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Genting Plantation Berhad Performance and Risk

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ABSTRACT

The study investigated the company performance and risk the company will bear. The purpose of this study were 1) to analyse the Genting Plantation Berhad performance, 2) to analyse the four risk which is credit risk, liquidity risk, operational risk and market risk, 3) to determines company performance using return of assets. Methodology for this study is five previous year analysis for Genting Plantation Berhad annual report starting 2011-2015. Data collected and measured with to determine risk and performance by using ratio calculation. The company performance is measured by ROA. The findings show credit risk, operational have a negative significant while market risk has positive significant with ROA.

Keywords: credit risk, liquidity risk, operational risk, market risk, profitability

1.0 INTRODUCTION

A plantation is of land or water for growth commercial sale which one crop is specifically planted for. In Malaysia, the widely plantation was the palm oil tree that as we know that, Malaysia was one of the largest exporter palm oil worldwide. So, we can see that, Malaysia has a good future in plantation industry due to a good weather. However, climate influences all components of crop production, includes cropping area which is the area planted or harvested and cropping intensity that is the number of crops grown within a year. Although yield increases have predominantly contributed to increased crop production over the recent decades, increased cropping area as well as increases in cropping intensity. Therefore, we need to consider these important aspects of production to get a more complete understanding of the future impacts of climate change.

Genting Plantation Berhad incorporated in Malaysia since 29/9/1977. Currently they have about 240,000 hectares of plantation land. Genting Plantation Berhad is one of lowest cost palm oil produced in Malaysia. Genting Plantation Berhad also have various of sector. Before

this, they just focus in one sector, now they come out with the various sector like property, biotechnology and etc. In other hand, this sector remains its core activities is ventured into property development for instance, Genting Cheng Perdana in Central Malaka, Sungai Petani, Genting Permaipura and others. Genting Plantation Berhad also ventured in biotechnology industry. Here is the core of the activities that Genting Plantation Berhad do are oil palm plantations, property and biotechnology. The chairman of this company is Dato' Seri diRaja Tan Sri Mohd Zahidi bin Hj. Zainuddin. There are seven board of director. They also have their own committee like nomination committee, remuneration committee, audit committee and so on. There are some objective that they are high light which is to become leader in the plantation industry, to enhance return on the company land bank through property development activities and others. The net profit for 2015 is 176.6 million while total assets employed for 2015 is 7.2 billion.

2.0 LITERATURE REVIEW

Vodova, (2003) appoint the loss increase due to borrowers did not pay their loans and they default on repayment of loan contributes to insolvency and bankruptcy that leads to the losses. The better management of risk started will allow the company to take prevent rather than have to reactive measure when dealing the risk (Waemustafa and Sukrii, 2015). The risk will be encountered during capital formation process as transfer to equity based deposit. A special risk management required a unique nature mechanism to adopt in order to mitigate the risk and become a competitive industry.

On the other hand, according to the previous, clear information of the risk creation process in equity based financing, it allows the industry to create a risk management process and further encourage principles of profit and loss sharing. The combination of assets and liabilities will create a new type of risks (Waemustafa and Sukrii, 2016). Das and Teng (2001) stated performance risk defined as the risk by a single firm carrying out of project performance risk. Next, according Nigro and Abbate (2009), there are two strategies of risk management which is individual actions to fight back and try to reduce the prior risk sources. To estimate risk as variability in the expected results in finance project with highly variability in expected cash flows and high return of capital. Besides that, risk and cost of capital estimate is to prepare the steps to tackle with profit sharing problem. Studied by Waemustafa

and Abdullah (2015) SSB and remuneration have positive significant towards choices of Islamic banks code of financing.

In additions, the large risks has been taken, the more risk will be taking by shareholders. Based on agency theorists, the correlation of risk and return was argue that the two go in hand means that, shareholders cannot have a big returns without taking the big risk (Core, Guay & Larcker, 2013). In simple words, higher risk higher returns. According Sanders and Hambrick (2007), they defined risk as the degree to potential outcomes associated with a decision is varies widely and possibility of loss. As we said the bigger investment will gain the higher risk and exposure. For instance, if the shareholder invest in a big amount of money, the risk that shareholder have face may be also increase. We can assume, all the business expected will losses some amount, but we can mitigate the exposure of the loss.

Another way to mitigate risk is diversified the risks. Sanders and Hambrick (2007) had attributed shareholders are widely diversified and risk- neutral. This is because shareholders want managers to be aggressive to take higher expected value actions.

3.0 DESCRIPTIVE ANALYSIS

There are some type of risks will be discuss in this assignment. It will be measure which years got the higher profit and others. There are four types of risks which is credit risk, liquidity risk, operational risk and market risk. In this assignment also will discuss Return of Asset (ROA) and Return of Equity (ROE).

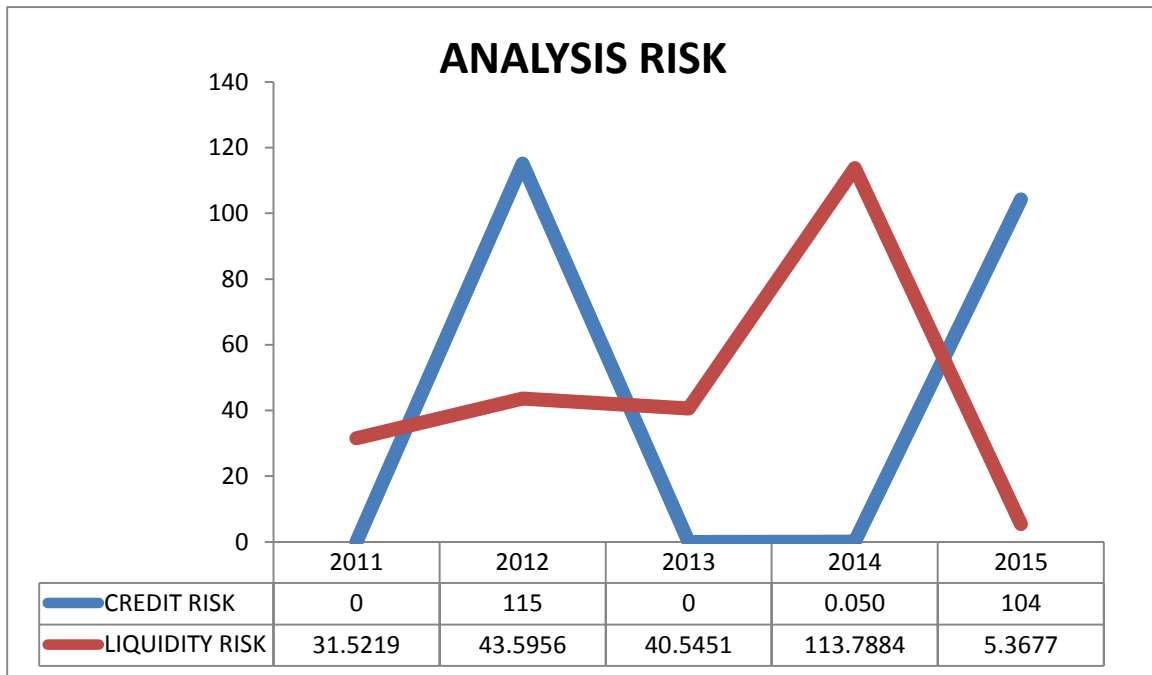


Figure 1

Based on this result, the finding for both these graphs are up and down. On 2011 and 2013 the credit risk is zero. This is because account receivable for both years is zero. The higher credit risk is 2012. Credit risk can be defined as the risk the account receivables not repay to the lender. Next, for the liquidity risk, the higher liquidity risk on year 2014 while 2015 the liquidity risk is decrease.

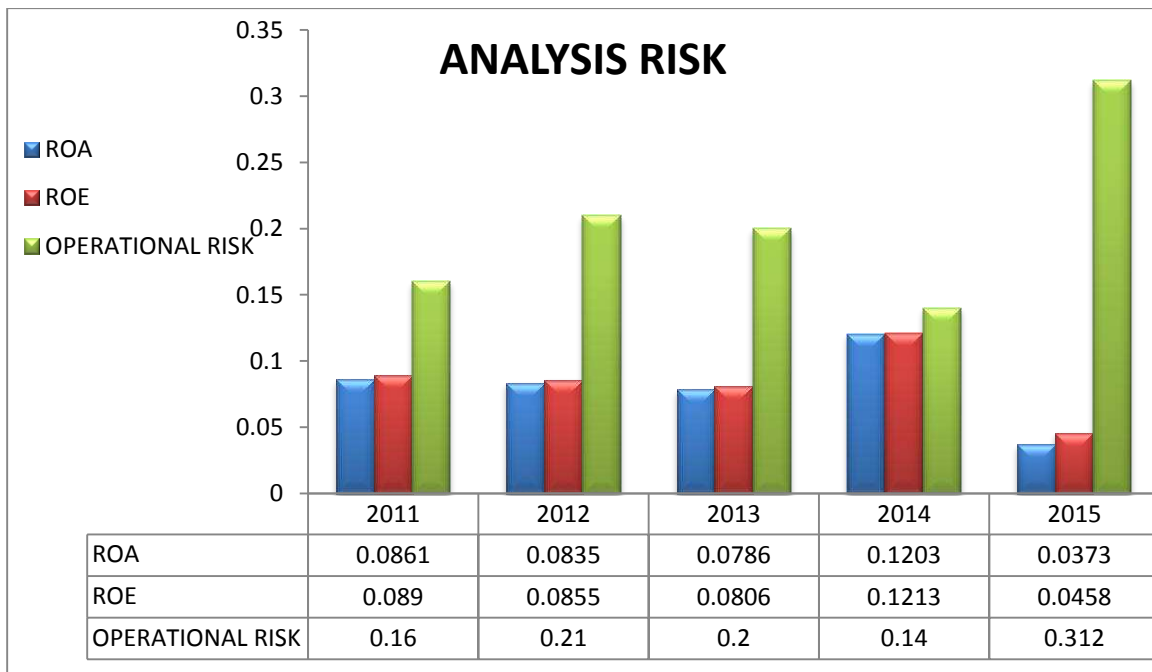


Figure 2

Studied by Balachandher, J. Stauton and B. Shanmugam (1997), ROA as indicator of how profitable a company is relative to its total assets. It also known as return of investment. ROE can be defined as amount of net income divided by shareholder equity. ROE is measured how much profit a company can generate money that shareholder already invested.

According to this graph, we can see there are three risk which is Return of Assets (ROA), Return of Equity (ROE) and operational risk. For the operational risk is the risk of loss due to anything other than credit risk and market risk. On other hand, operational risk means the mistake from internal and external. Based on this graph, the higher is 2015 and the lower is 2014. The higher operational risk is not good for the company. This is because they have problem with board and others. Next, ROA is the efficiency management when using assets. In 2014, ROA for Genting Plantation Berhad is higher than 2015. In 2015, the ROA is lower. In addition, ROE is measures a company profitability through profits company based on money from shareholders have invested in the company. The higher ROE is much better for the company. ROE from 2011 until 2015 is up and down. The lower ROE is 2015 and the higher is 2014.

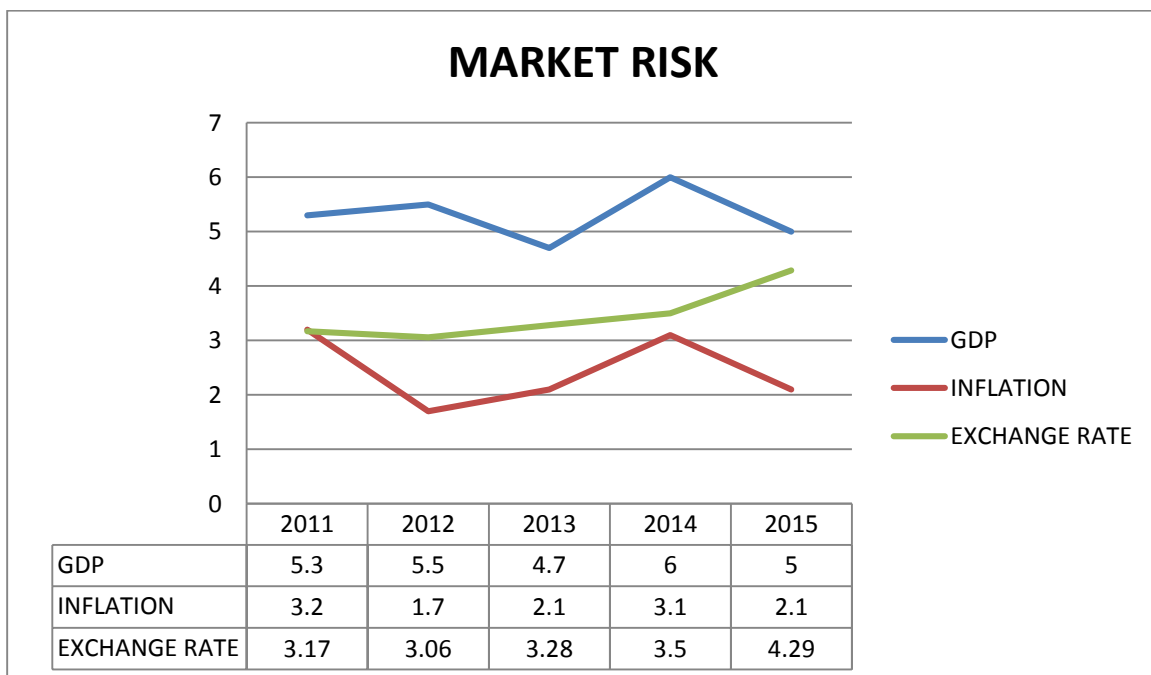


Figure 3

Kunt and Huiziga (1998) appoint that inflation is associated with high realized interest margins and higher profitability. Inflation will bring a bigger cost. Market risk is possibility for the

investor to experience losses that will affect the overall of the performance of the financial markets.

This graph shows GDP, inflations and exchange rate. The higher GDP in 2014 with 6 and the lower GDP in 2015. Next, the higher inflation happened in 2011 and 2013 and 2015 the inflation is same which is 2.1. Besides, in 2015 the exchange rate is higher and in 2015 the exchange rate is lower.

4.0 RECOMMENDATION AND DISCUSSION

4.1 DISCUSSION

4.1.1: DESCRIPTIVE ANALYSIS FOR THE DEPENDENT AND INDEPENDENT

Table 4.1.1 Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.081160	.0295469	5
INDEX	2.2420	.04919	5
REMUNARATION	1613600.00	511798.105	5
DIRECTOR			
ROE	.084440	.0268718	5
CR	43.8920	60.20112	5
OR	.203440	.0672888	5
LEVERAGE	.063900	.0926989	5
LR	19.777980	16.2966399	5
GDP	5.300	.4950	5
INFLATION	2.440	.6693	5

EXCHANGE RATE	3.4600	.49168	5
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Table 4.1.1 shows the descriptive statistic of Genting Plantation Berhad which include all the variables as a measurement. The data summarize the value of mean and standard deviation of each variables for five years start 2011 until 2015. The data summarisws the value of mean and standard deviation of each eleven variables and N represents the data for five years. As shown on table 4.2, the minimum mean of all variable is 0.063900 (6.39%) for leverage and the maximum is remuneration of the director which is 1613600.00. The result shown the Return on Assets (ROA) is 0.081160 (8.116%). The result mean for ROE is 0.084440 and for standard deviation is 0.0268718. ROA and ROE were the best variables in measuring the profitability and efficiency of the company. The highest percentages reflects the good sign in company performance. The highest ROA and ROE show s a good position of the company in term of profitability and efficiency of the company.

The mean leverage is 0.0063900 which indicates that the debt is 6.39 times more than its equity. These variables were used in this study to evaluate the level of risk and solvency for Genting Plantation Berhad. This is acceptable for the company. The mean and stand deviation of the liquidity 19.777980 and 16.2966399. The mean and stand deviation of credit risk are 43.8920 and 60.20112. The mean of inflation is 2.440 and stand deviation is 0.6693. Usually, the governance controlled the increase of goods price in Malaysia. Other variables show the mean and stand deviation.

4.1.2 CORRELATION ANALYSIS

Correlation analysis is the process of the analysis of the relationship between two variable, the closeness result allow to judge the variable the degree of in the relationship.

4.1.2 Correlation Analysis

Table 4.1.2: Correlations

ROA	IND	REM	RO	CR	OR	LEVE	LR	GDP	INFL	EX
	EX	UNA	E			RAG			ATIO	CH

		RATI ON				E				N	AN GE RA TE	
Pe ars on Co rre lati on	RO A	1.000	.093	.325	.999	-.605	-.955	-.871	-	.728	.552	-
									.826			.63 2
	IND EX	.093	1.00 0	-.340	.095	-.408	-.353	-.188	-	.000	.635	-
									.308			.33 0
	RE MU NA RAT ION DO REC TOR	.325	-	1.000	.366	-.123	-.113	.171	.261	.638	.433	.51 7
			.340									
		ROE	.999	.095	.366	1.00 0	-.604	-.949	-.847	-	.750	.576
									.801			.59 9
	CR	-.605	-	-.123	-	1.000	.711	.563	.587	-	-.748	.34 2
			.408		.604					.069		
	OR	-.955	-	-.113	-	.711	1.000	.918	.912	-	-.636	.74 9
			.353		.949					.592		
	LEV ERA GE	-.871	-	.171	-	.563	.918	1.000	.991	-	-.294	.91 6
			.188		.847					.397		

LR	-.826	-	.261	-	.587	.912	.991	1.00	-	-.328	.94
		.308		.801				0	.335		3
GDP	.728	.000	.638	.750	-.069	-.592	-.397	-	1.00	.468	-
								.335	0		.19
											8
INF	.552	.635	.433	.576	-.748	-.636	-.294	-	.468	1.000	-
LAT								.328			.09
ION											0
EXC	-.632	-	.517	-	.342	.749	.916	.943	-	-.090	1.0
HA		.330		.599					.198		00
NG											
E											
RAT											
E											

Table 4.1.2 shows correlation estimate of each variable. The relationship between ROA and ROE is 0.999. It represent that ROA and ROE is positively correlated and it show that correlate degree is weak, nearly not related.

The relationship between ROA and CR, the $r = -0.605$, it represent that ROA and CR is negatively correlated.

The relationship between ROA and OP, the $r = -0.955$, it represent that ROA and OP is negatively correlated.

The relationship between ROA and leverage, the $r = -0.871$, it represent that ROA and leverage is negatively correlated.

The relationship between ROA and LR, the $r = -0.826$, it represent that ROA and LR is negatively correlated.

The relationship between ROA and GDP, the $r = 0.728$, it represent that ROA and GDP is positively correlated and it shows that correlated degree is weak, nearly not related.

1 (Constant)	.983	.983					
INDEX	-.401	-.401	.093	-1.000	-.406	.370	2.705
GDP	.012	.012	.728	1.000	.146	.536	1.867
INFLATION	.036	.036	.552	1.000	.465	.326	3.071
EXCHANGE RATE	-.044	-.044	-.632	-1.000	-.633	.734	1.363

This section evaluates the output from the regression analysis. The table 4.1.3 shows the model summary of economic variable to ROA. Table 4.1.4 shows the coefficients of economic variables to ROA.

4.2 RECOMMENDATION

Practices corporate governance

Corporate governance is important in every companies. The risk related with the corporate governance is operational risk. Operational risk is the failure of technology, people, process and external factors. Corporate governance have a four pillar which is accountability, transparency, fairness and independence. The low profitability because insufficient amount in profit. To increase the profit, they have to practice corporate governance in their company. In this case, Getting Plantation Berhad got the fluctuate income each year. Besides that, BOD also must monitor the employee to generate the profit while must follow the company objective and company target.

5.0 CONCLUSION

This section exhibits the result of performance of Genting Plantation Berhad with economic variables and risks. Therefore, if the companies want to increase the profitability and survive in the global market, they have to manage the risk effectively. The risk manager have to effort and find a solution how to solve or how to minimum the risk. Operational risk, liquidity risk and other risk is faced to all companies. Genting Plantation Berhad has diverted their risk with other sector like property, biotechnology and others. This can reduce their risk effiectively. Next, previous we can see the trend for each company for 2011-2015. Something it fluctuate from each year up and down. We conclude that, Genting Plantation Berhad not really consistent with their operational and how to manage the risk for the company.

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