The performance and risk of Hartalega Holdings Berhad

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Abstract

The purpose of the study is to investigate the overall performance of Hartalega Holdings Berhad and specific risk factors and macroeconomic factors are influence on profitability performance. The data obtained from annual report of Hartalega Holdings Berhad during the years 2011 to 2015. The measurement of financial ratios and regression analysis used to see the overall performance and risk of the company. The study found that performance of the company is unfavourable due to the decreasing movements in liquidity ratio, profitability ratio and asset efficiency ratio. Moreover, debt-to-equity and inflation are the risk variables with highest impact on profitability performances, where the debt-to-equity is positive significance while inflation is positive insignificance.

Keywords: Performance, Specific Risk, Macroeconomic Risk, Profitability

1.0 Introduction

Malaysia is one of the top-producing rubbers countries in the world. Obviously, rubber industry in Malaysia has a stable growth support by the ongoing expansion in the low global vehicle fleet and low prevailing prices (The Star Online, 2017).

Result of the company performances as a signal to indicate the how well the company is performing and action should be taken by the company. Therefore, financial ratios are the useful method to evaluate the company performances in order to decision making for the business owner, managers, investor and shareholders. Financial health of a company also can be determined through financial ratios tools for stakeholders. Besides that, this tool can be used to compare across the companies within an industry, between industries or within a firm itself.

Risk is an uncertainty outcome from an event. Risk also is a parameter that can influence other conditions in firm such as profit, efficiency, etc. (Hoseininassab, E., Yavari, K., Mehregan, N., & Khoshsima, R., 2013). Generally, the financial risks can be broadly into five categories, there are credit risk, liquidity risk, operational risk, legal risk and market risk. Thus, the regression analysis is used to determine the possible risk of the company and minimize it. In this study, using financial ratios and regression analysis to evaluate the performances and risk of Hartalega Holdings Berhad listed on the Bursa Malaysia.

The remainder of this paper classified into four sections. The next section (Section 2) is the literature review; Section 3 discusses the descriptive analysis; Section 4 is the discussion and recommendations and last section (Section 4) gives the conclusion of the paper.

2.0 Literature Review

In generally, most of the researchers figure out the financial ratios analysis is used to evaluate the company's performance. The data will be taken out from the financial statements, such as balance sheet and income statement. Financial ratios are traditionally grouped into four categories, there are included liquidity ratios, financial leverage ratios, asset management ratios and profitability ratios. All of the categories of financial ratios should be analyse in the systematic and accurate. Liquidity ratios are concern about the company's ability to pay its bills over the short run without undue stress, which focus on current assets and current liabilities. However, financial leverage ratios are intended to address the firm's long-term ability to meet its obligations while the asset management ratios are described how efficiently a firm uses its assets to generate sales. Profitability ratios is measured how efficiently a firm uses its assets and manages its operations.

Under the study of (Asamoah, K. A., 2010), it is examine about evaluation of the financial position and performances of Cocoa Processing Company for the years 2004 to 2008 by using financial ratios analysis. The aim of the study is to assess and analyze the economic and financial standing of the company and find the factors that have contributed to or retarded the growth of the chosen firm. The study shows that the four types of financial ratios are applied and the result is increasing value in leverage ratio, profitability ratio and liquidity ratio while decreasing value in activity ratio.

Sultan, A. S., (2014) conducted the study about the past and present performance and profitability of Baghdad Soft-drink industry with applied by financial statements analysis within the period of 2004 to September 2013. The results highlight that the profitability ratios is decrease and finally impact to the performance of Baghdad Soft-Drinks Industry. In addition, measurement profitability of a firm is more focus on return on equity (ROE), which it is related to tax and financing decisions as well as investing and operating decisions.

Moreover, some of the researchers concluded that regression analysis also used to determine the risk factor of the company. Regression analysis is a statistical analysis technique and provides the new insights that can help company decision makers move their businesses towards a more profitable future. From the regression

analysis, the correlations data and coefficients data will be taken to investigate the two relationships between dependent variables and independent variables.

Another study conducted to investigate the specific and macroeconomic dynamics determinants of credit risk with extracted from 13 conventional banks and 15 Islamic banks in Malaysia analysed by Waemustafa, W and Sukri (2015). The study shows that the number of variables in the specific risk and macroeconomic risk models have the different coefficient sign and significant in impact to credit risk. For example, size (+) for conventional banks (−) Islamic banks, liquid (−) for conventional banks (+) Islamic banks and also negative coefficient sign of inflation, and M3 are negatively significant to credit risk for Islamic banks and conventional banks.

The significant influence between Shariah Supervisory boards (SSB) and their remuneration towards Islamic banks choices in financing mode also is one of the study examined by Waemustafa, W and Abdullah, A. (2015). The study employs 18 Islamic banks in Malaysia (2012- 2013) as a sample. It shows that effectiveness of SSB and mode of Islamic bank financing are not related and relevant. But, SSB remuneration and bank's financial growth has a positive significant relationship to the mode of financing.

The next study of Waemustafa, W. (2016) is to investigate the liquidity risk between Islamic and Conventional banks in Malaysia by using time series regression analysis of both of the bank from 2000 to 2010. The result showed that conventional banks has the less liquidity compared to Islamic banks. Besides that, the liquidity risk of Islamic bank is significantly influence by the specific factors and one macroeconomic factor while conventional banks found that only specific factors are significant to liquidity risk.

3.0 Descriptive Analysis

3.1 Performance of Hartalega Holdings Berhad

From the financial report of Hartalega Holdings Berhad from 2011 to 2015, it showed the fluctuation and movements of the company, known as trend analysis. Trend analysis can be determined by using financial ratios. The financial ratios are summarized as below:

Item	2011	2012	2013	2014	2015
Revenue (RM)	734,920,894	931,064,704	1,032,035,687	1,107,079,365	1,145,960,422
Total asset (RM)	634,963,679	758,139,563	940,226,936	1,112,054,236	1,147,451,876
Current ratio	3.6280	4.4205	3.2490	3.8314	3.0590
Return on asset (ROA)	0.3	0.2662	0.2485	0.2095	0.1437
Return on equity (ROE)	0.3850	0.3255	0.3056	0.2469	0.1649
Debt-to-equity ratio	0.2833	0.2227	0.2298	0.1786	0.1470
Inventory turnover	7.1414	9.3946	7.8880	7.5269	6.6955

Table 1: Financial Ratios of Hartalega Holdings Berhad from 2011 to 2015

Item	2011	2012	2013	2014	2015
Gross Domestic Product, GDP (%)	5.3	5.5	4.7	6.0	5.0

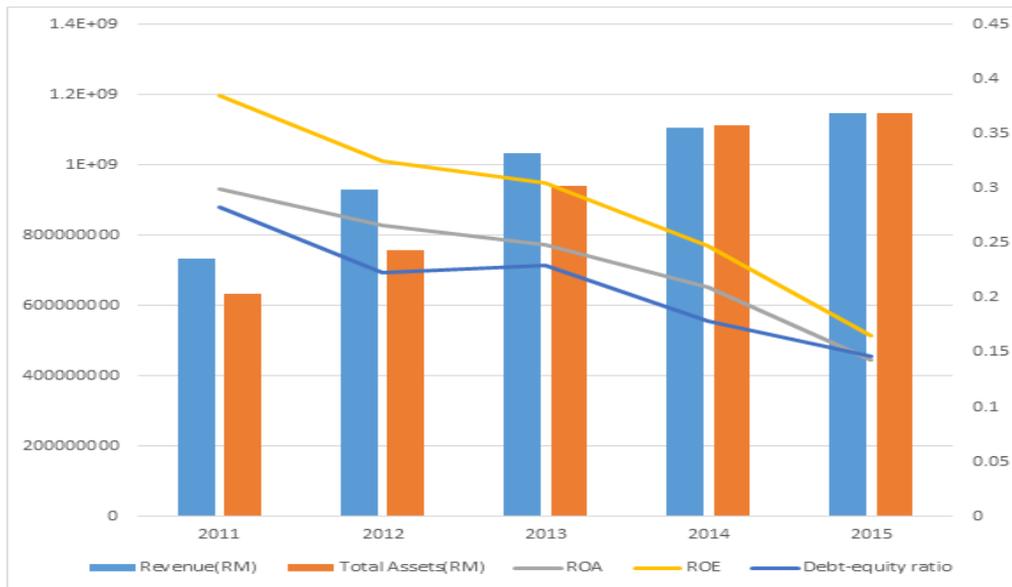*Table 2: Gross Domestic Product in Malaysia from 2011 to 2015*

Figure 1: Financial Ratios (Revenue, Total Assets, ROA, ROE and Debt-equity Ratio) of Hartalega Holdings Berhad from 2011 to 2015
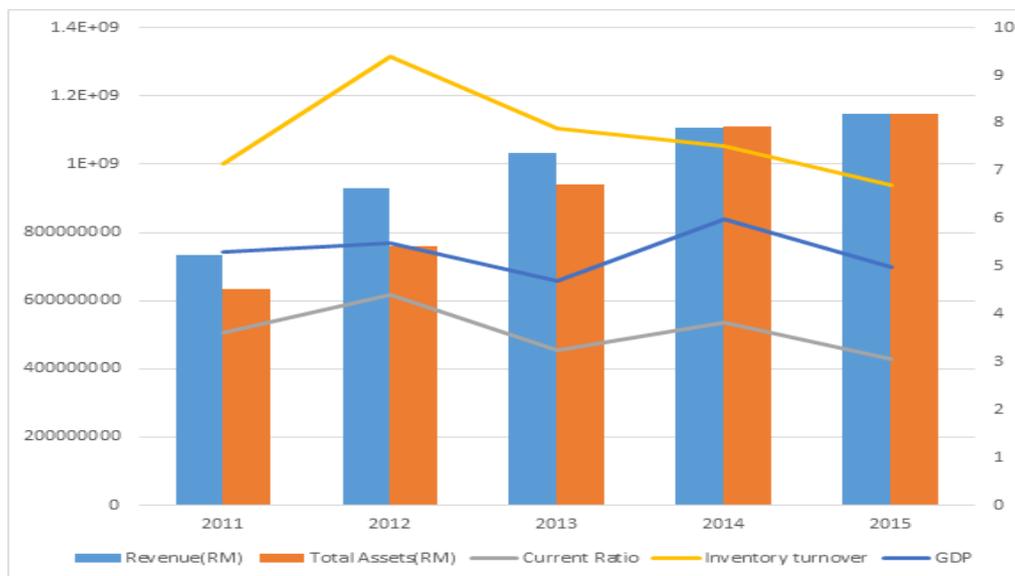

Figure 2: Financial Ratios (Revenue, Total Assets, Current Ratio and Inventory Turnover) of Hartalega Holdings Berhad and GDP in Malaysia from 2011 to 2015

For the measures liquidity ratios, current ratio is one of the best known and most widely used ratios. Looking at the current ratio of the company within five years (2011-2015), it is shown that the trend are fluctuated, which are increasing in 2012

and 2014 while 2013 and 2015 are keep decreasing. Although it is declined in 2013 and 2015, but it is still in acceptable rate because the ratios is still above in 1 mean the current assets of the Hartalega Holdings Berhad are still able to cover the current liabilities. The reason of liquidity ratios was affected by the significant drop in net working capital. In 2013, the increasing on current asset (RM19,767,709 or 0.05%) is less than the increasing on current liabilities (RM36,910,807 or 0.43%) and the current asset decrease and current liabilities increase in 2015. Overall, Hartalega Holdings Berhad does maintain good liquidity where it utilised the current assets. In other words, this company has the lower liquidity risk within 5 years and apparently it is good sign to the company. The lower liquidity risk can bring the advantage to the company, such as flexibility, where it can provide the financial freedom in the form of buying power and also security, which is provide safety net in an unexpected events (Archer, C., 2011).

From profitability perspective, both of the ratios such as return on asset (ROA) and return on equity (ROE) shown big changes, it is decreasing trend. For the return on asset (ROA), it is dropped 0.52% from 0.3 times in 2011 to 0.1437 times in 2015 and from 0.3850 times to 0.1649 times on return on equity (0.57%). The weakness in operating of Hartalega Holdings Berhad show up in a diminished return on assets (ROA), which is translate into lower return on equity (ROE).

In term of leverage ratio, the performance of the Hartalega Holdings Berhad shown a good performance as there was dropped in debt-to-equity ratio from 0.288 times in 2011 to 0.1470 times in 2015, which is 0.48%. It is means that this company run a decreased risk of defaulting on their loans, called credit risk. Obviously, the credit risk in this company is lower, where the probability of company bankruptcy is reduced as well.

For the asset efficiency of Hartalega Holdings Berhad, it shown a dramatic growth on inventory turnover in 2012 from 7.1414 times to 9.3946 times but declined in the following three years. Thus, the higher ratio on inventory turnover in 2012 (9.3946 times) means that the more efficiently they are managing inventory. Finally, it will bring the good or stable performance in that year. Overall, the asset efficiency of Hartalega Holdings Berhad is maintained and do not has big fluctuation, but showing a dropping trend within this period.

Besides that, the gross domestic product (GDP) is one of the economy's indicators to determine the economic health of a country and directly affect to the performance company. From the table 2 above, it shown that GDP in Malaysia is decreasing in 2012, 2013 and 2015 but it does not have big movement within this period. Therefore, the decreasing of GDP in Malaysia will be directly slow down the growth of the Hartalega Holdings Berhad. It is mean that this company relatively facing the higher market risk in 2012, 2013 and 2015 compared to other years.

3.2 Specific Risk Factors and Macroeconomic Risk Factors to Profitability Performances of Hartalega Holdings Berhad

By using regression analysis method, it can found that the relationship between the various types of risk and the profitability performance for the company, known as correlation analysis. The types of risk factors are divided into two classes, there are specific risk factors and macroeconomic risk factors. Specific risk factors are return on asset, remuneration, size (total asset) and debt-to-equity ratio whereas GDP, inflation and unemployment rate as macroeconomic factors.

3.2.1 Specific Risk Factors to Profitability Performances

	Mean	Std. Deviation	N
ROA	.233580	.0599094	5
Remuneration	3669216.40	827124.504	5
Size	918567258.00	221620484.166	5
Debt-to-equity Ratio	.212280	.0520941	5

Table 3: Descriptive Results of Specific Risk Determinants

		ROA	Remuneration	Size	Debt-to-equity Ratio
Pearson Correlation	ROA	1.000			
	Remuneration	.740	1.000		
	Size	-.922	-.870	1.000	
	Debt-to-equity Ratio	.961	.667	-.929	1.000
Sig. (1-tailed)	ROA	.	.077	.013	.005
	Remuneration	.077	.	.027	.109
	Size	.013	.027	.	.011
	Debt-to-equity Ratio	.005	.109	.011	.

Table 4: Correlation Matrix Hartalega Holdings Berhad Specific Risk Determinants to Profitability Performances

Model	Standardized Coefficients Beta	T	Sig.
(Constant)		-.455	.728
Remuneration	.458	.639	.638
Size	.620	.431	.741
Debt-to-equity Ratio	1.231	1.294	.419

Table 5: Coefficient Stepwise Regression Analysis for Hartalega Holdings Berhad Specific Risk Determinants to Profitability Performances

From the table 3, the study included three specific risk variables for Hartalega Holdings Berhad, there are remuneration mean 3669216.40, size mean 918567258.00 and debt-to-equity mean 0.212280. Moreover, it is also investigate the standard deviation of these three specific risk variables. There are remuneration standard deviation 827124.504, size standard deviation 221620484.166 as well as debt-to-equity standard deviation 0.0520941.

Table 4 exhibits the result of the Pearson correlation and significant of Hartalega Holdings Berhad's specific risk variables, such as remuneration, size as well as debt-to-equity. This results show that the size variables are total different than other variables. Size also known as total asset, which it is included the current asset

and non-current asset. Obviously, the size of the company is negative, which is -0.922 and significantly relation to profitability performances, where the P value < 0.10. The negative relationship indicated that when size of the company decreases, the profitability ratios will react by increasing value. However, the variables that show positive significance to profitability are remuneration and debt-to-equity. In addition, the bigger t means that the more impact to profitability performance, which is debt-to-equity (t value=1.294).

3.2.1 Macroeconomic Risk Factors to Profitability Performances

	Mean	Std. Deviation	N
ROA	.233580	.0599094	5
GDP	5.300	.4950	5
Inflation	2.440	.6693	5
Unemployment	3.060	.1342	5

Table 6: Descriptive Results of Macroeconomic Risk Determinants

		ROA	GDP	Inflation	Unemployment
Pearson Correlation	ROA	1.000			
	GDP	.065	1.000		
	Inflation	.224	.468	1.000	
	Unemployment	-.839	-.339	-.284	1.000
Sig. (1-tailed)	ROA	.	.459	.359	.038
	GDP	.459	.	.213	.289
	Inflation	.359	.213	.	.322
	Unemployment	.038	.289	.322	.

Table 7: Correlation Matrix Hartalega Holdings Berhad Macroeconomic Risk Determinants to Profitability Performances

Model	Standardized Coefficients		
	Beta	t	Sig.
(Constant)		1.871	.312
GDP	-.291	-.515	.697
Inflation	.102	.184	.884
Unemployment	-.908	-1.745	.331

Table 8: Coefficient Stepwise Regression Analysis for Hartalega Holdings Berhad Macroeconomic Risk Determinants to Profitability Performances

From the table 6, the study included three macroeconomic risk variables for Hartalega Holdings Berhad, there are GDP mean 5.300, inflation mean 2.440 and unemployment mean 3.060. Moreover, it is also investigate the standard deviation of these three macroeconomic risk variables. There are GDP standard deviation 0.4950, inflation standard deviation 0.6693 as well as unemployment standard deviation 0.1342.

Table 7 provide the result of the Pearson correlation and significant of Hartalega Holdings Berhad's macroeconomic risk variables, such as GDP, inflation and unemployment. The results show that the unemployment variable is negative and tested with P value < 0.10 indicates significantly relation to profitability performances, which is 0.038. But, another two macroeconomic factors (GDP and inflation) shows positive insignificant relation, mean that the increasing in these two factors will bring to the growth of profitability performances as well. Besides that, the impact of inflation variable to profitability performances is relatively high with the t value = 0.184 compared to other factors.

4.0 Discussion and Recommendations

4.1 Discussion

Overall, performance of Hartalega Holdings Berhad was showing not really stable in the performance result from the decreasing movement in liquidity ratio, profitability ratio and asset efficiency ratio. Besides that, the debt-to-equity and inflation are the risk variables influence much on profitability performances, where t value equals to 1.294 and 0.184 respectively. Since the high impact of debt-to-equity and inflation to profitability performances of the company, so that the company need pay more attention to these risks.

4.2 Recommendations for Improvement

Obviously, the decreasing in asset efficiency ratio indicated that the less efficiency managing the inventory of the company. Thus, the inventory control need to be considers and implement from time to time. As a good effectiveness company, they will superior the quantities of stock of inventories by using checklist item method. Through this risk management strategy, the stock of inventories will be clear up and not keep in the long term in the warehouse. With stored excess of the inventories, it is better to keep the cash in hand in order to facing emergence funds. Besides that, the inventory control also means that the company can be sell the inventories in the right time and market prices. This action can be avoids the unfavourable situation, which is dropping in the prices of the inventories and finally facing the loss of the company.

On the other hands, the good corporate governance should be applied by the company. The good corporate governance need to prior of production. In the process of production, the company's manager should be superior and control the production of gloves in order to make sure that all of product made in a good and high quality. With the high quality of the product, it will increase the transaction between country and also across of the country. Finally, it will bring the high revenue and profit to the company and increase the profitability ratio as well.

Besides that, the company can be implemented the restructuring debt to overcome the debt-to-equity risk. If a company is largerly financed at high interest rates, and current interest rates are significantly lower, the company can seek to refinance its existing debt at lower rates. This will reduce both interest expenses and

monthly payments, improving the company's bottom-line profitability and improve cash flow.

5.0 Conclusion

The objective of this study is to examine the performances and risk of the Hartalega Holdings Berhad from 2011 to 2015 by using the financial ratios analysis and regression analysis. The financial ratios analysis was performed next on the information gathered from the financial statements to determine the financial situation of the company. Liquidity ratio was performed first. Results of the current ratio showed that the company was able to fully cover its liabilities within the five years (2011-2015). Profitability ratio then followed. Return on asset (ROA) and return on equity (ROE) were considered to show that it has a big change in decreasing value, where it was the higher cost and lower revenue for the examined period. Leverage ratio was look at next. Debt-to-equity ratio was calculated and shown that equity was greater than debt in all the studied period. This indicated the company not at risk of default, also known as credit risk. Finally, asset efficiency ratio was the computed by using inventory turnover. Inventory turnover was at a fluctuated level in all investigated period. The low values indicated that the company are not easy to selling its inventories and excessive of the investment in inventories.

On the other hand, regression analysis was used to examine the specific risk factors and macroeconomic factors to profitability performances of the company. The specific risk factors show that number of variables indicates difference correlation significant and coefficient sign in their impact to profitability performances. For example, remuneration and debt-to-equity were positive significance while size was negative significance to the profitability performance and both of them were positive coefficient sign. However, the regression results of macroeconomic factors indicated the unemployment variable was negative significance to profitability performances while another two variables (GDP and inflation) are positive insignificance. Besides that, it has positive coefficient sign of GDP, inflation and unemployment. Moreover, it also can conclude that debt-to-equity ratio and inflation variables give the highest impact to the profitability performances of the Hartalega Holdings Berhad.

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