

Robustness of cash flow value: investment in ASEAN

ABSTRACT

This study examines the different roles of cash flow in assessing investment returns in the Association of Southeast Asian Nations (ASEAN). The analysis covers over 900 listed firms across Malaysia, Indonesia, Philippines, Singapore and Thailand for the period post the Asian financial crisis of 2001-2017. Firm-level panel data analysis shows that cash flow factors are important in all contexts of cash return on assets, earnings quality and market value multiple across the region even after controlling for typical measures of profitability. The results suggest that firms should manage cash flow prudently in considerations of firm value from the shareholder's perspective, measured directly using stock return. Cash profitability on assets should become an important firm performance indicator, whilst higher cash component over reported earnings is preferred. The market also tends to respond favourably to cash flow yield as a price multiple in valuation, outpacing the role of earnings yield. Such findings are robust across the pre and post subprime crisis periods, across estimation methods pertaining to finance panel standard errors, as well as across static and dynamic considerations of returns. It is hence sensible to consider cash flow factors in the research pertaining to asset pricing and factor investing in the ASEAN region.

Keyword: Cash flow; Factor investing; Shareholder return; Firm-level finance panel; ASEAN