

Financial Analysis of Acoustech Bhd in Malaysia

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DOI: 10.32629/memf.v3i2.778

Abstract: This paper uses the proportional analysis method commonly used in financial management to make a comparative analysis of the financial statement data of Acoustech Bhd company in Malaysia from 2015 to 2016, so as to make a scientific judgment on the operation performance of the company. According to the analysis of the company's profit margin, the profitability and efficiency of the company in the past two years are obtained. The asset structure of the company is combed through the equity multiplier and return on equity, and then the financial performance of the company is comprehensively analyzed by DuPont analysis method. Finally, it interprets the dividend policy of the company for two years, and gives some suggestions on the strategic adjustment of the company's asset structure.

Keywords: Acoustech Bhd, financial, analysis, ratio, profit

1. Introduction of Acoustech Bhd

1.1 Company profile

On 18 October 1999 as a private limited company Acoustech Bhd was integrated in Malaysia. It is an investment holding enterprise covering the business of the manufacture of real estate investment, property development, and audio speaker products. On 27 Nov 2001, it was successfully listed into the Kuala Lumpur Stock Exchange (Bursa Saham) as a public listed Company. From 2015, It's a great thing for Acoustech Bhd to complete its first program named "Senibong 88" which is a niche dual purpose commercial-industrial development, and also renowned as "Commdustrial" units.

1.2 Future prospects and latest development

The audio and property division of Acoustech Bhd had different fates for 2016. The former turned a relatively modest performance while the later performed exceptionally well. To date, Acoustech Bhd has added 14 acres of land during the financial year, its projects are at different stages of the development cycle and the company expects the revenue and profit contribution to be relatively spread out over the next 3 years.

2. The financial performance of Acoustech Bhd

2.1 Profitability analysis — net profit margin

Net Profit Margin of Acoustech Bhd in 2015 and 2016					
Definition of Net Profit Margin: it is the measure of the quality of affording gain or benefit or profit. That is to say, the higher the net profit margin is, the more actual profit is translated effectively by the company from revenue.					
Ratio/Calculation formula		Acoustech Bhd (2015 RM)		Acoustech Bhd (2016 RM)	
Net Profit Margin		12165991/108405381=11.2%		507308/114210230=0.4%	
$= \frac{\text{Net income after tax}}{\text{Sales}}$					

Statements of Profit or Loss and Other Comprehensive Income					
For the financial year ended 31 December 2016					
	Note	Group		Company	
		2016 RM	2015 RM	2016 RM	2015 RM
Continuing operations					
Revenue	27	114,210,230	108,405,381	15,318,000	5,850,000
Profit for the financial year		507,308	12,165,991	13,700,552	2,122,547

Analysis:

According to the above data show that the Net profit was 11.2% in 2015, down to 0.4% in 2016, the figure nearly zero, it seems to be loss.

From the company's income statement, we can see that compared with 2015, in 2016, the revenue rose 5% from RM108,405,381 to RM114,210,230, the cost of sales rose 9% from RM94,365,969 to RM102,580,436, other income decreased by 82% from RM9,065,993 to RM1,621,514, finance costs increased by 327% from RM26,028 to RM111,153, taxation increased by 75% from RM1,462,716 to RM2,556,836. And in 2016, the company has reserved 79 acres land for the future development, this may be one of the main reasons resulted in the decline in profits.

So in general, the profit rate in 2016 of Acoustech Bhd nearly zero was led for several reasons: First, due to the large investment projects and financing activities lead to huge increase of financial and tax cost which affect margins. Second, in the operation and management of the company, the company sales revenue growth is not high, because the section in audio division, the company that year turnover decreased by RM2.8 million compared with the previous year, while the cost of sales has increased, this is the other factors leading to declining margins.

2.2 Efficiency analysis — net profit margin

Total Asset Turnover of Acoustech Bhd in 2015 and 2016

Definition:

Total Asset turnover is the ratio of the value of a company's sales or revenues generated relative to the value of its total assets which can be used as an indicator the effectiveness with which a firm's use of its assets in producing revenues. Total assets turnover can be regarded as a significant measure to assess the efficiency of enterprise assets operation and show the transfer speed all assets operation and the management efficiency of assets quality and utilization.

Ratio/Calculation formula	Acoustech Bhd (2015 times)	Acoustech Bhd (2016 times)
Total Asset Turnover $= \frac{\text{Sales}}{\text{Total Asset}}$	108405381/198477573=0.55	114210230/174423125=0.65

Statements of Profit or Loss and Other Comprehensive Income

For the financial year ended 31 December 2016

	Note	Group		Company	
		2016 RM	2015 RM	2016 RM	2015 RM
Continuing operations					
Revenue	27	114,210,230	108,405,381	15,318,000	5,850,000

Statements of Financial Position

As at 31 December 2016

	Note	Group		Company	
		2016 RM	2015 RM	2016 RM	2015 RM
ASSETS					
TOTAL ASSETS		174,423,125	198,477,573	125,519,538	107,078,745

Analysis:

Acoustech Bhd total assets operating efficiency increased from 0.55 times in 2015 to 0.65 times in 2016. It shows that the turnover speed of total assets in Acoustech Bhd increases rapidly in 2016, and the utilization efficiency of assets increases.

According to the Financial Report, the total assets of Acoustech Bhd in 2016 decreased by RM24,054,448 compared with 2015, it has a decrease of 12%, which indicates that the scale of operation of the enterprise has been reduced in 2016. The main change is non-current assets, compared with 2015, the assets of enterprise's property, plant and equipment decreased by 80%, and the land held for property development decreased by 30%, indicating that the Acoustech Bhd may deal with surplus assets in order to improve the utilization level of assets.

From the asset structure analysis, in terms of the proportion of current assets to total assets, The proportion of 2016 increased by 8% compared with that in 2015. Among them, the larger changes in the project are cash and bank balances, an increase of 123%. The proportion structure also reflects that the liquidity of the enterprise is less dependent on the current liabilities, and the ability to repay the current liabilities is stronger, which indicates that the short-term debt paying pressure of the enterprise is not big, and the risk is relatively low.

2.3 Capital structure analysis — equity multiplier

Equity Multiplier of Acoustech Bhd in 2015 and 2016					
Definition: The equity multiplier is a financial leverage ratio that measures the amount of a firm's assets that are financed by its shareholders. Equity multiplier reflects the company's financial leverage size, the greater the equity multiplier, that capital invested by the shareholders for assets in the proportion of the smaller, the greater the financial leverage.					
Ratio/Calculation formula	Acoustech Bhd (2015 times)	Acoustech Bhd (2016 times)			
Equity Multiplier $= \frac{\text{total assets}}{\text{total equity}}$	198477573/117930741=1.68	17423125/113648327=1.53			
Statements of Financial Position As at 31 December 2016					
	Note	Group 2016 RM	2015 RM	Company 2016 RM	2015 RM
ASSETS					
TOTAL ASSETS		174,423,125	198,477,573	125,519,538	107,078,745
TOTAL EQUITY		113,648,327	117,930,741	114,548,512	105,637,682
Analysis: If the equity multipliers are greater, it means financial leverage indicating the outward financing of the company will be greater and the enterprise can withstand greater risks. On the contrary, the smaller of equity multiplier, reflects that the company's low debt level means the less leverage and the lower risk. However, if the company operation is in a good conditions, more profit higher can be created by equity multiplier and the company's return on equity can be improved, consequently having a positive incentive influence on the company's stock value. From the data we can see that compared to 2015, the total assets of the Acoustech Bhd company in 2016 reduced RM24, 054,448, assets decreased by 12%, total equity decreased by RM428, 214, reduced 3.6%, equity multiplier from 1.68 times to 1.53 times. It indicated that the debt level of the company in 2016 was slightly lower than that in 2015, the leverage benefit of the company decreased accordingly, and the risk was also decreased.					

2.4 Return on equity

Return on Equity of Acoustech Bhd in 2015 and 2016					
Definition: The return on equity of shareholders is called ROE, which is a measure of the return of stock investors. It also evaluates the performance of corporate management and the performance of the asset management and financial control, In general, the higher the ROE, the better.					
Ratio/Calculation formula	Acoustech Bhd (2015)	Acoustech Bhd (2016)			
Return On Equity $= \frac{\text{Net Income}}{\text{Total Equity}}$	12165991/117930741=10%	507308/113648327=0.4%			
Statements of Profit or Loss and Other Comprehensive Income For the financial year ended 31 December 2016					
	Note	Group 2016 RM	2015 RM	Company 2016 RM	2015 RM
Profit for the financial year		507,308	12,165,991	13,700,552	2,122,547
TOTAL EQUITY		113,648,327	117,930,741	114,548,512	105,637,682

Analysis:

Return on equity is a gain or benefit ratio that assesses the profitability of the company. But sometimes the high return on equity cannot be indicator mean strong profitability. Taking consulting firms as an example; because they don't need too much capital investment it often has higher ROE. Another example is the industry of refineries because in order to make profits it needs a lot of investments into infrastructure construction, as a result, the ROE cannot be regarded as way to judge the company's profitability. So ROE should be considered as a method for comparison within the industry.

From Acoustech Bhd's Annual Report, we can find that compared with 2015, in 2016, the company's net income declined by RM11, 658,683, a decrease of 95.8% and the total equity decreased by RM4, 282,414, a decrease of 3.6%. So the return on equity declined by 9.6% in 2016.

3. Analysis and comment on the financial performance based on the DuPont calculation

3.1 Definition of DuPont

DuPont Analysis is a comprehensive analysis of the financial status of an enterprise by using the relationship between several major financial ratios. It was firstly adopted by the United States DuPont Co, so it was named DuPont analysis method. Basically the idea of this method aims to divide the net assets yield (ROE) of companies into a number of financial ratio products, which explains how companies can increase their return for investors and helps analyze and compare business performance in a deep way, and it also organically integrates several ratios to evaluate the efficiency and financial status of enterprises, form a the complete index system. As a result it is convenient for the analysts to comprehensively and carefully understand how the profitability of enterprises operates.

3.2 The DuPont analysis of Acoustech Bhd

Item	Calculation formula	2015	2016	Change situation
Net Profit Margin	$= \frac{\text{Net income after tax}}{\text{Sales}}$	11.2%	0.4%	↓ 10.8%
Total Asset Turnover	$= \frac{\text{Sales}}{\text{Total Asset}}$	0.55(times)	0.65(times)	↑ 0.1(times)
Equity Multiplier	$= \frac{\text{Net Income}}{\text{Total Equity}}$	1.68(times)	1.53(times)	↓ 0.15(times)
DuPont calculation (ROE)	$= \frac{\text{Net income after tax}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Assets}} \times \frac{\text{Net Income}}{\text{Total Equity}}$	10%	0.4%	↓ 9.6%

Analysis:

In DuPont analysis, the core of financial analysis index is net assets yield (ROE), which is the most comprehensive part of DuPont model.

Net asset interest rate (ROA) is seen as the most significant indicator affecting the net interest ratio of equity, and the ROA is closely related to the net interest rate and the turnover rate of all assets. Analysis of asset turnover needs to analyze the causes that affect the turnover of assets. Net sales rate reflects the income level of sales revenue. Expanding sales revenue and reducing cost are the basic ways to increase the profit margin of enterprises, while sales expansion is also a necessarily regarded as way to increase the assets turnover rate.

As explained in 2.3, the level of debt of an enterprise can be indicated by Equity multiplier, which to some extent reflects the degree of the company's financial leverage.

It can be seen from the above data:

1. Changes in (ROA): The ROA of Acoustech Bhd dramatically declined (2015 10%, 2016 0.4%), The decrease of net asset interest rate shows that the comprehensive effect of asset utilization is not good; the main factors that influence the positive change of ROA are the net interest rate of the company and the turnover rate of the total assets. Of these, the rapid decline in net interest rate is due to slower growth in revenues and a huge increase in costs. From 2015 to 2016, the main business income of Acoustech Bhd company increased by 5%, with an increase of RM5804849, at the same time, other income decreased by 82%, operating expenses increased by 9%, financial expenses increased by 327%, taxes and fees increased by 75%.

2. In the capital turnover rate: In 2016, Acoustech Bhd revenue growth of 5% while total assets compressed to 12%, resulting in speeding up the turnover of assets, reflect the overall level of asset management of the enterprise, that is to say, the company adjusts its assets structure and improves the efficiency of assets utilization (the total assets turnover rate is raised from 0.55 to 0.65).

3. Changes in Equity Multiplier: The company's two-year equity multiplier remained between 1.68 and 1.57. It shows that the ability of enterprises to use assets to make profits and the ability to repay long and short term debt are strong, but the index is low. This means that Acoustech Bhd needs to strengthen the use of financial leverage in future, and there is still room for improvement in obtaining more investment profits.

3.3 The Acoustech Bhd dividend policy used from 2015 to 2016

Item	Calculation formula	2015	2016
Dividend Pay Ratio	$= \frac{\text{Dividends}}{\text{Net Income for the same period}}$	0	4178460/507308=820%

Dividend distribution policy is a decision making problem for listed companies to allocate or retain earnings for reinvestment for investors. It reflects the company's operating ability and the distribution of return on investment, which is related to the rationality of the company's capital structure and the company's future development.

From the Acoustech Bhd annual report, the company did not distribute any dividends in 2015. In 2016, the company distributes cash dividend RM4178460, the dividend payment rate reached 820%, in 2013 and 2014, the company also allocated a considerable dividend. According to independent director of the Acoustech Bhd Leong Ngai Seng the company had achieved good profitability in the past years, and another attractive feature for the company is its dividend policy, which is paying no less than 50% of distributable profits. (ACOSTEC: [Stock Watch] [News]) From the company's annual report, Acoustech Bhd did not pay any dividends in 2015, because the company has better investment projects. For example, reserve land for future development in order to gain greater expected benefits, and Acoustech Bhd repurchase of treasury shares RM300, 945. In 2016, the company distributed cash dividend RM4, 178,460 and repurchase of treasury shares RM611, 262, indicating that the company's cash flow is sufficient.

3.4 The ways of improvement on capital structure strategy for Acoustech Bhd

Item	Calculation formula	2015	2016
Debt Asset Ratio	$= \frac{\text{Total liabilities}}{\text{Total assets}}$	$\frac{80546832}{198477573} = 41\%$	$\frac{60774798}{174423125} = 35\%$
Equity Ratio	$= \frac{\text{Total equity}}{\text{Total assets}}$	$117930741/198477573=59\%$	$113648327/174423125=65\%$

The asset liability ratio decreased by 6 percentage points in 2016 compared with 2015, while equity-to-asset ratio increased by 6 percentage points. The ratio of assets and liabilities is reduced, which indicates that the enterprise has the guarantee of debt repayment. The equity-to-asset ratio is increased which means the leverage of the company is improved, meaning that the company got more money by issuing shares.

From the annual report, compared with 2015, in 2016, the company's total assets declined by 12%, total liabilities declined by 25%. It shows that there is a large financing space for enterprises, and enterprises can increase financing channels, access to more debt funds, leverage the debt. At the same time, production scale can be expanded so as to open up the market, promote the energy of enterprises, and finally higher profits can be achieved.

The Equity Asset Ratio of Acoustech Bhd increased from 59% in 2015 to 65% in 2016, which shows the worth investment into the company since so many investors are voluntary to make investment into the company. Coustech Bhd can get more capital relies on industry standards and benchmarks by raising the share ratio, while reducing the company's financing and debt costs. And it also says potential creditors that the company tends to possess more sustainable development and bear fewer risks as terms of lending future loans. It creates conditions for the company's future debt financing.

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