To Examine the Relationship Between Risk Factors and Profitability of Apollo Food Holdings Berhad

Ravishankar, Sandranivashni

Universiti Utara Malaysia

19 April 2017

To Examine the Relationship Between Risk Factors and Profitability of Apollo Food Holdings Berhad

Sandranivashni a.p Ravishankar

ABSTRACT

The aim of this study is to determine the overall performance of Apollo Food Holdings Berhad with specific risk factors and macroeconomic factor on profitability performance. The data obtained from annual report of Apollo Food Holdings Berhad starting from 2011-2015. The overall performance of Apollo Food Holdings Berhad measured by its own liquidity and operating ratio in 5 years which supposedly over benchmark. The asset size is an extra calculation which is not engaged with liquidity risk. This paper is all about the utilization of liquidity (current ratio), GDP and operating ratio, just to know the link between risks factors and the profitability. Data was analyzed from regression and bivariate correlation. The regression analysis and bivariate correlation says about the factor of profitability is very important to operating ratio which is ROA with the highest impact to the profitability. Meanwhile, the liquidity and GDP is not significant to profitability with low impact to the profitability.

Keywords: Firm's specific factor, liquidity risk, profitability and macroeconomic factor

1.0 INTRODUCTION

1.1 Background of the Study

The Food Industry is a complex, global collective of diverse businesses which supply various type of food consumed by people. Only farmers can consider outside of the modern food industry scope, because they are the ones who live on what they grow and as well as they are known as hunter-gatherers. In this technology-filled lifestyles, food industry is one of the major industry around the world. During 2011 to 2015, the economic growth of the country as measured by Gross Domestic Product rate (GDP) was increasing 5.3% (2011) to 5.5%(2012), and it was continued to decrease 4.7% on 2013, then it was a rapid rose in year 2013 with amount of 6.0%, and finally on 2015, it declined back to 5.0% (Focus Economics, 2017). The private expenditure, oil glut and post-election instability in the country fluctuated for investment. Besides, consumption weakened the economic performance during the years.

The heavy economy with largest rate of living cost has curb consumers' sentiment, specifically for people earns from low to moderate income have to save more as they could. Total amount of RM18 billion were generated from food industries and exported to more than 200 countries, and the total imported food was RM17 billion in 2015 (Midagovmy, 2017). Then, the strategy of competition shifted to budget-conscious consumers with the aim of achieving sizeable growth of sales among entry, mid-market appliances and brands (Euromonitor, 2017).

Measurement of how capable a company on trading of their securities ans assets without touching their assets's rice which make route to the individual or company to fulfill their short term financial obligation based on the quantity of liquid asset they have (Investopedia, 2017). The situations, when the company cannot effort to fulfill their obligation, the inability of investors or company in converting their assets into cash without giving up their capitals or income due to a small amount of buyers or inefficient market are known as liquidity risk (investopedis, 2017). In terms of the firm's financial management component, the liquidity aspect is an essential factor for the effective and efficient operations and also in the long term it can sustain the business continuance (Enyi, 2006).

The sustainability of company is not only depend on its liquidity, the operational of a company is also a part of internal factor which unique to specific industry or business argued to be equal important component with the operational risk exposure to the company as internal failure is known as unsystematic risk in nature (Investopedia, 2017). This risk connected with the losses of people failure, processes, systems or external events. The importance of this risk that has to be aestimated is based on the argument of Dutta and Perry (2007) where this study proved by allocating the large capital which is needed to lighten this risk in financial institution. Likewise, the existence of this risk with the large frequency operational losses which relate to the reputational consequences and wide spread impact of losses are highlighted which it is useful to measuring, monitoring and mitigating operational risk and holding sufficient capital to cater unexpected losses. Currently, this risk is recognizable yet become a part of risk profile component not only in the financial institution as well as firms in general (De Fontnouvelle, 2007).

The risk is always uncertainty and unpredictable and has unknown outcome in the future, since the risk is one of the main things that can affect other condition such as profit, efficiency, etc (Hoseininassab, E., Yavari, K., Mehregan, N., & Khoshsima, R., 2013). Therefore, this study sought to examine the manufacturing specific risk factors and macroeconomic factors on profitability performance.

There are four parts in this study, where the second part will be literature review which is to discuss about the previous studies done by other 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 Apollo Food Holdings Berhad overall performance. The last part contains some discussion, recommendation, and conclusion to the Apollo Food Holdings Berhad.

1.2 Company Background

Apollo Food Holdings Berhad is a well-known holding company where it engaged in the plan of managing services to their subsidiaries. Apollo was incorporating since March 5, 1994 and it's headquartered in Johor Bahru, Malaysia. It's a subsidiary of Keynote Capital Sdn.Bhd. Its aim is "to always fulfill the customer needs and requirement by using the latest equipment and technology". The vision of Apollo is the preferred pharmaceutical brand in regional market and the mission is to provide quality products and superior services by professional, committed and caring employees.

It can be separate in two broad segments, which are investment holding and the process of manufacturing, marketing and distribution. The second segment includes chocolates products (chocolate wafer) and cakes (layer cakes, chocolate layer cakes and Swiss roll). Apollo Holdings Berhad give out its products in Malaysia and as well as other oversea market such as, Singapore, Indonesia, Thailand, Japan, Maldives, Philippines, China, Hong Kong, Taiwan, Middle East, India, Mauritius and Vietnam. Apollo Food Industries (M) Sdn.Bhd. and Hap Huat Food Industries Sdn.Bhd are the groups under Apollo Food Holdings Berhad.

According to saved records, Apollo's biggest strength is its unique quality and innovation. It's the reason, why most of the people fully satisfied with Apollo. Moreover, the organization continuously fights for resources needed to fulfill peoples' needs and wants. Apollo constantly practicing organization's characteristics such as maintain the quality of their management system and their effectiveness on products, produce top quality products, using world class Europe's machinery to upgrade their product constantly, regularly meeting customers to enhance customers' satisfaction and finally, Apollo had accredited with HALAL.

Few years back, in 2013, Apollo was the winner of the "International Diamond Prize for Excellent in Quality" in the Gold Category, awarded by European Society for Quality Research, Belgium. Not only that, Apollo awarded in Platinum Category award administered by Business Initiative Directors (B.I.D) in 2012.

Last but not least, for financial part, Apollo has roughly recorded 18.91million of net income in term of Malaysia Ringgit each year. Apollo's sincere shareholders are from both bank and non-bank institutes. Even though there are fluctuation in their income, they still run their organization by providing quality products and maintain their subsidiaries at the eyes of world.

2.0 LITERATURE REVIEW

Shares are the major element in a company which generates more income to its own company itself in term of dividend. Regarding this, there is a small research have been taken on Apollo Food Holdings Berhad's shares. By evaluating 2016's financial statements, the researcher come along with a statement that the share price were increased by 17.7% to RM5.89 (Insiderasia, 2016). Another element that playing a major role in a company's statement is net income. There will full of good news if the profit of the company increasing year to year. Unfortunately, the situation is always unpredictable. Profit or loss, the company should face it and keep going with their proper actions.

Same here, the net profit was grew by 95.7% up to RM11.2million. While there are enjoying the profit, the company noticed that, the sales was declined by 3.3% to RM49.9million and generated a lower operating expenses, it was handled by foreign exchange gains. Apollo Food is a very well-known manufacturer and as well as exporter of layer cakes and also compound chocolate confectionary products in Malaysia. It is also known by a strong market player. In term of exports, its main income is from Asia Pacific region, which the sales about 40-50% making the company get benefits from the ringgit's depreciation (Theedgemarketscom, 2017).

Malaysia full with various types of religions. But the main ones are Malays. According to their habits, Malays can only consume products which has been approved as "haram". Thus, a researcher named Majidee, investigate whether Apollo Food Holdings Berhad delivers haram foods or not. This research is much important because the 'halal" thing plays a main role in generating overall income of this company. As we all know Apollo's major income if from asia countries which consist of "halal" based people. In order to generate high profit and good name, Apollo must be equal benefit to all people. Ingredients were tested. As a result for his investigation, the chocolate layer cake of Apollo has been approved and certified as halal by Halal Hub Division (Blogspotmy, 2017).

Another study held to investigate the liquidity risk between Islamic and Conventional banks, investigated by (Waemustafa, W., 2016). As a result, Islamic bank dominates the liquidity performance compared to Conventional bank based on their mean percentage. The liquid variable calculated by cash + short term market securities to total bank asset. Lack of lender last resort and interbank money market, asset and liability structure of Islamic bank are the factors of this domination. 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 fulfill the expected loss from Islamic bank' financing activities.

One more study regarding the determinants of credit risk which employed a sample of 15 Conventional and 13 Islamic banks in Malaysia been analyzed by Waemustafa, W and Sukri (2015) based on financial information from annual report. One of determinant is, there is a negative significant relation to credit risk for conventional bank, whereas the Islamic bank shows positive value, however this study conclude that there is no significant relation even positive value to credit risk of Islamic banks. "The higher liquidity the lower credit risk exposure" is the risk-beahiour which been a source to negative relation credit risk and liquidity for the conventional banks.

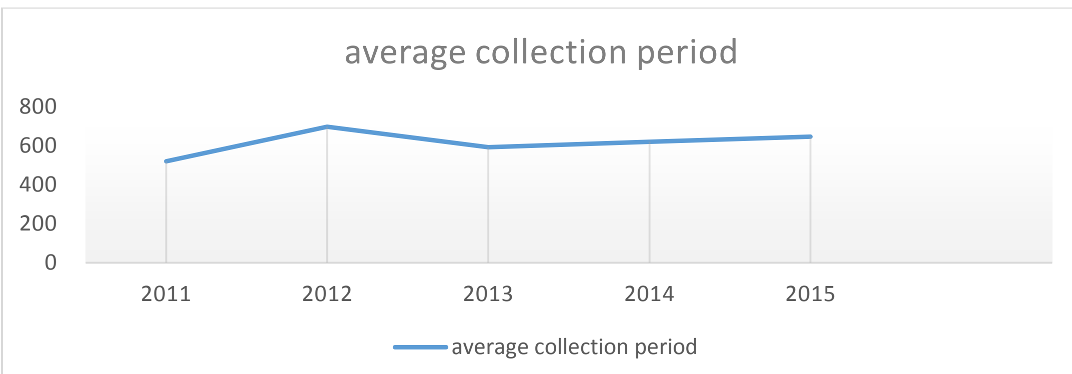
Last but not least, "is there any significant influence between Shariah supervisory boards and their remuneration towards Islamic banks choices in financing mode" been tested and analyze by Waemustafa, W and Abdullah, A. (2015). The study include a total of 18 Islamic banks from the year 2012 to 2013 which operated in Malaysia has been tested. As a result, Shariah supervisory board may determine the mode preference of financing toward BBA and Murabahah, but the effectiveness of SSB does not have any direct relationship into the financing mode but there are link between remuneration and choice of Islamic financing mode where the notion lead to "cosmetic reason".

3.0 DESCRIPTIVE FINDINGS

Average Collection Period

Table 1

year	Account receivable	Revenue	days	average collection period
2011	23,152,108	16,240,013	365	520
2012	26,221,654	13,740,010	365	697
2013	31,535,322	19,440,016	365	592
2014	34,777,229	20,466,945	365	620
2015	35,931,082	20,310,368	365	646

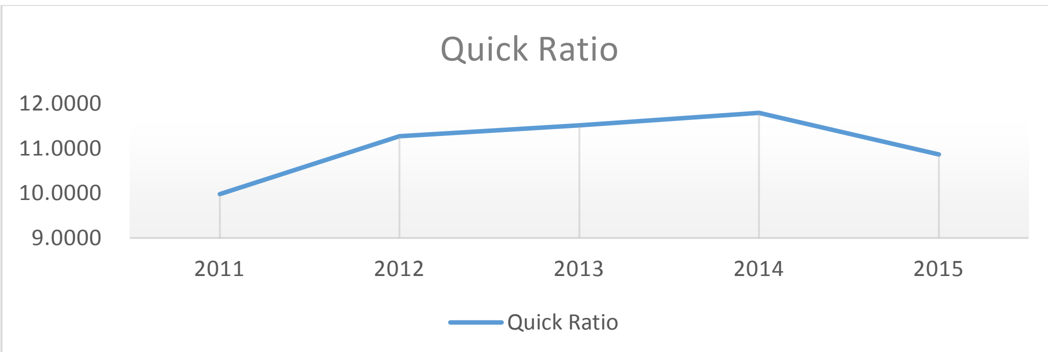


Average collection period calculated by dividing revenue into account receivable. The revenue must divide by number of days (365) to get the exact collection period. According to the calculation, the least number of collection period of 520 days was on 2011. It increased up to 697 days in 2012. It goes down again and reached 592 days in 2013. For 2014, the period was 620 days and then it rise more to 646 days on 2015.

Quick Ratio

Table 2

Year	Current Asset	Inventories	Current Liabilities	Quick Ratio
2011	99,633,147	18,866,856	8,090,542	9.9828
2012	103,060,858	17,221,363	7,611,750	11.2772
2013	121,836,462	19,893,955	8,847,696	11.5219
2014	135,431,569	18,790,244	9,884,329	11.8006
2015	144,619,971	19,362,334	11,527,039	10.8664



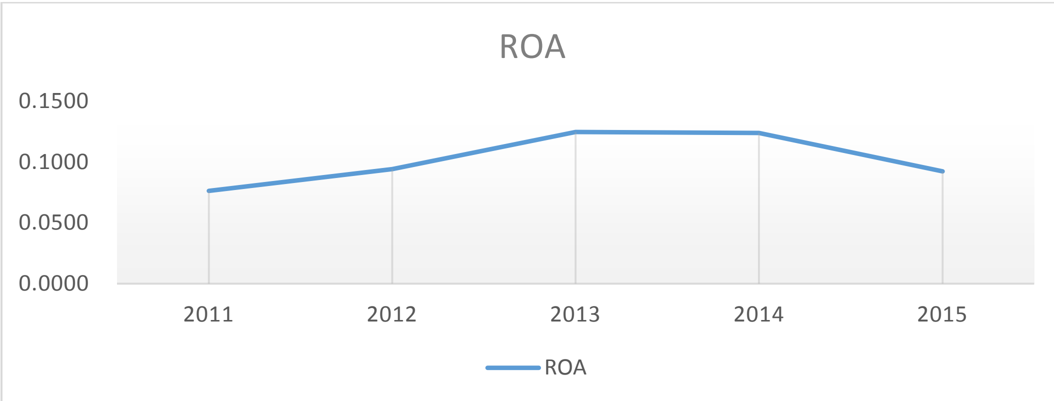
Quick ratio is a ratio which shows the ability of a company to meet its short-term obligations. It is also known as acid-test ratio. The quick ratio calculates as follows: (current asset-inventory) / (current liabilities). The higher the quick ratio, the better the company in term of its liquidity. According to the table, 2011 has recorded lowest quick ratio of 9.9828. The ratio has increased to 11.2772 in 2012 and continuously rose up to 11.2772 in 2013 and 11.8006 in 2014. But on 2015, the ratio goes down to 10.8664.

Return on Assets (ROA)

Table 3

Year	Net Income	Total Asset	ROA
2011	17,840,762	233,771,475	0.0763
2012	22,655,053	240,447,645	0.0942
2013	31,968,855	256,272,916	0.1247

2014	33,470,740	269,784,563	0.1241
2015	25,293,936	274,292,370	0.0922

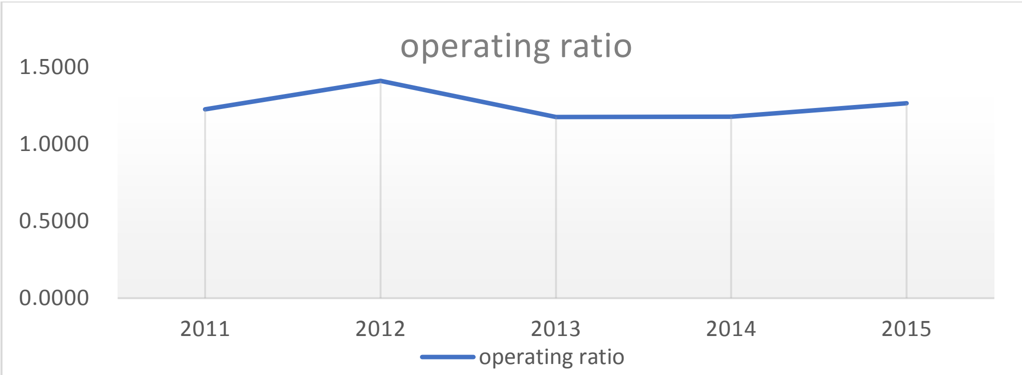


Return on assets (ROA) is a measurement of how capable a company to generate profits from its own assets. The net income of the company must be divided by its total assets to get the exact amount of ROA. It has increased eventually from 2011 to 2013. Then, the ROA seems slightly constant on both 2013 and 2014. On 2015, it decreased again.

Operating Ratio

Table 4

Year	**Operating expenses**	**revenue**	**operating ratio**
2011	19,906,817	16,240,013	1.2258
2012	19,370,180	13,740,010	1.4098
2013	22,836,326	19,440,016	1.1747
2014	24,102,843	20,466,945	1.1776
2015	25,694,195	20,310,368	1.2651



Operating ratio usually measured by dividing revenue into operating expenses. Apollo has recorded 1.23 of operating ratio on 2011. Then, it increased up to 1.41 in 2012 and followed by 1.17 in 2012. It maintain its level on both 2013 and 2014 with the ration of 1.17 and 1.17. On final year, it decreased back and recorded ratio was 1.26.

<u>Relationship of GDP, Liquidity and Operational to the Profitability</u>

Table 5

Year	ROA	ROE	ROIC	ROCE	EPS	Liquid (quick ratio)	Operate	GDP	Total assets
2011	7.63	8.5576	22.30095	38.76391	22.32	122.5788243	9.982804	5.30	233771475
2012	9.42	10.5307	28.31882	45.43475	27.18	140.9764622	11.27724	5.50	240447645
2013	12.47	13.8885	39.96107	62.45521	40.1	117.4707161	11.52193	4.70	256272916
2014	12.41	13.7358	41.83843	63.55009	41.84	117.7647324	11.80063	6.00	269784563
2015	9.22	10.1814	31.61742	55.61818	31.62	126.5077767	10.86642	7.00	274292370

Table result 6. Correlation Matrix Apollo Specific Risk Determinants to Profitability

Pearson Correlation	ROA	ROE	ROIC	ROCE	EPS	Liquid	Operate	GDP
ROA	1							
ROE	1.000	1						
sig	0.000							
ROIC	0.978	0.972	1					
sig	0.002	0.003						
ROCE	0.918	0.908	0.976	1				
sig	0.014	0.016	0.002					
EPS	0.971	0.965	0.998	0.980	1			
sig	0.003	0.004	0.000	0.002				
Liquid	-0.496	-0.492	-0.533	-0.551	-0.580	1		
sig	0.198	0.200	0.178	0.168	0.153			
Operate	0.906	0.903	0.893	0.828	0.865	-0.112	1	
sig	0.017	0.018	0.021	0.042	0.029	0.429		
GDP	-0.230	-0.255	-0.032	0.116	-0.028	0.153	-0.043	1
sig	0.355	0.340	0.480	0.426	0.482	0.403	0.473	

Liquid to Profitability

Usually liquid measured by quick ratio with P value > 0.10 shows that liquidity have negative and insignificant relation to profitability in all variables of the measurement. In addition, the impact of changes liquidity to profitability is not quite high compared to operate and GDP. This negative relationship described that when liquidity represented by quick ratio increases, any profitability ratios will decline in value. Theoretically, between profitability and liquidity, there must always be a trade-off. This negative relation shows a link to the cash conversion which tell that the company maintaining cash in reserve with a conservative strategy. The cash is for company's development or financial obligation payment, by confirming that it would not affect the future profits. Not only that, the negative relation shows that the conversion of asset ineffectively changed to cash because the receivable payment has been late. This situation may affect the overall profitability of the company because there are only two type of transaction going on, which is not yet receive or hold actual cash value.

GDP to Profitability

GDP is one of the macroeconomic factor, has been tested with P value > 0.10 indicates insignificant relation to profitability. ROA and ROIC shows positive insignificant relation that shows the growth in GDP will be rising the overall profitability. It leads a higher economic growth and rise in term of demand for Apollo products. This encourage Apollo to generate more income and boost up company's profitability. However, ROE, ROCE, and EPS has negative relation to GDP. Even though, the GDP grow boost profitability with more demand, there are competitor in the same industry dabble the company's profitability, because there are few amount of competitive advantages of this company. The impact of GDP to profitability is relatively high compared to liquidity.

Table 7: Anova Regression Analysis for Apollo Holdings Specific Risk Determinants to Profitability Profitability

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.194	1	18.194	4538.122	.000[b]
	Residual	.012	3	.004		
	Total	18.206	4			
2	Regression	18.206	2	9.103	121901.738	.000[c]
	Residual	.000	2	.000		
	Total	18.206	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), ROE

c. Predictors: (Constant), ROE, ROIC

Table 8: Stepwise Regression Analysis for Apollo Holdings Specific Risk Determinants to Profitability Profitability

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	1.000[a]	.999	.999	.0633181	
2	1.000[b]	1.000	1.000	.0086415	3.516

a. Predictors: (Constant), ROE

b. Predictors: (Constant), ROE, ROIC

c. Dependent Variable: ROA

4.0 DISCUSSION AND RECOMMENDATION

4.1 Discussion

During the consecutive year 2011-2015, overall performance of Apollo was showing favorable in the performance result for all measurements of liquidity 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 Apollo Company. However, since the operational value indicates that this variable impacted much on profitability measurements. One of profitability measurement has a significant relationship which is ROA to operate variable. With this high impact of operate to profitability and one of profitability measurement is significant relationship to operate. Therefore, the attention of the company into the operational factor should become priority on 2015 onwards beside the GDP and liquidity to enhance the profitability.

4.2 Recommendation

Operational risk is the risk of operation which caused losses resulting from the people, processes, systems failure and from external factors Li, L. and Moosa, I. (2015). In the case of Apollo as a food manufacturing company sector, the people failure might be the caused inefficiency with increasing operating expenses since the wrong doings 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. 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 with the catalyst character “more proactive” BOD is required with taking the leading role in establishing and modifying the mission, objectives, strategy and policies to reduce any failure of top management strategy which leads to inefficiency operation.

According to findings, the optimum liquidity management could avoid a firm from the lower liquidity ratio which the firm is vulnerable to the creditor’s pressure where firm is unable to meet their obligation on specified time. So, there should be an improvement in terms of liquidity performance with the measurement of liquidity management using current, quick and liquid ratio to see the asset availability. One of benefit liquidity management, company is having enough liquidity.

It means that the company is holding enough cash to purchase from suppliers with better pricing during purchasing process and thus the company may enhance its profit. By applying liquidity management, companies can ensure themselves not 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.

5.0 CONCLUSION

In conclusion, it is clear all those liquidity risk, operational risk (unsystematic risk), and systematic risk is influencing all the companies especially in the study of the food industry based firms. Apollo Food Holdings Berhad could manage both liquidity risk and operational risk effectively and efficiently with the ratio which is beyond and below the standard of benchmark. Based on the liquidity and operational performance, we can conclude that Apollo not having problem regarding settlement of the obligation and without questioning we can say that, it can generate more profit. Besides, on the process of maintaining the performance in 2015 onwards, referring to the findings, one of variable is significant (ROA) act as a profitability variable to the operation with the highest impact compared to all other variables. Therefore, this company should upgrade more and reduce any inefficiency which may lead to a lesser ability on making 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.

REFERENCE:

Apollofoodcommy. (2017). *Apollofoodcommy*. Retrieved 31 March, 2017, from http://www.apollofood.com.my/contact_us.php

Blogspotmy. (2017). *Blogspotmy*. Retrieved 31 March, 2017, from http://suaralabuan.blogspot.my/2008/06/benarkah-apollo-haram.html

Bursamalaysiacom. (2017). *Bursamalaysiacom*. Retrieved 31 March, 2017, from http://www.bursamalaysia.com/market/listed-companies/companY announcements/4878441

Bursamalaysiacom. (2017). *Bursamalaysiacom*. Retrieved 31 March, 2017, from http://www.bursamalaysia.com/market/listed-companies/list-of-companies/plc profile.html?stock_code=6432

Marketsftcom. (2017). *Marketsftcom*. Retrieved 31 March, 2017, from https://markets.ft.com/data/equities/tearsheet/profile?s=APOLLO:KLS

Thestarcommy. (2017). Thestarcommy. Retrieved 31 March, 2017, from http://www.thestar.com.my/business/business-news/2016/06/28/apollo-foods-q4-netprofit-down-by-73pc/

Theedgemarketscom. (2017). Theedgemarketscom. Retrieved 31 March, 2017, from http://www.theedgemarkets.com/my/article/insider-asia's-stock-day-apollo-foodholdings-0

Theedgemarketscom. (2017). *Theedgemarketscom*. Retrieved 31 March, 2017, from http://www.theedgemarkets.com/my/article/apollo-foods-4q-net-profit-falls-73forex-impairment-losses

Uumedumy. (2017). *Uumedumy*. Retrieved 31 March, 2017, from http://learning.uum.edu.my/pluginfile.php/216318/mod_resource/content/3/credit risk2015.pdf

Uumedumy. (2017). *Uumedumy*. Retrieved 31 March, 2017, from http://learning.uum.edu.my/pluginfile.php/216318/mod_resource/content/3/creditrisk 2015.pdf

Uumedumy. (2017). *Uumedumy*. Retrieved 31 March, 2017, from http://learning.uum.edu.my/pluginfile.php/216320/mod_resource/content/1/Author_Version_ModeofIslamicBankFinancingDoesEffectivenessofShariahSupervisoryBoardMatter.pdf

Wsjcom. (2017). *Wsjcom*. Retrieved 31 March, 2017, from http://quotes.wsj.com/MY/APOLLO/company-people