Performance and risk:Sime Darby Platation

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Abstract

The purpose of this study is to analyze the performance of sime Darby platation a during five years. The analysis is applied on the sample of food industry company in Malaysia over the period between 2014 and 2018. This study using a descriptive analysis such as credit risk ,optional risk,liquidity risk and market risk as to against company's performance.The finding show that the company profitability can be influenced by the operational risk whereas liquidity can have influenced by the economic environment which is exchange rate.

Keywords: *Profitability, Liquidity, Operating Margin, Exchange Rate.*

1.0 INTRODUCTION

Sime Darby Berhad is a Kuala Lumpur-based company specializing in industrial equipment, automotive, logistics and healthcare. Sime Darby Industrial is one of Caterpillar's global agents.In November 2017, the company was split into three separate listed companies: Sime Darby (retaining trade and logistics business), Sime Darby Planting and Sime Darby Industries.

Sime Darby Plantation Bhd. operates as an integrated plantation company, which engages in the full spectrum of the palm oil value chain. It operates through the following segments: Upstream Malaysia, Upstream Indonesia, Upstream Papua New Guinea and Solomon Island (PNG/SI), Upstream Liberia, Downstream, and Other Operations. The Upstream Malaysia segment develops, cultivates, and manages oil palm and rubber plantation estates and milling of fresh fruit bunches (FFB) into crude palm oil (CPO), palm kernel (PK), and processing and sales of rubber. The Upstream Indonesia and Upstream Liberia segments develop, cultivate, and manage oil palm plantation estates and milling of FFB into CPO and PK. The Upstream PNG/SI segment develops, cultivates, and manages oil palm and sugar cane plantation estates,

milling of FFB into CPO and PK, processing and sales sugar cane, and cattle rearing and beef production. The Downstream segment involves in crushing of PK to crude palm kernel oil and palm kernel expeller, production and sales of refined oils and fats, and production and sales of biodiesel products and derivatives. The Other Operations segment includes trading of agricultural products and services, production and sale of oil palm seeds and seedlings, sales of oleo chemicals products, research and breeding programs of oil palm and rubber with special focus on genome science, development of green technology and renewable energy which includes bio-based chemicals, biogas and composting. The company was founded in 1978 and is headquartered in Ara Damansara, Malaysia.

Sime Darby Plantation is committed to the development of science and technology to maintain operational efficiency, sustainability and competitiveness. Since the early 1900s, Sime Darby Plantation has been at the forefront of agricultural research and development. We have made considerable contributions to the pioneering development and commercialization of the best agricultural management practices in the oil palm and rubber industries – some of which have gained international recognition and become the gold standard for the industry: zero-burning replanting technology.Introduced in 1985 by Sime Darby Plantation, it has proven to be the most environmentally friendly replanting technology and subsequently used as the industry standard for palm oil replanting. In 1992, the Sime Darby plantation was awarded the "Environmental Achievement Global 500 Honor Award" by the United Nations Environment Program (UNEP) for the development and commercialization of the technology.

2.0 LITERATURE REVIEW

In this section, the literature review will focus on "the risk and performance of the food industry."To improve operational efficiency, best practice companies (Min, H) were simulated by establishing reliable financial performance standards., &Jong Joo, S.2006).Management must focus on the operational efficiency of any type of business to achieve healthy and sustainable financial results (Sufian, F.2007).Improving operational efficiency may directly affect an organization's

profitability.Therefore, the operational efficiency of an organization depends on strategic management, such as skilled and skilled workers, cost control and management skills.The company is effectively managing operating costs, which will have an impact on its profitability (Rao&Lakew, 2012).According to Anderson et al.(1997) the relationship between productivity, customer satisfaction and profitability.Since each employee's sales and profitability are measured by return on assets (ROA), productivity is achieved.The internal aspects of the company have an impact on the changes in its financial performance, and the company must change its performance objectives according to best operating practices (Narasimhan, Swink&Kim, 2005).

The effective use of assets is reflected in net profit margins related to operational efficiency of the business.Operational risk has great impact on liquidity (Fiedler et al., 2002).Exchange rate is another currency price of a country's currency.Exchange rate is an important macroeconomic variable used to determine international competitiveness.Macroeconomic variables are related to liquidity risk (Waeibrorheem Waemustafa and Suriani Sukri, 2016).Liquidity risk, operational risk and credit risk may be factors that affect a company's performance.Credit risk is one of the biggest risks that could lead to bankruptcy if companies don't take it seriously.Credit risk will occur when non-performing loans increase and lead to banking crisis (Waemustafa and Sukri, 2015).According to Grilli and Roubini (1992), the interaction between liquidity and exchange rates is resolved through the current two-state extension of the cash prepayment restrictions in asset markets.Exchange rates could affect currency shares.A rise in domestic bonds would strengthen the domestic currency.Then, bond supply shocks cause currency fluctuations.

Credit risk

Credit is defined by the Economist Dictionary of Economics as "the use or possession of goods or services without immediate payment, and it enables producers to bridge the gap between the production and sale of goods." Almost all manufacturing and service exchanges are conducted through credit (Colquitt, 2007). Credit generated is debt owed by one party to the other, the former being known as

the debtor or borrower, and the latter being the creditor or creditor. The debtor will have to pay extra money to delay the payment because both the debtor and the creditor want a reward that they deserve to pay more and wait.

Credit risk arises from the current or potential risks of the debtor's failure to perform any contractual terms with the bank or the debtor's failure to perform as agreed. The losses associated with reduced credit quality of borrowers or counterparties caused credit risk. Credit risk refers to the risk that the borrower will fail to pay as required. The risk is mainly borne by the lender, including the loss of principal and interest, the interruption of cash flow and the increase in the cost of collection. Losses may be complete or partial and may occur in many situations. The risk management framework is very important for firms (CBK, 2013).

Operational risk

The Bank for International Settlements (BIS) defines operational risk as the risk of loss due to internal processes, staffing or system failure or external events. Operational risk can be divided into expected loss and unexpected loss. Operational risk is not a new risk, but there is strong evidence that this risk is important and may grow, accounting for almost every catastrophic financial institution that has occurred in the past 20 years (Bloom & Galloway, 1990).

Davies and Haubenstock (2002) mentioned that good operational risk management requires the support and participation of senior management. They can decide that operational risk is important and worthy of attention. And to allocate resources accordingly is the most important point. Without their support, operational risk management will be listed on the final list or only at the minimum requirements of regulatory agencies. It is important that senior management should play an important role in establishing a business environment where operational risk management can thrive (Croupy, Gala and Mark, 2001).

Liquidity risk

According to Padachi (2006), company liquidity is one of the key determinant of a company's profitability. There are two mean methods to measured liquidity risk, which is liquidity gap and liquidity ratio. Liquidity gap is the difference between

assets and liabilities. Liquidity is the amount of capital (includes cash, credit and equity) available for investment and expenditure. Most of the money is credit instead of cash. This is because large financial institutions prefer to use borrowed money that make most investments (Owolabi et al, 2011).

At any time, the equivalent to a deficit is positive gap between assets and liabilities. The liquidity ratio is the ratio of various balance sheets, and major liquidity trends should be determined. These ratios reflect the fact that companies should ensure that they provide appropriate low-cost funds in a short period of time. This may involve holding a portfolio of assets rather than readily available cash reserves, minimum required reserves or government securities (Padachi et al. 2008).

Rejda (2008) defines liquidity risk as the possibility of loss of the organization due to the inability to perform due debts. The International Monetary Fund (IMF) also defines the liquidity of fund as "the ability of solvent agencies to formulate agreed-upon payment capacity in a timely manner" (International Monetary Fund, 2008, p. 10). Holmstrom and Tirole (1998) also pointed out that liquidity risk arises because income and expenses are not synchronized, and companies must learn to manage liquidity (capital) to ensure the smooth flow of their business.

Market risk

Ekinci (2016) pointed that market risk is the risk of loss in the liquidity portfolio caused by changes in market prices, including interest rates, currencies, stocks and commodity risks. Exchange rates, inflation and interest rate risk are forms of market risk and have an impact on performance across the industry(Namasake, 2016), which will affect the value of positions in the position and positions outside the statement. According Dow(2007), market risk is defined as the risk of loss due to unexpected changes in market prices or market prices. Pastor and Stambaugh's (2003) study found a relationship between market risk and liquidity risk, and this conclusion was supported. Market risk can be measured using tests that can be obtained from price inventories.

3.0 METHODOLOGY

The data that are used in this study are firstly collected from the balance sheet and income statement of Land and House hat are provided throughout their financial annual reports for the concerning period, secondly put in excel spreadsheet to calculate the ratios needed for the empirical study. This study conducts ratio analysis on the data obtained from the annual reports during 2014 until 2018. The method used to calculate the coefficient of Sime Darby platation is stepwise method.

3.1 DATA SAMPLING

The sample used in this study is sime Darby platation which are operating in Malaysia. The data are used from the annual report which are ranged from year 2014 to 2018. The data extract from the annual report are related to the performance indicators such as net income, net sales, current assets, operating expenses, current liabilities and so on.

3.2 VARIABLES

The internal variables that used in this study consists return of asset (ROA), return of equity (ROE), current ratio, quick ratio, average collection period, debt to income, operational ratio and operating margin. For macroeconomics variables that used in this study is exchange rate.In this study, correlation and regression analysis were used to determine the relationship between the dependent variables and independent variables. The formula of internal variables is shown as below:

VARIABLES	MEASUREMENT
ROA	Net Income/ Total Assets
ROE	Net Income/ Common Equity
Current Ratio	Current Asset/ Current Liability
Quick Ratio	(Current Asset-Current Liability-Inventory)/Current Liability
Average Collection Period	Account Receivables/ (Revenue/360 Days)
Debt to Income	Total Liability/ Total Income
Operational Ratio	Operating Expenses/ Net Sales
Operating Margin	EBIT/ Revenue

3.3 STATISTICAL TECHNIQUE

The company that chosen for this study is sime Darby platation in Malaysia. The data had been collected from the annual report for year 2014 until 2018. This data was used to calculate the profitability ratio, liquidity ratio, credit risk and operational risk. Also, the macroeconomic variables used to identify the potential variable that may affect the dependent variable as well.

3.4 STATISTICAL PACKAGE FOR SOCIAL SCIENCE (SPSS)

SPSS is a software package that used for interactive and statistical analysis. In this study, SPSS was used to analyze the data. This software is widely used program for statistical analysis in social science. Besides that, it also used by health research, data miners, education research and so on.

4.0 ANALYSIS AND FINDINGS

4.1 CREDIT RISK

Credit risks figure in view of the risk that a borrower unable to pay back a loan or the lender lose the principal of the loan. Interest payments is a debt obligation for the borrower while it is lender's reward. Basically, lender assuming the borrower have the funds to repay their debts. The performance of credit risks in this assessment was measured by average collection period which is depend on credit sales and account receivable.
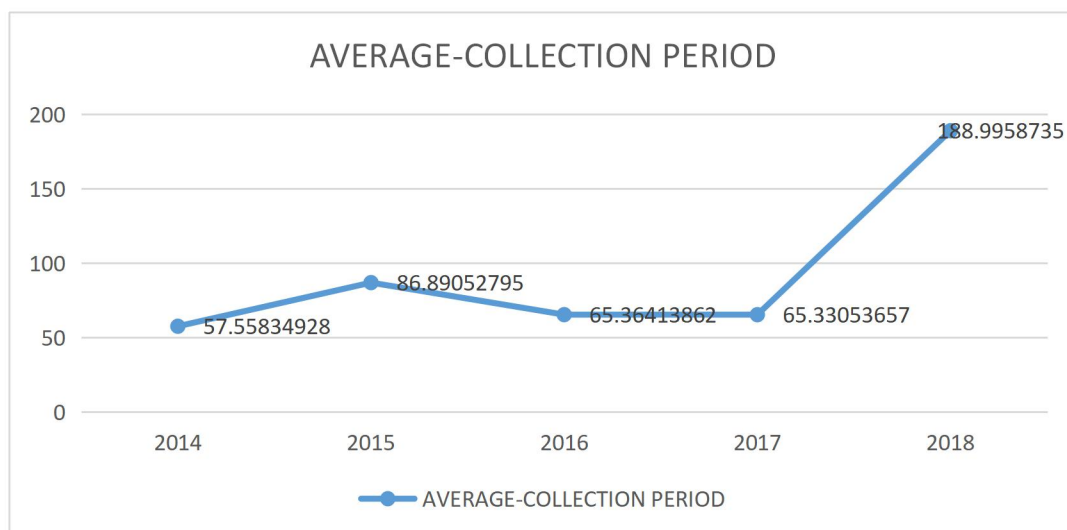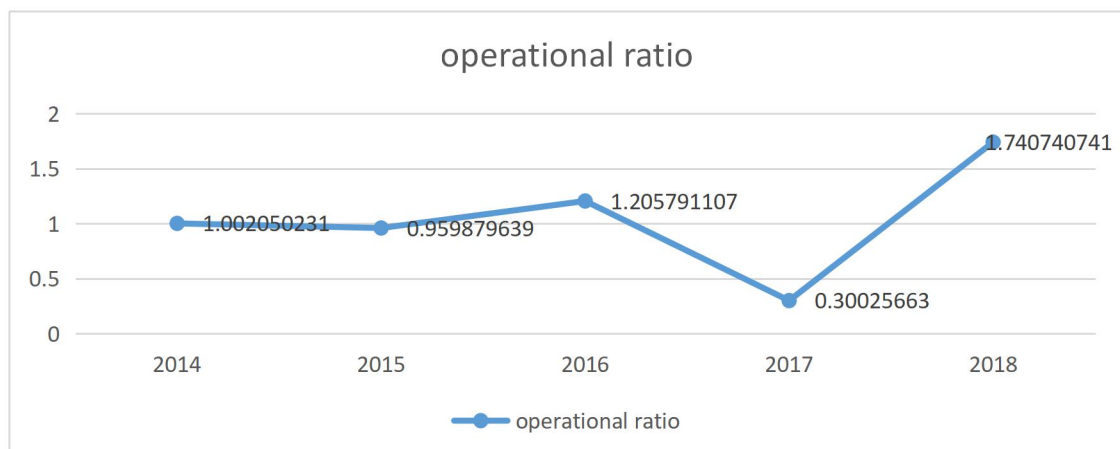
The highest average collection period among these five years is 188 days in 2018 while the lowest average collection period is 57 days in 2014. The lower the average collection period, the faster collecting the payment. This average collection period could affect the company's cash flow to pay the debts. From this analysis, company can measure how the effectiveness and efficiency of the credit control process.

4.2 LIQUIDITY RISK

current ratio

- 2014: 7.340380971
- 2015: 0.494905386
- 2016: 1.331728045
- 2017: 1.093213573
- 2018: 1.156088387

(legend: current ratio)
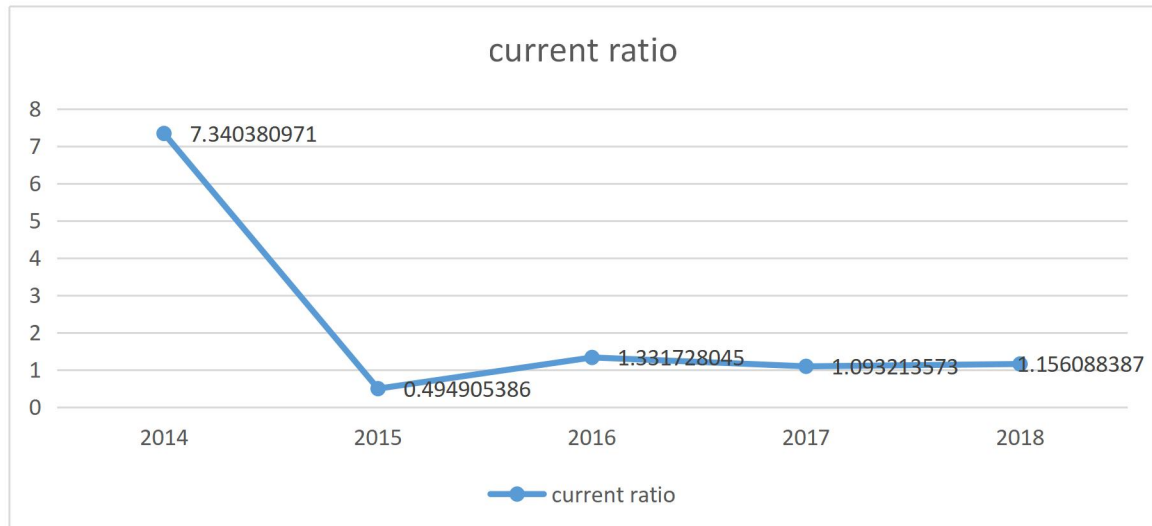
The current ratio is a liquidity ratio that measure a company's ability to pay back the liabilities with its assets. This current ratio also shows a company's financial health. From the line chart, the current ratio in year 2014 more better than year 2018 which was 7.3404 compare to 1.5609. It is shows that the inefficiency of the company's operating cycle.

## 4.3 OPERATIONAL RISK

operational ratio

- 2014: 1.002050231
- 2015: 0.959879639
- 2016: 1.205791107
- 2017: 0.30025663
- 2018: 1.740740741

(legend: operational ratio)

Operating ratio shows the efficiency of a company's management determine by

operating expense to net sales. The smaller the ratio, the greater the company's ability to generate profit. From the line graph above, the lowest operational ratio is year 2017 which is 0.3003 while the highest operational ratio is year 2018 which is 1.7407. From the result, an operational efficiency in year 2017 because company use the least resource to create more revenue.

4.4 MARKET RISK

图表标题
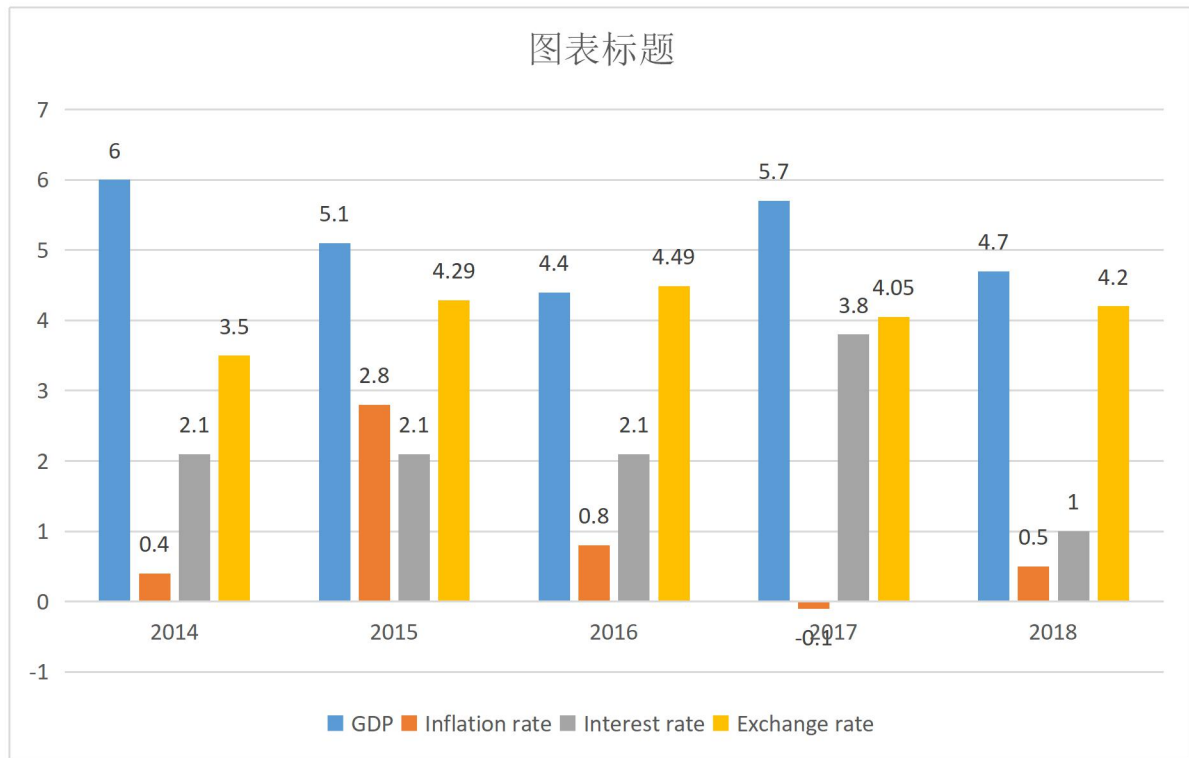
Market risk is the fluctuation of returns caused by the macroeconomic factors that affect all risky assets. Market risk is also systematic risk or non-diversifiable risk, it cannot be eliminated though diversification, but it can be hedged by using the financial instruments. The bar chart above shows the market risk that used in this analysis which is growth domestic product(GDP),inflation rate, interest rate and exchange rate. From the bar chart, year 2016 experience the lowest among five years, it shows a good overall market performance. We can see that GDP only 4.4 compare to 6 in year 2014, this indicate there is quite a greater market risk. Beside that, year 2017 was the highest among five years, inflation rate, and interest rate experienced higher, this indicate the high market risk for the year.

4.5 RETURN ON ASSETS
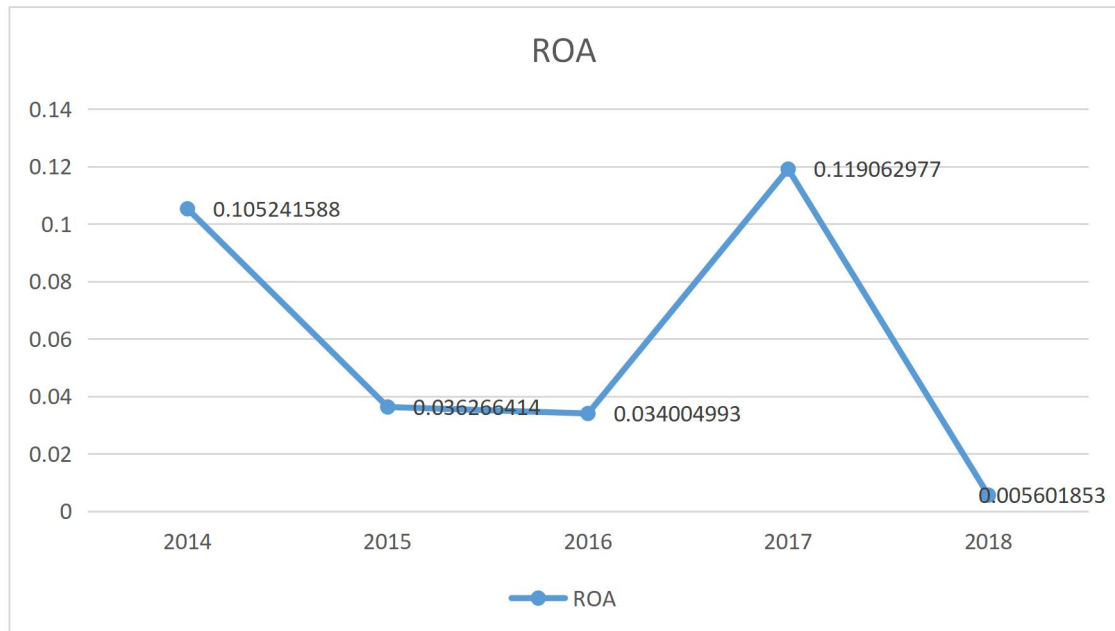
Return on assets measures how efficiency a company can manage its assets to create profits during a period. ROA helps both management and investors to identify how well the company can convert its investments in assets in to profits. Other word, this ratio measures how profitable a company's assets are. From the graph, on year 2014 decrease dramatically from 2016 which is 0.1to 0.03, then increase again to 0.03 in year 2017. Meaning that in year 2015, the management for sime Darby platation company was not efficient and effective in managing its assets that cause the lowest.

5.0 DISCUSSION

Descriptive Statistics

	Mean	Std. Deviation	N
QUICK RATIO	-.099288030344 409	1.63756789292 6588	5
ROA	.060035565281 748	.049329028009 495	5
AVERAGE-COLLECTION PERIOD	92.8278851749 16870	54.8585360211 27990	5
DEBT TO INCOME	1.68592330670 2200	1.13836251342 2367	5
OPERATIONAL RATIO	1.04174366928 4275	.518070648205 442	5
OPERATING MARGIN	.091975257140 415	.040529541228 397	5
GDP	5.180	.6686	5
Inflation	.880	1.1212	5
InterestRate	2.220	1.0035	5
ExchangeRate	4.1060	.37434	5

The return on assets (ROA) and quick ratio is the dependent variable used to calculate as a ratio of the operating result. In this study included 4 macroeconomic variables namely Gross Domestic Product (GDP), inflation, interest, and exchange rate which mean 5.180,0.88,2.22 and4.1060 respectively. The mean of ROA of sime Darby platation is 0.06 while the quick ratio is -0.099 between this five years. This can conclude that the overall profitability is less than 1% whereas the liquidity is 0.099 by using the current assets to cover the current liabilities for this 5 years.

5.1 PROFITABILITY TO OPERATIONAL RISK

Correlations

		QUICK RATIO	ROA	AVERAGE-COLLECTION PERIOD	DEBT TO INCOME	OPERATIONAL RATIO	OPERATING MARGIN	GDP	Inflation	InterestRate	ExchangeRate
Pearson Correlation	QUICK RATIO	1.000	-.497	.353	.583	.052	.629	-.706	.148	.077	.907
	ROA	-.497	1.000	-.702	-.826	-.841	.251	.880	-.463	.809	-.679
	AVERAGE-COLLECTION PERIOD	.353	-.702	1.000	.956	.748	-.253	-.460	-.008	-.693	.247
	DEBT TO INCOME	.583	-.826	.956	1.000	.732	-.101	-.674	.110	-.655	.520
	OPERATIONAL RATIO	.052	-.841	.748	.732	1.000	-.708	-.632	.133	-.976	.231
	OPERATING MARGIN	.629	.251	-.253	-.101	-.708	1.000	.044	.163	.740	.420
	GDP	-.706	.880	-.460	-.674	-.632	.044	1.000	-.271	.526	-.884
	Inflation	.148	-.463	-.008	.110	.133	.163	-.271	1.000	-.277	.377
	InterestRate	.077	.809	-.693	-.655	-.976	.740	.526	-.277	1.000	-.132
	ExchangeRate	.907	-.679	.247	.520	.231	.420	-.884	.377	-.132	1.000
Sig. (1-tailed)	QUICK RATIO	.	.197	.280	.151	.467	.128	.092	.406	.451	.017
	ROA	.197	.	.093	.042	.037	.342	.024	.216	.049	.104
	AVERAGE-COLLECTION PERIOD	.280	.093	.	.005	.073	.340	.218	.495	.097	.344

	DEBT TO INCOME	.151	.042	.005	.	.080	.436	.106	.430	.115	.185
	OPERATIONAL RATIO	.467	.037	.073	.080	.	.090	.127	.415	.002	.354
	OPERATING MARGIN	.128	.342	.340	.436	.090	.	.472	.397	.076	.240
	GDP	.092	.024	.218	.106	.127	.472	.	.330	.181	.023
	Inflation	.406	.216	.495	.430	.415	.397	.330	.	.326	.266
	InterestRate	.451	.049	.097	.115	.002	.076	.181	.326	.	.416
	ExchangeRate	.017	.104	.344	.185	.354	.240	.023	.266	.416	.
N	QUICK RATIO	5	5	5	5	5	5	5	5	5	5
	ROA	5	5	5	5	5	5	5	5	5	5
	AVERAGE-COLLECTION PERIOD	5	5	5	5	5	5	5	5	5	5
	DEBT TO INCOME	5	5	5	5	5	5	5	5	5	5
	OPERATIONAL RATIO	5	5	5	5	5	5	5	5	5	5
	OPERATING MARGIN	5	5	5	5	5	5	5	5	5	5
	GDP	5	5	5	5	5	5	5	5	5	5
	Inflation	5	5	5	5	5	5	5	5	5	5
	InterestRate	5	5	5	5	5	5	5	5	5	5
	ExchangeRate	5	5	5	5	5	5	5	5	5	5

The dependent variable used in this study is Return On Asset (ROA) which determine the profitable of sime Darby plantation is relative to its total assets. Independent variables include current ratio, quick ratio, average collection period, debt to income, operational ratio and operating margin. Among the variables, quick ratio is found to be significant to ROA which is -0.49. This mean the quick ratio had greater influenced toward the ROA. In addition, current ratio,   operating margin, average collection

period, debt to income, and operational ratio that show less significant to ROA.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	.194	.038		5.053	.015	.072	.317		
	QUICK RATIO	-6.306	3.099	-.762	-2.035	.135	-16.167	3.556	1.000	1.000

a. Dependent Variable: ROA

Table above shows a coefficient of ROA and quick. Coefficient is used to tell us about the significant on other ways and the relationship influence whether positive or negative and t-value indicate how big is the influence. According to the table above, quick ratio is near to most significant which is0.135 compare to 0.1. The significant shows that which of the independent variables is relevant to dependent variable. The relationship between ROA and quick ratio is negative. When 1% change in ROA will change 0.762% in operating margin. The t-value shows how big the influence of the variable. The t-value for quick variable is -2.035, that's mean the bigger the number, the bigger is the impact.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.762[a]	.580	.440	.039866945045 798	2.798

a. Predictors: (Constant), QUICK RATIO
b. Dependent Variable: ROA

R-squared is a statistical measure of how close the data are to the fitted regression line. It is also known as the coefficient of determination, or the coefficient of multiple determination for multiple regression. According to the studies that are conducted, the R square is 0.580. Mean that, there are not closer to the 1. If closer to

the 1, there are more relevant to the quick ratio. In conclusion, the higher the R-squared, the better the model fits your data.

5.2 LIQUIDITY TO EXCHANGE RATE

Correlations

		QUICK RATIO	GDP	INFLATION	INTEREST	EXCHANGE RATE
Pearson Correlation	QUICK RATIO	1.000	.605	-.496	-.825	-.662
	GDP	.605	1.000	-.179	-.883	-.960
	INFLATION	-.496	-.179	1.000	.091	-.002
	INTEREST	-.825	-.883	.091	1.000	.959
	EXCHANGE RATE	-.662	-.960	-.002	.959	1.000
Sig. (1-tailed)	QUICK RATIO	.	.140	.198	.043	.112
	GDP	.140	.	.387	.024	.005
	INFLATION	.198	.387	.	.442	.499
	INTEREST	.043	.024	.442	.	.005
	EXCHANGE RATE	.112	.005	.499	.005	.
N	QUICK RATIO	5	5	5	5	5
	GDP	5	5	5	5	5
	INFLATION	5	5	5	5	5
	INTEREST	5	5	5	5	5
	EXCHANGE RATE	5	5	5	5	5

The significant of the data set can be measured by using P value. From the table above test for the relationship of liquidity to macroeconomic factors. When P value greater than 0.1 indicates insignificant while if less than 0.01 meaning that it macroeconomic factor have greater influence toward the variable. From the table shows the significant of quick ratio to exchange rate is 0.112, that's mean it has greater impact to the liquidity of the company. The real exchange rate volatility can have an impact on the productivity growth.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	1.081	.163		6.645	.007	.563	1.599		
	EXCHANGE RATE	-.020	.013	-.662	-1.531	.223	-.062	.022	1.000	1.000

a. Dependent Variable: QUICK RATIO

The table above shows a coefficient of quick ratio and exchange rate. This is an alternative way to determine the significant variable to quick ratio. The less the significant of variable, the more important the company need to concern. As we can see from the table, the significant for exchange rate is 0.223, that's mean it has median significant to quick ratio. The Beta shows the negative relationship of -0.662% of impact to quick ratio. Besides that, t-value shows -1.531 meaning that the smaller the number, the smaller the influence.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.853[a]	.727	.637	.032114967639 267	3.501

a. Predictors: (Constant), Exchange rate

b. Dependent Variable:QUICK RATIO

S-squared is a statistical measure that the percentage of a fund's movements and it can be explained in a benchmark index. According to the study, the R-squared is 0.727 which mean the if closer to 1, there are more relevant to quick ratio.

6.0 CONCLUSION

In conclusion, by looking at the return on assets (ROA) for sime Darby plantation, it can be concluded that there have significant to concern in year 2014 as the ROA graph indicated a fluctuation movement on that period. While,sime Darby plantation also need to concern about the macroeconomic factor which is exchange rate had smaller influence toward the company liquidity. The company also need to concern about the macroeconomic factor which is interest rate had greater influence toward the company liquidity.This macroeconomic risk can be mitigating by using the financial instrument such as forward contract, future contract, options and so on hedge the risk.

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