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# Performance and Risk of Macroeconomics Factors: Empirical evidence from Silver Ridge Holdings

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# Performance and Risk of Macroeconomics Factors: Empirical evidence from Silver Ridge Holdings

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**Abstract**

The objective of this study is to examine the performance of Sliver Ridge Holdings Berhad as a whole with clearly defined risk factors and macroeconomic influence that contribute to its performance. The data is obtained from the yearly report of Silver Ridge Holdings Berhad from 2011-2015. Liquidity ratio and operating ratio measurement are used to view the performance of this company as a whole in a period of 5 years. In addition to it, the asset size measurement to the liquidity ratio has taken into consideration. The asset size has a negative relationship with liquidity risk. The higher the asset size increased, the lesser the liquidity risk occurred. To determine the relationship between the factors of risk to the profitability of this company, this study is using liquidity ratio (quick ratio), GDP and also the operating ratio. At the end of this paper, the factor that is significant to the profitability of this company is the operation and liquidity. The GDP has a positive and negative relationship throughout the 5 years.

**Keywords: Liquidity risk, Operational Ratio, Profitability, GDP, Asset size**

## 1.0 Introduction

### 1.1 Background of the study

Silver Ridge was established by Dato' Mohd. Suhaimi bin Abdullah in the year 1995. He pursued his A-levels in Havering Technical College, London in the year of 1981 with a diploma qualification in Business Studies and was given a professional qualification in Chartered Institute of Transport from School of Transport, the University of London in 1985. He mentioned that the research and development have played an important part in directing the company forward.

Silver Ridge is well known for its best quality in the telecommunication industry. It is known as the first breadwinner of Next Generation Telecommunication keys. These keys comprise telecommunication system architecture and design, next generation network solutions and telecommunication related software solutions. Besides that, Silver Ridge provides sub-contracting services to the major telecommunication providers. Their service consists of installation, testing, designing and commissioning of cellular networks.

Silver Ridge started up strong and led in the telecommunication industry as it emerged into the 'telecommunications system architecture & design of cellular network' designed for foremost telecommunication benefactors in 1997. In 2004, Telekom Malaysia awarded Silver Ridge with the 3G contract. Silver Ridge implemented the first 3G network in Malaysia. Silver Ridge successfully made its mark locally and also internationally. It has developed GSM systems in Ghana and also in South Africa.

Today, Silver Ridge is a public listed company. On 21st July 2006, Silver Ridge Holdings Berhad was registered on the MESDAQ Market of Bursa Malaysia Securities Berhad on 21st July 2006 as the company aimed for. Currently, they are working closely with their partners in providing telecommunications solutions and also the related software solutions. They have been successfully recognised and generally accepted by MNCs such as Huawei, Motorola and ADC. Silver Ridge Holdings is classified under technology sector in the ACE market in Bursa Malaysia.

## 1.2 Board Of Directors

Y. B. Datuk Sr. Haji Md. Alwi bin Haji Che Ahmad

- Chairman / Independent Non- Executive Director

Y. B. Senator Dato’ Mohd Suhaimi bin Abdullah

- Group Managing Director

Syakur bin Dato’ Mohd Suhaimi

- Executive Director / Chief Executive Officer

Wong Chee Keong

- Executive Director / Group General Manager

Satila binti Dato’ Mohd Suhaimi

- Executive Director

Syauqat bin Dato’ Mohd Suhaimi

- Executive Director

Voon Sze Lin

- Executive Director

Zakhirah @ Zamariah Binti Mohd Zabidi

- Executive Director

Ho Chee Meow @ Ho Chee Mee

- Independent Non-Executive Director

Mohamad Ashshakur bin Ahmad Marzuki

- Independent Non-Executive Director

## 1.3 Product and Services

| Telecommunication Solutions | Software Solutions |
|---|---|
| 1) NGN/Broadband solution<br>2) Telecommunication System Architecture and design | 1) Next Generation Services and Applications<br>2) Value-Added Telecommunication Software Applications |

**2.0 Literature Review**

There are many factors of risk that an organisation should be concerned and alert about. Waemustafa and Sukri (2015) opined that a specific determinant of credit risk can influence the formation of the counterparty or default risk in Conventional and Non-conventional Banks. For Islamic Bank, the significant risk factors are focused in the finance department, governing capital and Islamic Contract while for conventional banks, loan loss provision, debt-to-total asset ratio, regulatory capital, size of the company itself, earning management and liquidity are the important factors that influence credit threat (Waemustafa and Sukri, 2015).

Besides that, there are many differences between the Islamic bank and conventional bank in the banking world. The difference covers in the way its risk is managed. The result shows that Islamic bank has higher liquidity compared to the conventional bank (Waemustafa and Sukri, 2016). A risk management committee is needed in order to have their own internal control to protect their company from the exposure to major losses. In Islamic bank, bankers come up with a suitable process of risk management and implement the principle of profit and loss sharing with is their main focus (Waemustafa and Sukri, 2016). Furthermore, an effective SSB do not give as much significant Islamic mode of financing as compared to remuneration, Waemustafa and Abdullah (2015).

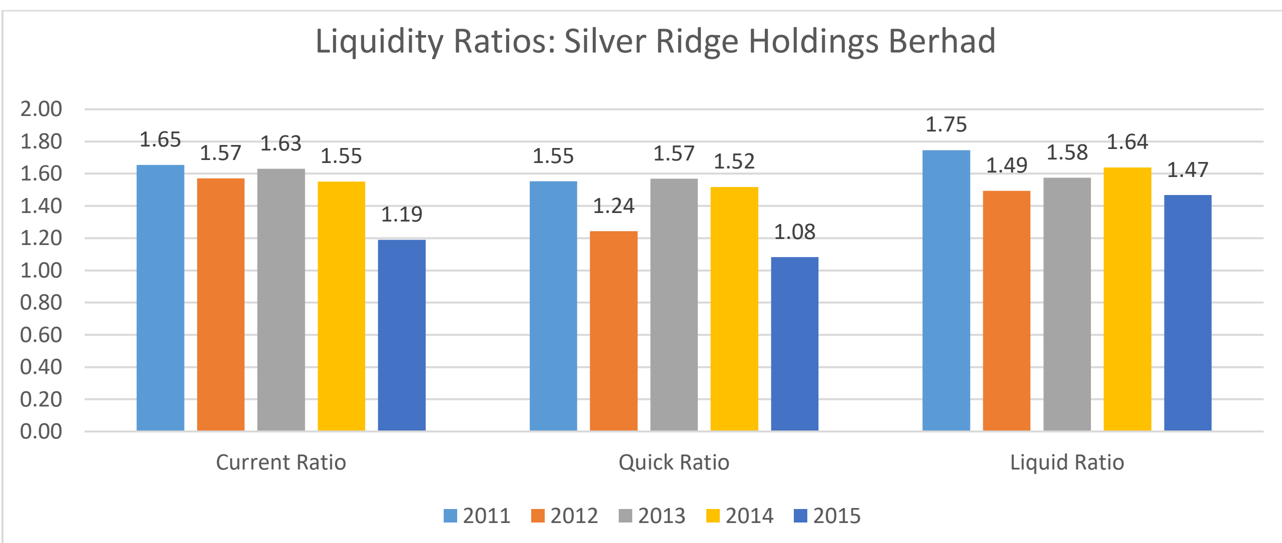
In any company, it is important to identify the risks available through the economic situation and the possibility of it affecting the company. The systematic risk that is non-controllable is beyond the company's reach to eliminate it. Thus, companies will take action by transferring the risk and not eliminating it because eliminating it is impossible due to the influence of the economy and market situation. All securities are influenced by systematic risk. At the same time, higher risk will lead to higher return (B.,Bora, A.,Adhikary, 2015)

Business and organisation nowadays have not just focused on the profit they may gain in their business but has also focused on using sources effectively and cutting down unnecessary cost that can also increase the revenue. Besides, financial risk management can help advise a company on their decision and what are the risks that are laid behind their decisions. By doing so, the company will be able to prevent taking decisions that are too risky and that might lead to bankruptcy. According to a research, there is a positive relationship between the total risk management and the company performance (HK., 2016).

## 3.0 Descriptive Findings

### 3.1 Liquidity Performance

**Bar Graph 1: Descriptive Results**




Current ratio, quick ratio and liquidity ratio for the year 2011-2015 can be calculated using this formula:

Current ratio = Current asset/ Current liability

Quick ratio = (Current asset – inventories)/Current liability

Liquid ratio = Total asset/Total liabilities

Table result 1. Descriptive results

| | Current Asset | Current Liability | Total Asset | Total Liabilities | Inventories | CR | QR | LR |
|---|---|---|---|---|---|---|---|---|
| 2011 | 36,260,455 | 21,927,944 | 39,533,191 | 22,635,530 | 2,216,488 | 1.65 | 1.55 | 1.75 |
| 2012 | 39,619,349 | 25,231,788 | 48,491,884 | 32,450,995 | 8,251,423 | 1.57 | 1.24 | 1.49 |
| 2013 | 36,567,995 | 22,412,795 | 45,329,140 | 28,771,702 | 1,401,905 | 1.63 | 1.57 | 1.58 |
| 2014 | 36,541,148 | 23,545,690 | 45,825,507 | 27,953,827 | 800,805 | 1.55 | 1.52 | 1.64 |
| 2015 | 30,417,976 | 25,571,252 | 40,534,540 | 27,632,781 | 2,759,068 | 1.19 | 1.08 | 1.47 |

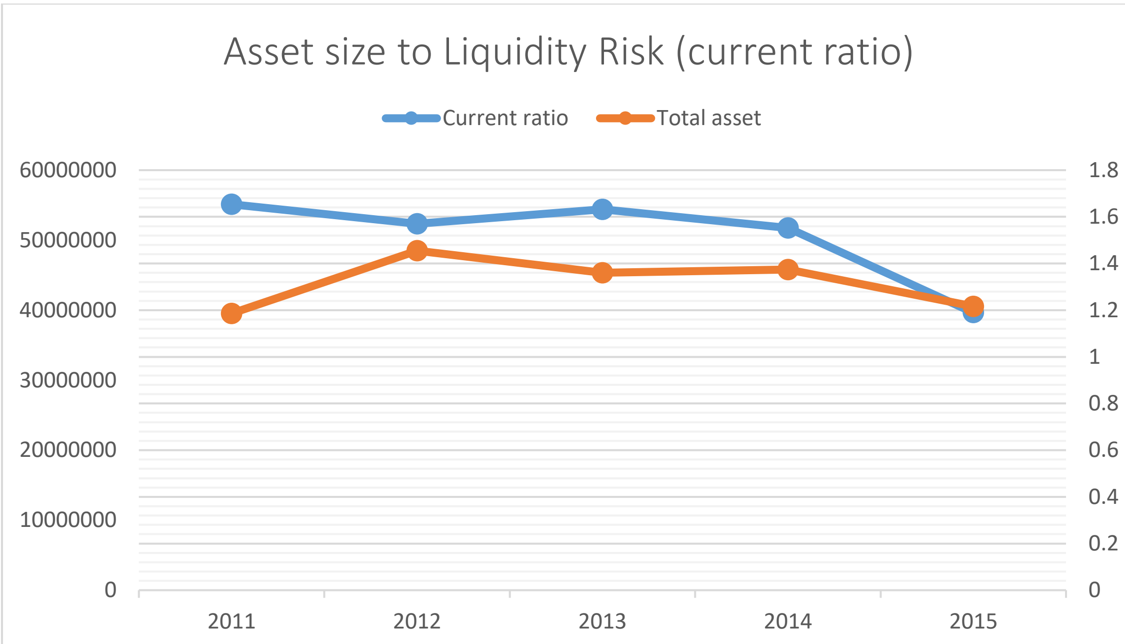
Liquidity ratio measures a company's ability to pay debt obligations. First of all, current ratio measures the ability for a company to pay back short-term and long-term debts. A current ratio of more than 1 means that the company is able to pay back all their current liability efficiently. Based on the bar graph 1, the current ratio from the year 2011 to 2015 shows that it is very stable and liquid. This is because all of these years has a current ratio of more than 1. According to the mean current ratio in table result 8, which is the ratio of 1.52, the year of 2011 until 2014 has maintained their ratio above the mean line but there is a slight drop in the year 2015 which is a ratio of 1.19.

Secondly, the quick ratio measures the ability of a company paying their debt by using cash or cash equivalents. The quick ratio tells us whether the assets are able to be converted to cash immediately to cover liabilities. A quick ratio of more than 1 means that the company is able to pay back all their current liability efficiently with the available cash. Based on the bar graph 1, the quick ratio from the year 2011 to 2015 shows that it is very stable and liquid as it is all above the benchmark. According to the mean quick ratio calculated in table result 8, which is 1.4, the year 2012 and 2015 shows a drop in its overall performance in paying their debt because their respective quick ratio is lower than the mean ratio.

As for the liquid ratio in bar graph 1, it shows the same trend as the current and quick ratio. It can be concluded that Silver Ridge Holdings Berhad has been stable in liquid to pay their obligations on time and has a very less liquidity risk over the past years.

### 3.2 Asset Size to Liquidity Risk

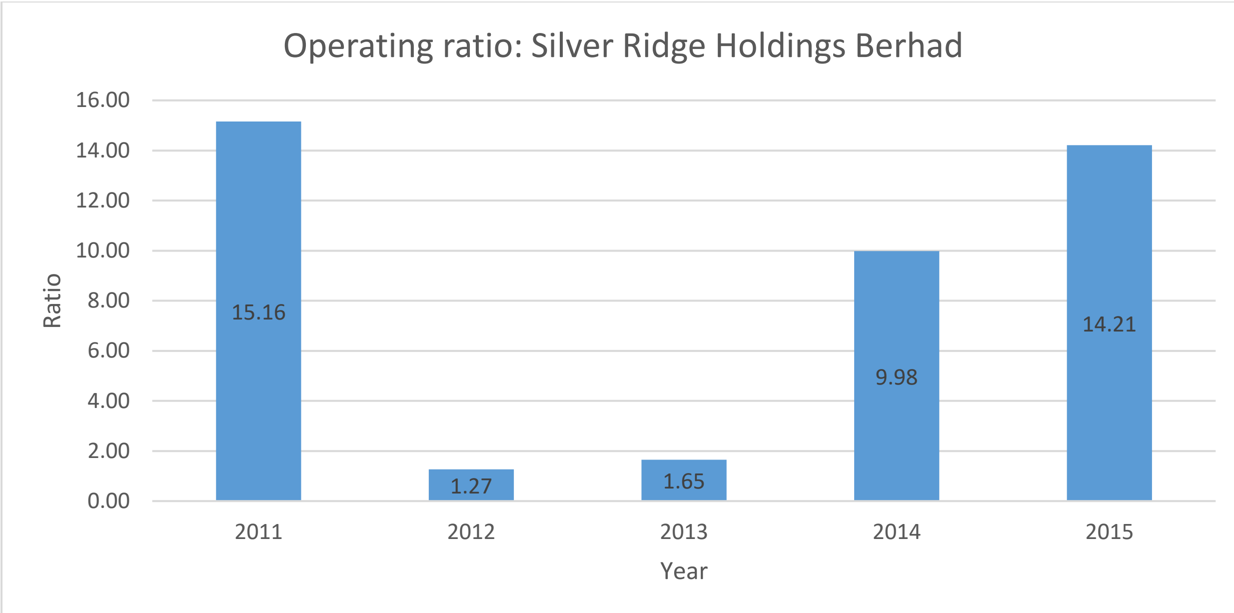
Line Graph 1. Descriptive results




Over the 5 years, the trend of the asset size of liquidity risk is inversely related. Both of the variables have the same pattern in an inverse relationship where we can assume that if the asset size grows higher the liquidity risk reduces. We can conclude that with a bigger amount of asset, the company is able to address to liquidity risk superiorly. From the year 2011-2015, Silver Ridge Holdings Berhad has successfully utilised its asset to repay liabilities.

### 3.3 Operational Performance

**Bar Graph 2. Descriptive results**




**The formula for operating ratio for the year 2011-2015 is as follows:**

**Operating Ratio = Operating Expenses/Operating income**

**Table Result 2. Descriptive results**

| Column1 | Operating expenses | Operating income | Operating ratio |
|---|---|---|---|
| 2011 | 8,895,938 | 586,719 | 15.16 |
| 2012 | 10,459,163 | 8,236,119 | 1.27 |
| 2013 | 18,145,563 | 10,970,107 | 1.65 |
| 2014 | 6,568,562 | 658,419 | 9.98 |
| 2015 | 8,785,403 | 618,188 | 14.21 |

The operational ratio is used to measure the operational efficiency in this company's management. A lower ratio indicates a high net profit ratio. Based on the bar graph 2, Silver Ridge Holdings Berhad has not been performing well from the perspective of operational ratio. Starting from a high operational ratio in the year 2011, it reduced up to 1.27 and 1.65 in the year 2012 and 2013 respectively. Immediately after the year of 2013, the operational ratio shoots up to 9.98 and increased even more in the following year. From this data, we can conclude that Silver Ridge Holdings Berhad has not obtained high net profit in the year 2014 and 2015.

### 3.4 Relationship of GDP, Liquidity and Operational to the Profitability

**Table Result 3. Descriptive Results**

| Year | ROA | ROE | EPS | ROCE | Leverage Ratio | GDP |
|---|---|---|---|---|---|---|
| 2011 | 4% | 9% | 1.4 | 17% | 1.34 | 5% |
| 2012 | -6% | -19% | -2.75 | -8% | 2.02 | 6% |
| 2013 | 1% | 3% | 0.47 | 7% | 1.74 | 5% |
| 2014 | -1% | -3% | -0.4 | -2% | 1.56 | 6% |
| 2015 | -12% | -39% | -4.1 | -33% | 2.14 | 5% |

| Current Ratio | Operating ratio | Total asset | Total equity | Net income | EBIT |
|---|---|---|---|---|---|
| 1.65 | 15.16 | 39,533,191 | 16,897,661 | 1,447,068 | 3,028,585 |
| 1.57 | 1.27 | 48,491,884 | 16,040,889 | (2,986,772) | (1,833,229) |
| 1.63 | 1.65 | 45,329,140 | 16,557,438 | 516,549 | 1,590,279 |
| 1.55 | 9.98 | 45,825,507 | 17,871,680 | (502,031) | (375,494) |
| 1.19 | 14.21 | 40,534,540 | 12,901,759 | (4,969,921) | (4,933,894) |

**Table Results 4. Correlation Matrix Silver Ridge Holdings Berhad Specific Risk Determinants to Profitability**

**Correlations**

| | ROA | Leverage Ratio | GDP | Current Ratio | Operating ratio | Interest Rate | Quick Ratio | Liquid Ratio |
|---|---|---|---|---|---|---|---|---|
| ROA | 1.000 | .739 | -.258 | -.877 | .362 | .358 | -.941 | -.645 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Pearson Correlation | Leverage Ratio | .739 | 1.000 | -.286 | -.717 | -.303 | .255 | -.884 | -.991 |
| | GDP | -.258 | -.286 | 1.000 | .173 | .150 | .369 | .105 | .272 |
| | Current Ratio | -.877 | -.717 | .173 | 1.000 | -.411 | -.718 | .848 | .662 |
| | Operating ratio | .362 | -.303 | .150 | -.411 | 1.000 | .498 | -.112 | .398 |
| | Interest Rate | .358 | .255 | .369 | -.718 | .498 | 1.000 | -.388 | -.253 |
| | Quick Ratio | -.941 | -.884 | .105 | .848 | -.112 | -.388 | 1.000 | .820 |
| | Liquid Ratio | -.645 | -.991 | .272 | .662 | .398 | -.253 | .820 | 1.000 |
| Sig. (1-tailed) | ROA | . | .077 | .338 | .025 | .275 | .277 | .009 | .120 |
| | Leverage Ratio | .077 | . | .321 | .087 | .310 | .339 | .023 | .001 |
| | GDP | .338 | .321 | . | .391 | .405 | .271 | .434 | .329 |
| | Current Ratio | .025 | .087 | .391 | . | .246 | .086 | .035 | .112 |
| | Operating ratio | .275 | .310 | .405 | .246 | . | .197 | .429 | .254 |
| | Interest Rate | .277 | .339 | .271 | .086 | .197 | . | .259 | .341 |
| | Quick Ratio | .009 | .023 | .434 | .035 | .429 | .259 | . | .045 |
| | Liquid Ratio | .120 | .001 | .329 | .112 | .254 | .341 | .045 | . |
| N | ROA | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| | Leverage Ratio | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| | GDP | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Current Ratio | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Operating ratio | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Interest Rate | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Quick Ratio | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Liquid Ratio | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |

**Table Result 5. Coefficient Stepwise Regression Analysis for Silver Ridge Holdings Berhad Specific Risk Determinants to Profitability**

**Excluded Variables**

| Model | | Beta In | t | Sig. | Partial Correlation | Collinearity St Tolerance | VIF |
|---|---|---|---|---|---|---|---|
| 1 | Leverage Ratio | -.425[b] | -1.025 | .413 | -.587 | .219 | 4.570 |
| | GDP | -.161[b] | -.758 | .528 | -.472 | .989 | 1.011 |
| | Current Ratio | -.284[b] | -.700 | .556 | -.444 | .281 | 3.558 |
| | Operating ratio | .260[b] | 1.667 | .237 | .763 | .988 | 1.013 |
| | Interest Rate | -.009[b] | -.036 | .975 | -.025 | .849 | 1.178 |
| | Liquid Ratio | .384[b] | 1.207 | .351 | .649 | .328 | 3.049 |

a. Dependent Variable: ROA

b. Predictors in the Model: (Constant), Quick Ratio

### 3.4.1 Operate to Profitability

Operation as an independent variable to Profitability. According to table result 4, the operation ratio has a very high correlation with profitability (ROA). This result proves that the more efficient the operation of the company, the more it can contribute to the company's wealth. The operation is positively related to profitability.

### 3.4.2 GDP to Profitability

As a part of macroeconomic factor, the GDP variable was tested to the relation to profitability. According to table result 4, the GDP is highly related to the profitability. 2 out of 5 years, the GDP was inversely related. As the GDP grew bigger, the profit of the company decreased. Only in the year of 2011 and 2013, it was positively related. In overall, all other variables like ROE, ROCE, and EPS were positively related to GDP.

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-W |
|---|---|---|---|---|---|
| 1 | .941[a] | .885 | .847 | 1.81329% | |

a. Predictors: (Constant), Quick Ratio

b. Dependent Variable: ROA

**Table Result 7. ANOVA Regression Analysis for Silver Ridge Holdings Berhad Specific Determinant to Profitability**

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 76.050 | 1 | 76.050 | 23.129 | .017[b] |
| | Residual | 9.864 | 3 | 3.288 | | |
| | Total | 85.914 | 4 | | | |

a. Dependent Variable: ROA

b. Predictors: (Constant), Quick Ratio

### 3.4.3 Liquidity to Profitability

After the test was completed, the stepwise method showed that R value is 0.941.This can be seen in table result 6. It means that there is a high degree of correlation between variable. The R2 is 0.885 and this indicates 88.5% of the variation in ROA is explained by independent variable liquidity in quick ratio. Silver Ridge company is generating more income by reducing their liquidity risk in their company. As this company manages its liquidity ratio, it attracts more investors to invest in their company because of a large amount of asset. This positive relationship can be seen when the current ratio increases and the profitability of ratio increase in value. The cash outflow pays the debt obligations which affects profit generation.

**Table Result 8: Mean and Standard Deviation**

**Descriptive Statistics**

| | Mean | Std. Deviation | N |
|---|---|---|---|
| ROA | 4.8631% | 4.63450% | 5 |
| ROE | 14.3267% | 14.96054% | 5 |
| EPS | 1.8240 | 1.58733 | 5 |
| ROCE | 13.3365% | 12.31850% | 5 |
| Leverage Ratio | 1.761239709185628 | .328082587064110 | 5 |
| GDP | 5.3000% | 0.49497% | 5 |
| Current Ratio | 1.519373034625327 | .189106643109971 | 5 |
| Operating ratio | 8.454797487272957 | 6.676751484120700 | 5 |
| EBIT | 2352296.200 | 1723358.7592 | 5 |

| | | | |
|---|---|---|---|
| Interest Rate | 3.1000% | 0.13693% | 5 |
| Quick Ratio | 1.392860498406112 | .218761176537006 | 5 |
| Liquid Ratio | 1.584505441525612 | .113246049494158 | 5 |

## 4.0 Discussion and Recommendation

### 4.1 Discussion

From the year 2011-2015, the performance of Silver Ridge Holdings Berhad was favourable in terms of liquidity and operation on an annual basis. Silver Ridge Holdings Berhad was able to pay back their debt obligations on time without any problem. Besides that, their operation ratio was good enough because they were able to operate without extra expense. ROA was found to have a positive relationship with operating variable and liquidity. Therefore, the company should look into ways enhance the profitability by improving even more in liquidity and operation besides GDP.

### 4.2 Recommendation for Improvement

#### 4.2.1 Improving Corporate Governance to increase Profit

As for this company, Silver Ridge Holding Berhad is a telecommunication sector where they may exist many defects in the case of failure in human activities that can cause inefficiency. This will lead to higher operating expenses because there are people in the corporate who doesn't perform their duty well. Therefore, operation in this company should be governed and controlled by a good team of board of directors and managers. Corporate governance is a mechanisms, processes and relations by which corporations are controlled and directed. From the year 2015 onwards, the company should improve their corporate governance team as it is proved that poor management and governance will lead to inefficiency in using the resources available and incur the unnecessary cost and low profit for many years. If there are less income, then the income for shareholders will not be sufficient. Operating defect can give a great impact on the shareholder’s wealth. Therefore, it is important to take note of the corporate governance. Corporate governance consists of a board of directors who takes the responsibility in monitoring every managing department. The whole corporate governance team should take responsibility to alter the mission, vision and objective of the company towards maximising shareholder’s wealth and taking a decision that is focused on the main objective.

#### 4.2.2 Improving Liquidity Management

An adequate liquidity and a careful liquidity management can significantly lead to a successful firm. An optimum level of liquidity ratio can avoid firm from the pressure of liability or debt unpaid. From the finding, we can see that the higher asset the firm has, the lower the liquidity risk. When they have a higher amount of asset, it means they are more capable of paying their debt obligations compared to the firm who has a little asset. Therefore, there should be an improvement in liquidity management using current, quick and liquid ratio to see the asset availability. One of the advantages of having good liquidity is that the company has enough cash to buy from suppliers right away with better pricing in their purchasing process. Besides that, it can also help with the diversification of investment because by improving liquidity management, they can make sure that they will not suffer from liquidity to meet their short-term obligations. Finally, cash would be able to cover debt at the right point of time to avoid interest expense.

## 5.0 Conclusion

From this paper, the conclusion is that all the companies will get affected by the systematic risk because it is uncontrollable. For example like in this study, it is GDP and interest rates. Besides systematic risk, companies also face unsystematic risks like the liquidity risk and operational risk. It is normal for telecommunication firm to go get exposed to these risks. Silver Ridge Holdings Berhad could handle the liquidity risk and operational risk efficiently. This is proved by its ratio that it's below the benchmark for liquidity risk and the operational ratio is beyond the benchmark. The liquidity ratio basically shows that the company finds no problem in paying off its debt obligation. At the same time, the operation is working effectively in the company because it generates more profit. From the findings, we can conclude that the company has to be more concern about the inefficiency in the company that is still reducing the profit generating process. It should take the effort to check on its own corporate governance to restore back the company in a way that it will use the sources effectively and generate more income. Furthermore, to maintain the continuous income to the company, they have to manage their liquid and have their own internal control on the inventories even though in this case the GDP is not so significant to the profitability.

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