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THE RELATIONSHIPS BETWEEN ROA, EXCHANGE RATE, OPERATING RISKS AND PERFORMANCE FROM THE MALAYSIAN EXPORT FIRM

Pi Hangyu

Abstract

With the development of global economic integration, the flow of production factors around the world continues to increase, the degree of dependence between countries and countries is also deepening. Malaysian enterprises in the import and export trade to expand the scale of development continue to grow, but the need to face the trade risk is also growing. Once the enterprise cannot avoid the trade risk, it will cause great losses to itself, will seriously disrupt the domestic and international industry market order, so do the import and export trade risk management and avoid the work of great practical significance. The purpose of this study sought to examine the what and the factors and how to influence the profit of the Malaysian export company in which rubber market, what kind of risks would be faced by rubber company. Supermax Corporation Berhad as the case analysis of resources in terms of the company's return on assets (ROA), the performance of company which is operating ratio, current ratio, remuneration and size to analysis the impact among these factors under the Malaysian current GDP, inflation rate and exchange rate.

Key words: Return on Assets, exchange rate, current ratio, operational risk, remuneration, export company.

1. Introduction

1.1 Background of the case company

Supermax Corporation Berhad is Malaysian largest Own Brand Manufacturer and the second largest producer of rubber gloves in the world. Supermax Corp.Bhd. as a trader and exporter of latex gloves in the early time since it is started its rubber business. The rubber industry is one of the important planting industries in Malaysia and an important part of the national economy. Mainly including natural rubber planting and rubber products in two parts. The industry practitioners 37 million people. At present, Malaysia is second only to Thailand, Indonesia, the world's third largest producer and exporter of natural rubber, the largest rubber gloves, rubber ducts and latex exporting countries, the fifth largest rubber consumer. In the early 1990s,

Malaysia's natural rubber production and exports accounted for 25% and 30% of the world's total, the late 90's due to international rubber prices continued to slump, rubber production shrinking, production and exports soared to 9% and 4 %. Since 2002, with the international market demand for rubber increased, the international Jiaojia rise, the Malaysian rubber industry began to recover. 2004, 2005 to achieve the best level, 2006, 2007 continued to be optimistic. In the past few decades, researchers have devoted much of their attention to figure out the external factors which are GDP, Inflation rate and exchange rate based on the USD, and the internal factor which are size and current ratio, remuneration in terms of the executive director of the Supermax Corp.Bhd and return on asset (ROA) influence and impact of profit and performance of the firm.

1.2 Research Objectives and Statistical Methods

The research objective for this study will be to determine the relationship between external risks and internal risks. External risks, such as the GDP, inflation rate and exchange rate, internal risks, such as the operating ratio, size, remuneration return on assets of the firm. The statistical methods used by this study is SPSS.

2. Literature review

One of the fundamental goals of each country is to achieve a high desirable economic growth rate. Planners always regarded this economic signal. Therefore, factors which impact it are important for planners and policymakers. World Bank studies show causes such as high rates of savings, investment, a large proportion of exports in GDP, based on export promotion policies and competitive markets play a key role in East Asia's economic growth (World Bank: 1993) . One of the fundamental goals of each country is to achieve a high desirable economic growth rate. Planners always regarded this economic signal. Therefore, factors which impact it are important for planners and policymakers. World Bank studies show causes such as high rates of savings, investment, a large proportion of exports in GDP, based on export promotion policies and competitive markets play a key role in East Asia's economic growth (World Bank: 1993) Azerbaijani, K. and Shirani Fakhr, Z. (2009) is using regression to examine the effect of economic liberalization on economic growth. Results show that trade and market size are not strong effects on economic growth. Sarkar (2002) indicated only for countries with a medium level of development. A significant positive relationship between exports and economic growth established.

3. Description Analysis

3.1 Independent Variable and Dependent variable

In this study, there is assumptions among the analysis processes, is there a significant relationship between exchange rate based on the USD? The assumption has one independent variable which is exchange rate, GDP and inflation. ROA, current ratio and remuneration of executive officer of the firm as the dependent variables. These three external factors of risk's descriptive analysis followed by table 1, 2 and 3.

Descriptive Statistics

	Mean	Std. Deviation	N
exchange rate	3.4600	.49168	5
ROA	.084440126266272	.011886487655132	5
current ratio	1.736478734975774	.293932153078045	5
remuneration	14143410.60	11008465.778	5

Table 1

Table 1 is showing that the mean and standard deviation of the exchange rate, ROA, current ratio and remuneration. As we can see that, the remuneration's standard deviation is larger than others, which means that the differences from year 2011 to 2015 is large. According to the annual report of Supermax Corp.Bhd. 2014 and 2015, the remuneration was increased from 11,798,079 RM in 2014 increased to 32,947,464 RM in 2015, however, the remuneration of executive officer of the firm in 2011 was only 5,428,040 RM.

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	5.654	1.418		3.987	.156		
ROA	4.327	8.282	.105	.522	.693	.211	4.729
current ratio	-1.517	.957	-.907	-1.586	.358	.026	38.604
remuneration	5.320E-9	.000	.119	.219	.863	.029	34.897

a. Dependent Variable: exchange rate

Table 2

From the table 2, based on the t-value from the table 2, we can that there is no significant relationship among ROA, current ratio, remuneration and the exchange rate. because the t-value from the ROA, current ratio and remuneration is higher than 0.01 if the exchange rate as dependent variable. As we ca see that, even there is no significant relationship among the independent variable and dependent variable, however, the t-value of current ratio if the exchange rate as the dependent variable negative which is -1.586, which means that the exchange rate of the country has negative influence to the current ratio, but positive influence to the ROA and remuneration of the firm. we have been mentioned that Supermax Corp.Bhd is a trader and exporter of latex gloves. As the exporter of Malaysia, if the exchange rate is going down, the current ratio is going to increased. Foreign exchange rate is one of the risks to the export company. For example, if Supermax Corp.Bhd exporting to outside of Malaysia, company has a short position in the Malaysian ringgit. There are benefits from a depreciation of Supermax Corp.Bhd's home currency which is Malaysian currency relative to the foreign currency like USD, by becoming more competitive in the foreign market. The influence among the exchange rate and ROA, current ratio and remuneration is positive, in other words, if the exchange rate is increasing, current ratio and remuneration of executive of the firm will be increased but indirectly.

3.2 the Operational Performance of Supermax Corp.Bhd

The operational performance of Supermax Corp.Bhd was measured by operating ratio in this study by table 3and figure 1. The formula to calculate the operating ratio is followed by operating income divide by operating expenses.

$$\frac{\textit{operating expenses}}{\textit{net sales}}$$

(“As announced on 13 May 2015, the Company had changed its financial year-end from December to June. As such, the current financial period is an 18-month period ended 30 June 2016”, annual report of Supermax Corp.Bhd. in 2016)

<i>year</i>	<i>operating expense</i>	<i>net sales</i>	<i>operating ratio</i>
2011	58660567	104479257	0.561456587
2012	85390292	100822162	0.846939704
2013	78073416	129167383	0.604435998
2014	78707483	146102640	0.538713626
2015	98242077	188678298	0.520685622

Table 3

The figure 1 is showing that operating income and operating expenses of Supermax Corp.Bhd. from 2011 to 2015. Precisely speaking that is from 2011 to 2016. 30 June. Because of the changes of this financial current period in 2016. As we can see from the table 3 that is, the operating expenses kept increasing from year 2011 to 2012, which is from 5866057 RM to 85390292 RM. However, the operating expenses was reduced from 85,390,292 RM to 78,073,416 RM from year 2012 to 2013. On the other hand, because of the reduction of operating expenses in 2013, the operating ratio was reduced from 2012 to 2013. We can find out that, if only the operating expenses or only net sales has been exist that cannot represent the operational performance to the firm directly. So, we have been used operating expenses divide by net sales to calculate the operating ratio to explain how the operating expenses to affect the operational performance of the firm.

The changes of the operating ratio were representing via figure 2 followed by below:

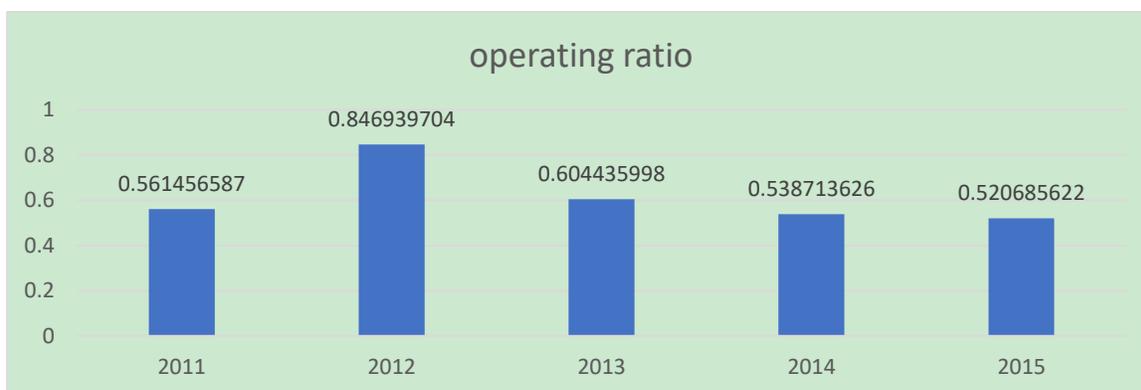


Figure 1

As we can see that, the figure 1 has been showed the changes of the operating ration among these 5 year which from 2011 to 2015. The highest operating ratio year is 2012, the lowest one is year 2015, from 2013 to 2015, the operating ratio kept reducing from 60 percent to 52 percent the smaller the ratio, the greater the organization's ability to generate profit if revenues decrease. (investobia). In other word, from 2013 to 2015, Supermax Corp. Bhd.'s profits are increasing year by year.

3.3 Return on Assets (ROA) Issue

ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. (investobia).in other word, ROA is tool to measure that how many profits for a company is relative to its total assets, the relationship between net profits and total assets in which company. We used the net income for the company’s annual earning, the formula is followed by:

$$\frac{\text{net income}}{\text{total assets}}$$

Figure 2 has been showed that the changes of the ROA of the firm.

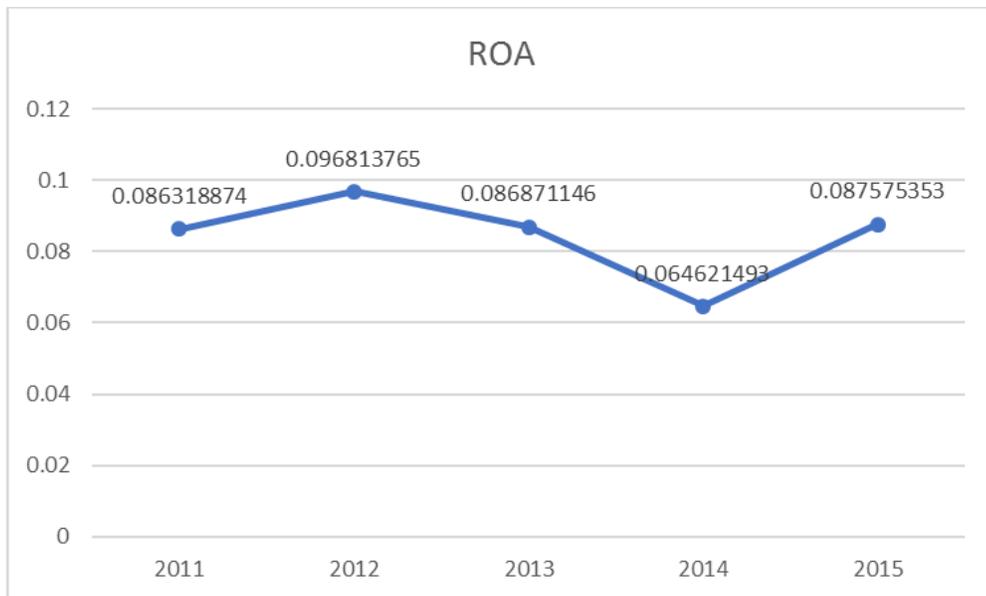


Figure 2

As we can see that, ROA has been increased by 2011 to 2012 and 2014 to 2015, but kept reducing from 2012 to 2014, the highest ROA year is 2012, the lowest on is 2014. As we mentioned

before, ROA gives an idea as to how efficient management is at using its assets to generate earnings. According to the operating ratio and ROA, we can see that, even the profits has been increased, but doesn't means that the ROA has been increased by operating ratio.

4. Discussion and Recommendation

There are some suggestions for Supermax,Corp.Bhd..

1. Increasing the types of the production.

For the production of the firm, according to the net sales has been reported by annual reports from 2011 to 2015, we can find out that, the risks were faced by this firm is, the sales of firm can't keep it increasing year by year. So, I suggest that, Supmax company might be can try to change their production strategies in the future. For example, Supermax used to focus on produce the latex gloves, it's reported that, nowadays, the Supermax Group has eleven factories manufacturing various types of latex gloves, in other say, Supermax might can produce more kind of rubber production instead of only focus on the latex gloves. Such as tires, the production of the toys for the children, and so on.

2. Competitive Advantages of the production of firm.

On the other hand, the suggestion is , the competitive advantages of the production of the firm is the key point for the export company. Even though the external factors such as GDP, foreign exchange rate and inflation have no significant relationship with the profits and operational performance of the firm, however, once these three factors represent the positive position, the export company like Supermax would be suffered with the negative influence and impacts from these external factors. So that, to reduce the possibility of the risk of the foreign exchanges rate, Supermax Company might need to more innovation and higher quality of the production in their firm.

5. Conclusion

Supermax Corporation Berhad is Malaysian largest Own Brand Manufacturer and the second largest producer of rubber gloves in the world. From the analysis results we have been received, the results show that, there is no significant relationship between exchange rate and the profits or performance of the firm. As we know, the foreign exchange rate is one of the risk for the company, especially for the export company like Supermax, however , unlike the other influence factors

which the remuneration of the executive of the firm, company total assets and return on assets and so on, these internal factors have positive influence to the profits or operational performance, the external factors, such GDP, foreign exchange rate and inflation rate and so on, three of them have negative impact and influence to the export company but indirectly. If the economy of the host country is going to down, for example exchange rate has been increased, which means that, it is a good news to the export company normally. And on the other hand, even if the profits have been increased compare to previous year, doesn't mean that, ROA must be increased by operational performance of the firm, might have other significant factors like net income of the financial year and total assets of the firm to influence the ROA directly. In the future, to reduce the negative impact from the foreign exchange rate, GDP and inflation rate, Supermax company might need more innovation ideas, for example, increasing the quality of the production, and produce more kinds of the production for different demand of the markets.

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