the coefficient of the ideal funding to-resources variable. Not with standing, if holding extra capital that cause to wastefulness, the peripheral well being advantages of holding the extra capital will be halfway or completely counter balanced by a market punishment for wastefulness. Subsequently, the imperfect funding to-resources proportion could be negative with a littler (in supreme esteem) coefficient than the ideal money to-resources proportion or possibly immaterial or emphatically identified with profit for value. An irrelevant or littler negative impact would infer that organizations are not compensated similarly to hold problematic capital as they are for holding the ideal measure of capital, and a positive coefficient would recommend that wasteful firms have higher expenses of capital than generally more effective firms.

Lastly, the use in the cooperate risk management has grown rapidly in recent years, the part of the of the financial industry in creating a variety of ovet the counter and exchange traded product. Although the types of risk confronting manager vary somewhat across industries, there is substantial commonality in the underlying rationale for the use of derivatives and the financial engineering technique that are employed (Cummins, Phillips and Smith., 2001).

3.0 DESCRIPTIVE FINDING

3.1 RETURN ON ASSET

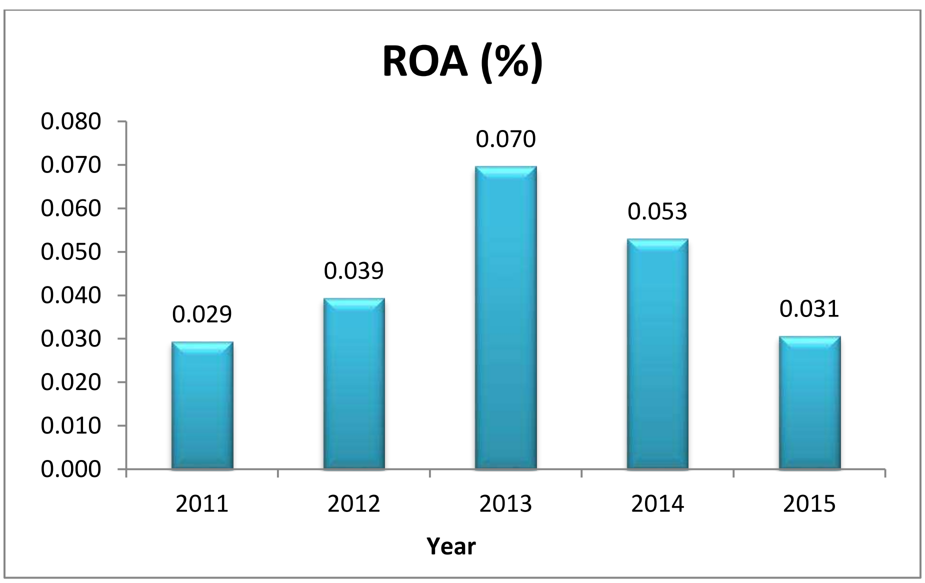

Figure 3.1

Based on the figure .1, return on asset (ROA) ratio is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. As we can see from the chart above, the most efficiency year for Tropicana Corporation Berhad to generate income using asset is at 2013 which is 7.0%. This show that they do not use their asset wisely in order to generate income. However, as we can see on the chart above from year 2011 until 2013the return on asset is risingfrom 2.9% to 7.0%, thenit starts to decline from year 2014 and 2015 which is 5.3% and 3.1%.

3.2 LEVERAGE RATIO

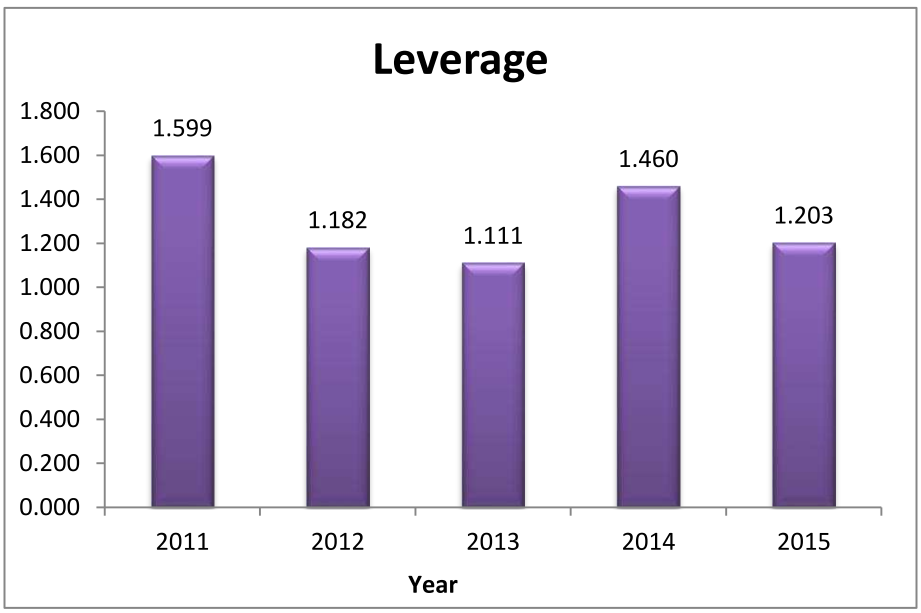

Figure 3.2

Based on the figure 3.2, leverage ratios are indicated tomeasure the degree of the protection of suppliers on thelong-term funds and it also help a firm's to evaluate the ability of the firm in order to raise the additional debt and thecapacity to pay its liabilities on time.From the column chart above, on the year 2011 Tropicana Corporation Berhad has the highest leverage ratio that is 1.60.This shows that in the year 2011the company is doing very well to protect the creditors from the case of the company having an insolvency problem. As we can see from the figure 3.2, the flow of the leverage ratio is fluctuated from year 2012 until 2015 but the ratio is still more than 1.0 which mean the company is still manage to protect their creditors.

3.3 LIQUIDITY RATIO

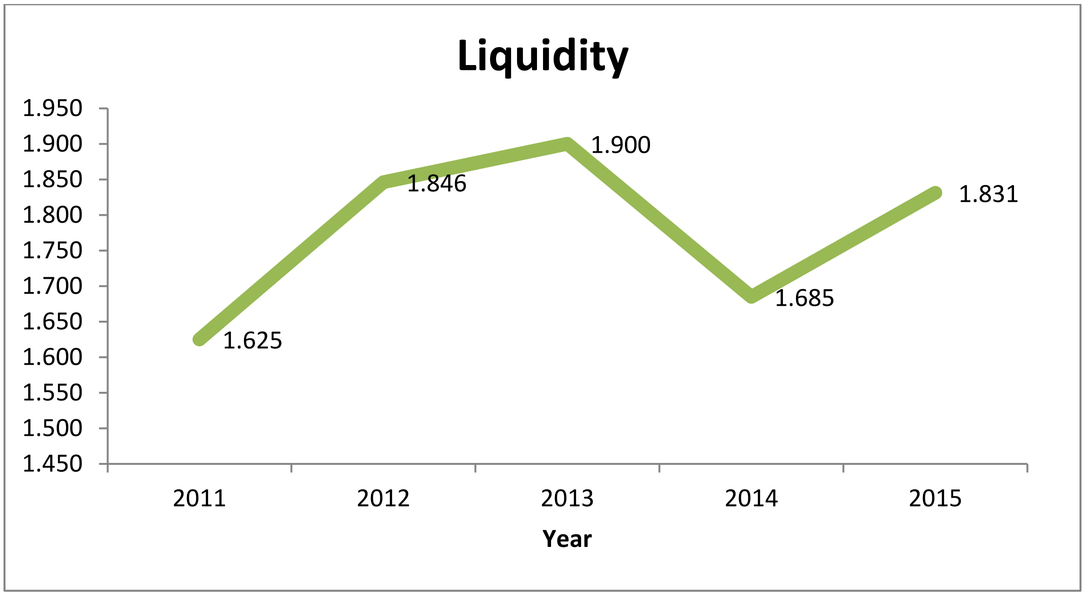

Figure 3.3

Liquidity ratiosare indicated to measure the company's ability to meet their current obligations.Moreover, it helps investors and creditors to understand the degree of liquidity by comparing the company assets to its liabilities. On the line chart above, the higher figure is meant that the business in the financial condition is better and also it has enough for liquid the assets for its operation when the company needed. Based on the fure 3.3, the most efficient in Tropicana Corporation is paying off their liability is at 2013 that is 1.9 compared to other years. This gives a positive sign to the company as its indicate that the company has better performance in order to fulfill the short term and long term liability and it will make easier for investor to make investment decisions. From the chart above, the liquidity ratio of the company is fluctuated but they are successfully managing the liquidity ratio to pay off their liabilities. Thisshow that in the year 2014 the ratio is dropped to 1.7 but they manage it to increase back the ratio in the year 2015 that is 1.8.

3.4 OPERATING RATIO

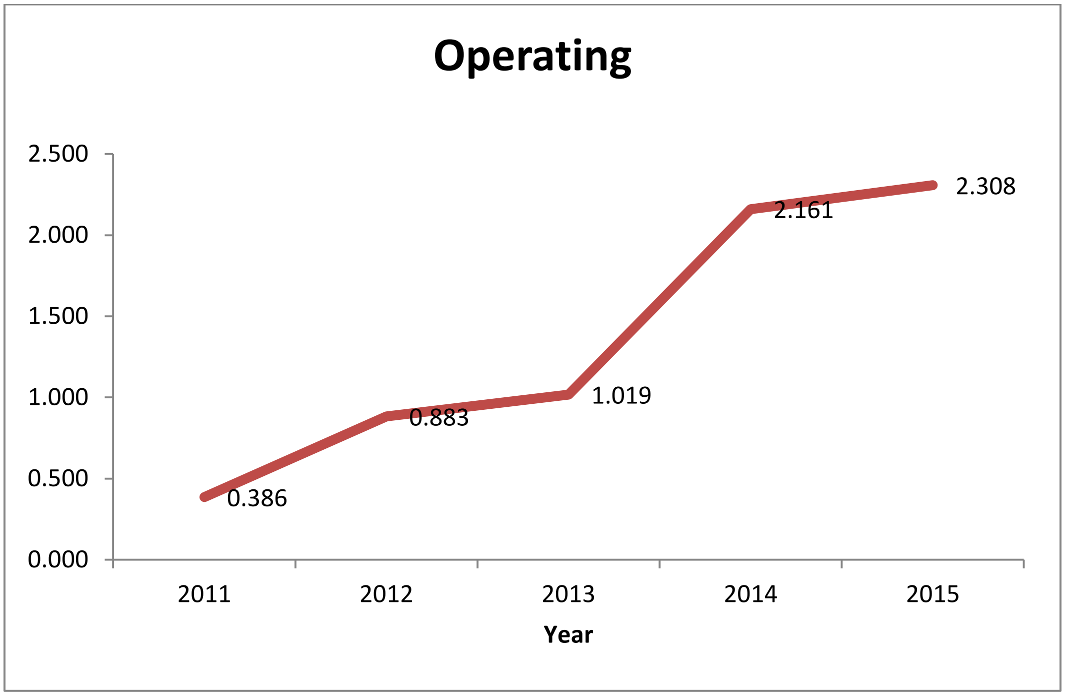

Figure 3.4

The operating ratio is a calculation that shows the efficiency of the management of the company by comparing on the operating expense to the net sales. The formula for operating ratio is total operating expense divided by total operating revenue. It indicated that the smaller the ratio, the greater the organization's ability to generate profit if revenue decrease, which means that the smaller the ratio and it will gives good sign to the company.Based on the figure 3.4, on the year 2011 the company has more efficient to generate the profit that is 0.39. Then, the operating ratio is kept rising in the five years next that is in the year 2015 and the ratio is 2.31.

3.5 AVERAGE COLLECTION PERIOD

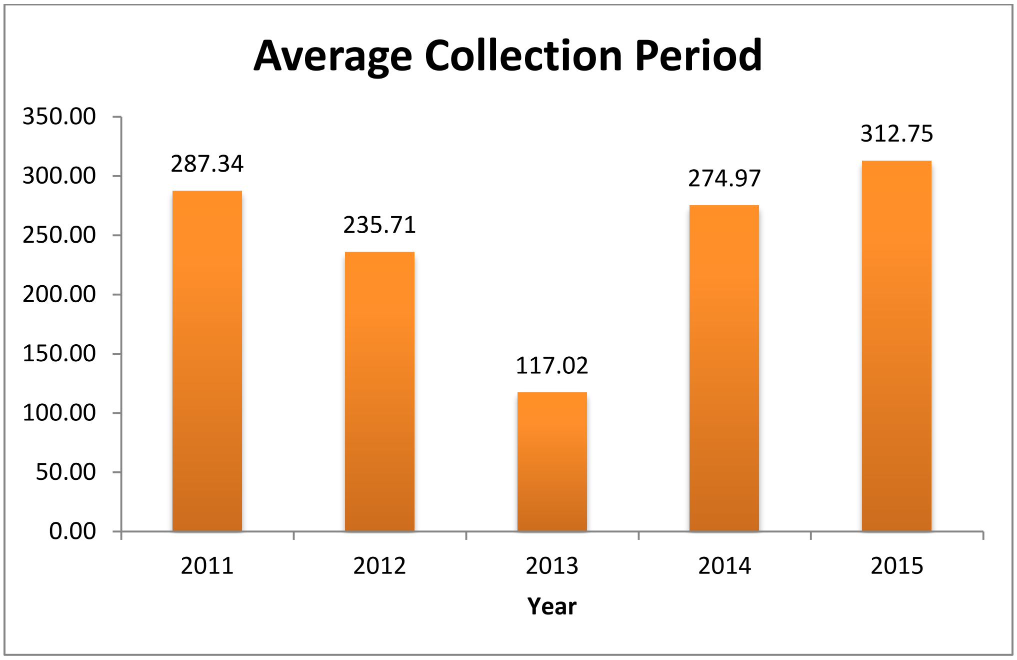

Figure 3.5

Average collection period is indicated to the approximate amount of period that it takes for a business to receive payments that they owed in terms of accounts receivable. The average collection period is calculated by dividing the average balance of the accounts receivable by total net credit sales for the period and multiplying the by the 365 days . Based on the figure 3.5, on the year 2011 until 2013 the Tropicana Corporation credit risk is declining from 287 days to 117 days. This means that thecompany wants the borrower to repay the loan back in the short period.After the year 2013, the company has kept increasing the credit risk in the year 2014 and 2015 that is in 2014 is 275 days and 2015 is 313 days.

3.6 *RELATIONSHIP OF GDP, LIQUIDITY AND OPERATIONAL TO THE PROFITABILITY*

ROE	Size	Leverage	Liquidity	Operational	ACP	Index	Remuneration (BOD)	GDP	Inflation Rate
0.501446409	24711000	1.59943406	1.625221149	0.385920369	287.3404255	0.8	418000	5.3	3.2
0.086023606	457898000	1.181910884	1.846087479	0.883095499	235.7058517	0.8	1592000	5.5	1.7
0.147210788	542572000	1.110961537	1.900121171	1.018555267	117.0171967	0.8	771000	4.7	2.1
0.130611633	7215000	1.459963791	1.684948494	2.160988165	274.9743301	0.8	2000000	6.0	3.1
0.067642428	680074000	1.203154055	1.831148759	2.30784044	312.7514705	0.7	874000	5.0	2.1

Table 1

		ROA	Leverage	Liquidity	Operational
Pearson Correlation	ROA	1.000	.762	-.713	-.676
	Leverage	.762	1.000	-.997	-.191
	Liquidity	-.713	-.997	1.000	.129
	Operational	-.676	-.191	.129	1.000
Sig. (1-tailed)	ROA	.	.067	.088	.105
	Leverage	.067	.	.000	.379
	Liquidity	.088	.000	.	.418
	Operational	.105	.379	.418	.
N	ROA	5	5	5	5
	Leverage	5	5	5	5
	Liquidity	5	5	5	5
	Operational	5	5	5	5

Table 2

Coefficient

Model		Beta	t	Sig.
1	(Constant)		-1.129	.461
	Leverage	6.258	1.236	.433
	Liquidity	5.551	1.107	.468
	Operational	-.194	-.481	.714

a. Dependent Variable: ROA

Table 3

3.6.1 Liquid to Profitability

Liquidity are measured by current ratio with P value > 0.01 indicates that liquidity have negative and insignificant relation to profitability in all respective variables of the measurement. Moreover, the impact of changes liquidity to profitability is not quite high compared to the operational and is quite high compare to leverage with the t value of liquidity is 1.107. The negative relationship is implied when the liquidity represented by current ratio increases, any profitability ratios will react by decreasing in value. Therefore, the negative could have been 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 for further profit generated in the future. Another perspective of the negative relationship, the asset conversion is ineffectively converted to cash since receivable payment delayed. This lack conversion affects the profitability since the company has not yet receive or hold actual cash value from transaction.

3.6.2 Leverage to Profitability

Leverage are measured by debt to ratio with the P value is indicate on how well the creditors are protected in case of the company's is having insolvency of the measurement. In addition, the impact of changes of leverage to profitability is quite high compared to the liquidity and operational with the t value of leverage is 1.236. The finding shows that the leverage has the positive relationship to the profitability. This positive relationship is implied when the leverage represented by debt to ratio increases, any profitability will be affect by increasing in value.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.971[a]	.943	.771	.057217	1.835

a. Predictors: (Constant), Operational, Liquidity, Leverage

b. Dependent Variable: ROA

Table 4

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.054	3	.018	5.494	.302[b]
	Residual	.003	1	.003		
	Total	.057	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), Operational, Liquidity, Leverage

Table 5

3.6.3 Operate to Profitability

After the test conducted and all of variables added. With the stepwise method shows that R value is 0.971 and shows a high degree of correlation between variables. R^2 is 0.943 and indicates that 94.3% of variation in ROA is explained by independent variable Operational, Liquidity and Leverage . In terms of relationship to profitability, for operational, liquidity and leverage variable which it measured by operating ratio, current ratio and debt to ratio. Therefore, for operational the P-value > 0.10 and for liquidity and leverage the P-value > 0.01 that is indicates negative insignificant relation to profitability in 4 out of 5 profitability measurement tested . However, the operational variable to profitability (ROA) has a positive significant relation with a P value < 0.10. This positive relation indicates that the company's operation can increase the profitability of company. Tropicana Corporation Berhad company is generating more operating income while reducing the operating expenses where this company achieve positive amount of profitability with more production as an income factor without incurred more expenses during the operation process. Instead of having profit, the negative relation indicates the increases of expenses effect the income of this company that cannot maximize the profit. However, out of 5 variables tested only one (ROA) which has significant relationship to profitability. This model is also significant with the significant of anova regression $P < 0.10$. Therefore, the operational variable has the lower impact with the t value -0.481 to the profitability compared to the liquid and leverage.

4.0 DISCUSSION AND RECOMMENDATION

4.1 DISCUSSION

During the consecutive year 2011-2015, overall performance of Tropicana Corporation Berhad was showing favorable in the performance result for all measurements of liquidity, leverage and operation in annual basis. The effective conversion asset into cash to repay the debt without any issue and the efficient operation without incurring any additional expenses are reflected to the overall performance of Tropicana company. However, since the leverage has the result with the highest t-value that is 1.236 indicates that this variable impacted much on profitability measurements. One of profitability measurement has a significant relationship which is ROA to leverage variable. With this lower impact of operate to profitability and one of profitability measurement is significant relationship to leverage. Therefore, the attention of the company into the leverage factor should become priority on 2015 onwards beside the operational and liquidity to enhance the profitability.

4.2 RECOMMENDATION

4.2.1 MEASURE AND IMPROVE LIQUIDITY MANAGEMENT

Liquidity management describes the effort of investors or managers to reduce liquidity risk exposure. The investors, lenders and managers all looking to the company's financial institutions, by using liquidity management ratio to evaluate the liquidity risk. This risk is usually done by comparing between liquid assets and short-term liabilities. Companies that are over-leveraged must take steps to reduce the gap between their cash on hand and their debt obligations.

Tropicana Corporation Berhad has experiencing on declining in the liquidity ratio that means that their management on liquidity was not on the track. Therefore, declining in liquidity ratio will make the company having a crucial condition which is they do not have money if anything unfavourable happen. So that, the company need to do some improvement for this company to maximize its profit by doing more diversification of investment based on assets employed for investment activity. Then by applying the liquidity management, the companies can ensure themselves is not to suffer from the lack-of or excess liquidity to meet its short-term obligation. By this liquidity management also, the conversion of an asset into cash could be managed well where this cash use to pay obligation in the right time.

4.2.2 BETTER INVENTORY CONTROL FOR LIQUIDITY

The risk of operation called as operational risk which caused losses that resulting from the people, processes, systems failure and from external factors according Li, L. and Moosa, I. (2015). In the case of Tropicana Corpration Berhad as the property company sector, the people failure might be the caused inefficiency with increasing operating expenses since the wrongdoings of a person lead this inefficiency. Therefore, the operation should be controlled and directed in proper manner with the corporate governance. CG itself refers to the mechanism, processes and relations by which corporations are controlled and directed. For the 2015 onwards, this company should concern to the corporate governance since the weak corporate governance systems allowed poorly managed firms to stay in the market and resulted in inefficiency of resource allocation despite low firm profitability for many years. Thus, the low profitability means that the company might not get sufficient income to give fair return to investor since the company is getting lesser profit as it can be seen on the significant relationship of operation to profitability with the highest impact. To solve the issue of people failure in this company especially on top management, the involvement of board of directors is required to take the lead on role in establishing and modifying the mission, objectives, strategy and policies to reduce any failure of top management strategy which leads to inefficiency operation.

5.0 CONCLUSION

In conclusion, it is clear that liquidity risk, operational risk and leverage risk is faced to all the companies especially in the study of the property firm. Tropicana Corporation Berhad has could handle the liquidity risk and operational risk effectively and efficiently with the ratio is beyond and below the standard of benchmark. The liquidity and operational performance annually shows this company is not having problem to settle the debt obligation and can operates efficiently that can generate more profit. Moreover, to maintain the performance on year 2015 onwards, from the findings, one of variable is significant (ROA) as a profitability variable to the operation with the highest impact compared to all of variables. 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 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 operational is not significant to profitability.

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