



***EFFECT OF FINANCIAL RATIOS ON THE POULTRY'S
STOCK RETURNS IN BURSA MALAYSIA***

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**EFFECT OF FINANCIAL RATIOS ON THE POULTRY'S
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By

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A project report submitted to Faculty of Agriculture, Universiti Putra Malaysia, in fulfilment of the requirement of PPT 4999 (Final Year Project) for the award of the degree of Bachelor of Science (Agribusiness)

**FACULTY OF AGRICULTURE
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DECLARATION

This project report entitled Effect of Financial Ratios on The Poultry's Stock Returns in Bursa Malaysia is prepared by Wong Wei Kok and submitted to the Faculty of Agriculture in fulfilment of the requirement of PPT 4999 (Final Year Project) for the award of the degree of Bachelor of Science (Agribusiness). I hereby declare that the contents of this project report is my own individual work.

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Effect of Financial Ratios on The Poultry's Stock Returns in Bursa Malaysia

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May 2018

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ABSTRACT

The purpose of this research is to investigate the performance of listed poultry firms in Bursa Malaysia during 2011 to 2016 by using financial statements analysis such as dividend yield (DY), return on assets (ROA), return on equity (ROE), debt equity ratio (DER) and current ratio (CR). The findings indicated that majority of poultry firms in Bursa Malaysia were performed well in terms of using their assets, debts and investment during 2011-2016. Next, this study also examine the relationship between financial ratios and stock returns in poultry industry by using multiple linear regression analysis. The results show that the selected financial ratios do not have significant impact to the stock return partially and simultaneously among the listed poultry firms in Bursa Malaysia.

KEYWORDS: Financial Statement Analysis, Financial Ratios, Stock Return, Poultry Industry, Bursa Malaysia

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ABSTRAK

Tujuan penyelidikan ini adalah untuk menyiasat prestasi firma-firma poltri yang tersenarai dalam Bursa Malaysia semasa 2011 hingga 2016 dengan menggunakan analisis penyata kewangan seperti kadar hasil dividen (DY), pulangan atas aset (ROA), pulangan ekuiti (ROE), nisbah ekuiti hutang (DER) dan nisbah semasa (CR). Penemuan menunjukkan majoriti firma-firma poltri dalam Bursa Malaysia telah melaksanakan dengan baik dalam soal menggunakan harta mereka, hutang dan pelaburan semasa 2011-2016. Berikutnya, kajian ini juga memeriksa hubungan antara nisbah kewangan dan pulangan saham dalam industri ternakan dengan menggunakan analisis rosot kembali linear berganda. Keputusan menunjukkan bahawa nisbah kewangan terpilih tidak mempunyai impak signifikan kepada pulangan saham sebahagiannya dan serentak antara firma-firma poltri yang tersenarai dalam Bursa Malaysia.

KATA KUNCI: Analisis Penyata Kewangan, Nisbah Kewangan, Pulangan Saham, Industri Ternakan, Bursa Malaysia

CHAPTER 1

INTRODUCTION

This chapter includes the background of the study of which briefly describe the phenomenon and others information related to poultry industry and poultry stock market in Malaysia. Besides, this chapter also include the problem statement, objective of the study, significance of the study and organization of the study.

1.1 Background of the Study

Nowadays, stock market is one of the most important financial sources for companies to raise their assets, in which companies are allowed to publicize their business and obtain more capital in order to facilitate their development process for the long run period. Liquidity in the stock market will enable shareholders to have easier access to liquidity which facilitates the sale of their stocks. Besides, the influential features of the stock exchange have made it a perfect place for companies and investors to raise funds in the capital market. Thus, capital market is an alternative way to obtain additional capital in the form of company stock.

In addition, the development of today's business world has entered the era of globalization increasingly open market impact of input and output in Malaysia to face international or global competition. This phenomenon allows domestic companies able to compete with foreign multinational companies for the purpose of defending the company and stimulate the growth of the company. The main purpose or target of the company/firm is to

maximize the shareholder and stock holder wealth. Basically, the company that have a good top management and sufficient capital to run the business are able to attract more investors since they are high competitive in the respective industry. If there is a consistent capital within a company, that company must be able to realize the goals and implement the company's strategic planning.

Capital plays a vital role in every single company since it may enable a particular company to operate smoothly and develop the businesses. Many agribusiness companies are registered in the capital market in order to find more alternative capital to expand their business respectively. Hence, those listed agribusiness companies should always provide positive added value in order to attract more investor and increase the capital of the firm as well.

In general, the aim of establish a company is to obtain the maximum profit steadily by increasing sales and optimize the company value. Theory of the financial management mentioned that one of the main purpose of the company is to maximize shareholder wealth that is capable of maximizing the share price and increase the yield return of the assets owned (Michael, 2015).

Meanwhile, investor are very instrumental in the capital market especially the short-term investors, they are taking an active role in the capital market because short-term motives of investors who expect to benefit from the changes of share price in a short-term period. In contrast, the long-term investors are oriented operating company management, dividend growth and also the creation of high value stock in a long period of time.

Moreover, most of the investors will read through the financial statement of the company they are interested and evaluate the policy in the selection of an effective and efficient investment of funds invested to get higher added value in the form of capital gains or dividends. They will try their best to study and predict the stock returns of the particular company before they start invest to it to make sure they will gain much profit and decrease the risk of loss. Despite of that, stock returns are the returns that the investors generate out of the stock market. This return could be in the form of profit through trading or in the form of dividends given by the company to its shareholders from time-to-time. In finance, return is a profit on an investment.

Sometimes, the company share price may reflect the performance of the company in the eyes of investors. However, stocks price may be affected by several factors as well. For instance, the supply and demand factor, interest rate, inflation rate, environmental issues, economic conditions and government policy.

The company's financial performance and condition can be measured with some financial ratios such as liquidity ratios, market ratios, profitability ratios and leverage ratios. The present study evaluates the financial health of poultry industry in Malaysia and examine the effect of financial ratios on poultry's stock returns in Malaysia. Financial appraisal of Market Ratio- Dividend Yield (DY), Profitability Ratio- Return of Assets (ROA) & Return of Equity (ROE), Leverage Ratio- Debt Equity Ratio (DER) and Liquidity Ratio- Current Ratio (CR) are selected indicators used for the evaluation of financial health of poultry industry in Malaysia.

1.2 Definition of Stocks

Stock can be defined as a sign of participation or ownership of a person or body in an enterprise or a limited liability company. Stock is a general term used to describe the ownership certificates of any company, and shares refers to the ownership certificates of a particular company. In short, the company that raise the additional capital from the capital itself is called as stock.

According to Weston and Copeland (1998), stock is a sign of participation in the capital as a limited liability company established that the purpose of purchasing shares of capitalists to earn money from shares. Capitalist society is categorized as investors and speculators. Investors here are the people who buy shares of a company in hopes of getting dividends and capital gains in the long term period while speculators are the people who buy shares for immediate sales back when the situation is considered the most profitable rate at that specific of time.

1.3 Financial Statement

According to Gibson (2010), financial statement include a company's managers, stockholders, bondholders, security analysis, suppliers, lending institutions, employees, labor unions, regular authorities and general public. Besides, the importance of financial management can best illustrated through the review of the activities of a firm and its financial position at any point in time (Marimuthu & Kok, 2010).

Chen et al. (2010) indicates the securities with a tendency to yield unpredictable returns are particularly attractive to professional fund managers and investors by suggest fundamental analysis based on financial performance which is more helpful in terms of correlation with future returns. Therefore, providing the evidence on the association between financial performance measures and contemporaneous stock prices or future price changes is an important issue for academic and practice purpose.

1.4 Poultry Industry in Malaysia

The poultry industry plays a significant role to the Malaysian economy as well as in the provision of cheap source of protein to its multi-ethnic population. Both of the chickens and eggs became the primary protein source for the majority of consumers in Malaysia recently. Malaysia is one of the highest poultry consumers in the world with over 40 kilograms per capita consumption every year. Consumption per capita for poultry meat accounts 46.6 kilograms while consumption for chicken/duck eggs accounts 19.1 kilograms during 2014 (Ministry of Agriculture, 2014). Poultry has been deemed as a more environmentally source of protein due to its low feed conversion ratio compared to other source of protein such as beef and mutton. Feed conversion ratio represents as how much of feeds is required to convert into the weight of meat or the proportion of food that is converted into meat.

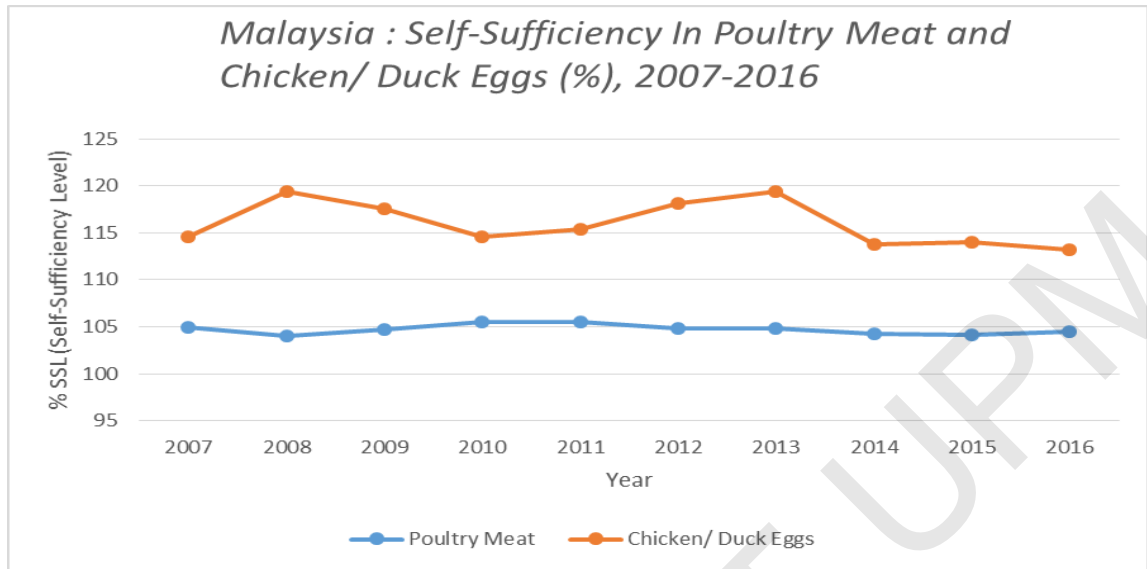


Figure 1.1: Self-sufficiency in Poultry Meat and Chicken/ Duck Eggs

Source: Department of Veterinary Services Malaysia 2017, DVS.

Figure 1.1 show the poultry meat and eggs of Malaysia has recorded more than 105% self-sufficiency in 2007-2015 (DVS, 2017). The percentage share of poultry to the total livestock is highly likely to increase in the future (Jamaludin, 2013). This is because the broiler meat has a peculiar status among the multi-ethnic population of Malaysia which are there is no religious prohibition exist relative to other meats like beef and pork which are still unacceptable for consumption by specific race or religion of the population. Therefore, in meeting the expected higher demand for chicken meat, the broiler industry must operate sustainable production and maintain private profitability in order to make the meat available at reasonable price in Malaysia.

1.5 Poultry Production in Malaysia

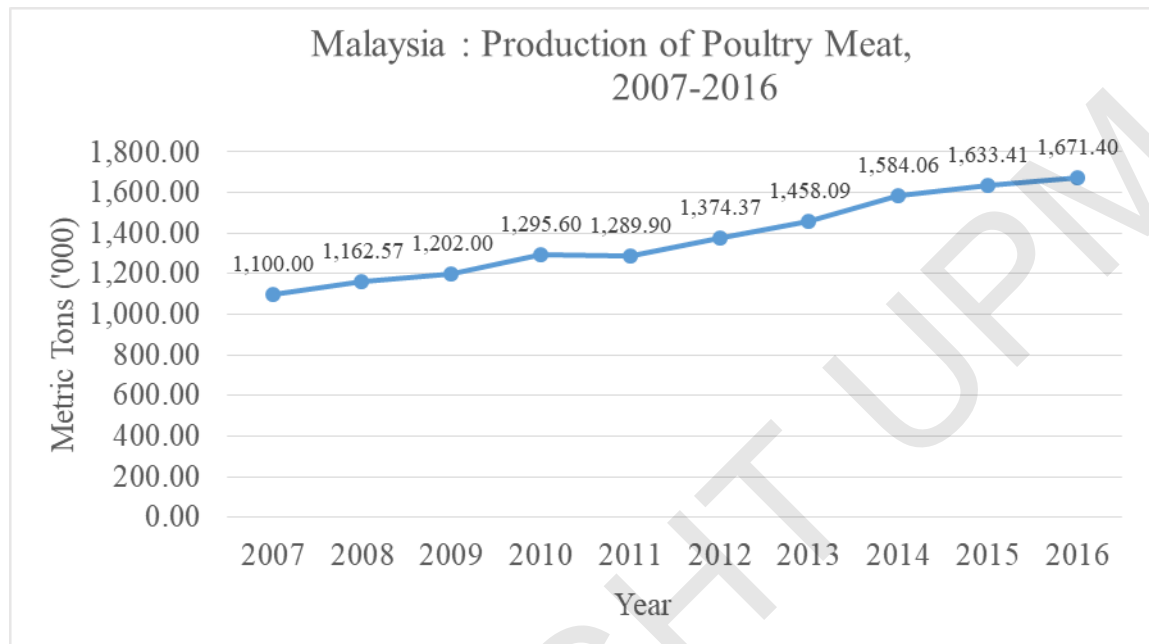


Figure 1.2: Poultry Meat Production in Malaysia

Source: Department of Veterinary Services Malaysia 2017, DVS.

Malaysia is largely self-sufficient in poultry meat production with broiler meat comprising the majority of total production and consumption. Figure 1.2 show the overall poultry meat production has expanded steadily from 2007 to 2016, in line with the growth of local demand and exports to some countries. Poultry meat production recorded the highest production in 2016 with 1671.40 metric tons. Malaysia currently exports live birds and processed poultry to Singapore and some Middle East country. Singapore being the largest poultry export market where over 1.716 million live birds were exported every day in 2014. Meanwhile, Malaysia is taking the advantage of its geographical proximity to penetrate Singapore's market.

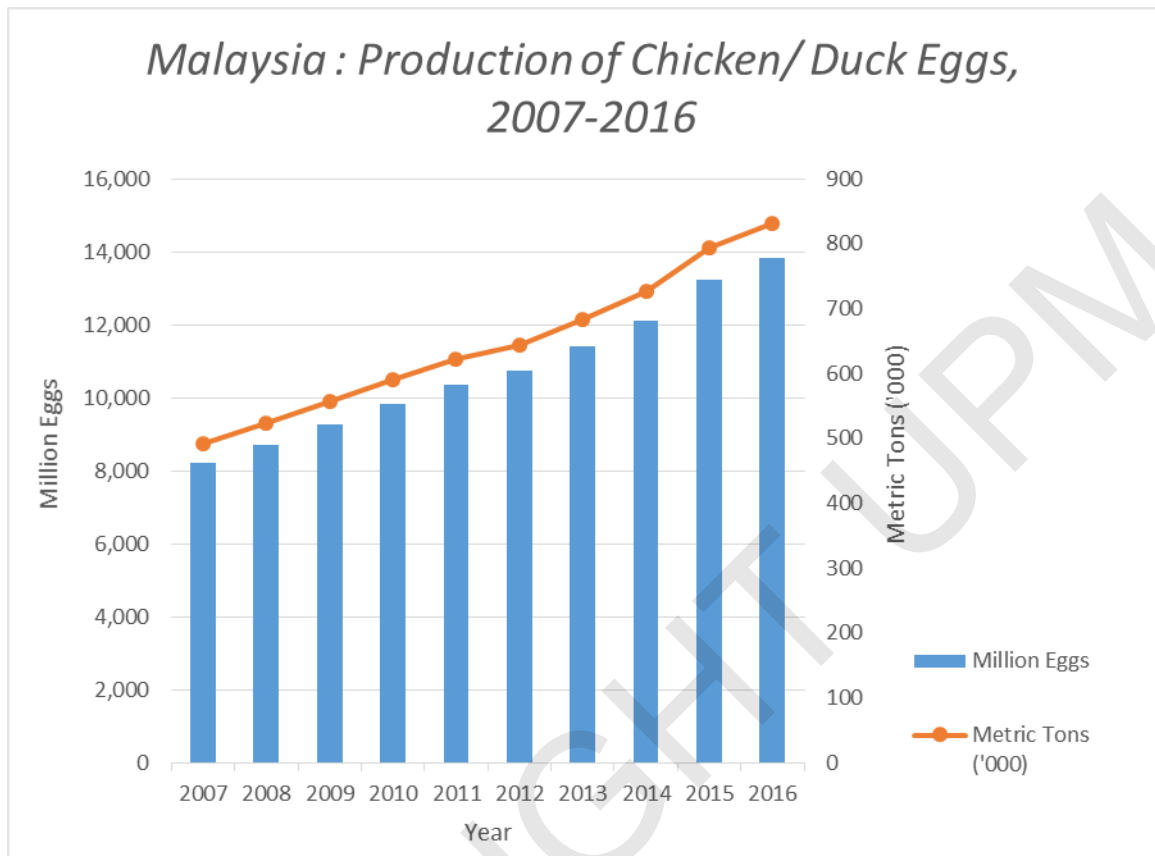


Figure 1.3: Poultry Eggs Production in Malaysia

Source: Department of Veterinary Services Malaysia 2017, DVS.

Figure 1.3 show the overall poultry eggs production from 2007 to 2016. The production of chicken/ duck eggs were increased with an increment average of 6.5% per year. This show that the production of eggs were increased year by year in line with the growth of local demand and exports to some countries. The poultry eggs production recorded the highest production with 830.53 metric tons in 2016 or equivalent to 13,842 million eggs.

Thus, it can conclude that the production of poultry eggs of Malaysia will tends to increase in the future due to the growing of domestic and international consumptions.

1.6 Current Trend of Poultry Industry in Malaysia

The current trend of poultry industry in Malaysia is about the merging and acquisition in the industry where small companies may be under spot light and potentially strive in the future market. Recent activities include Japan NH Food interest in Lay Hong Berhad and memorandum of understanding (MoU) between Salim Group of Indonesia and CAB Cakaran Corporation Berhad. Japan NH Food and the Salim Group of Indonesia are heavyweights not just in the region, but in the world. NH Food is Japan's largest meat packing company and the fifth largest in the world by sales. It is listed on the First Section of the Tokyo Stock Exchange with a market capitalization of roughly US\$3.94 billion. Meanwhile, The Salim Group is one of Indonesia's largest conglomerates with assets like Indofood Sukses Makmur, which is the world's largest instant noodle producer and Bogasari, a large flour-milling operation (L.S.Tee, 2016). Hence, the poultry industry in Malaysia definitely will be one of the industry that will create huge income and its value in the future time due to the joint venture between international companies and local poultry companies.

Many poultry farming companies finally caught investors' eyes by producing much better earnings since the start of year 2014 and have a good performance in this few years. There is a few poultry farming companies listed and open for all investors in Bursa Malaysia Berhad. For instance, Lay Hong Berhad and Teo Seng Capital Berhad. Bursa Malaysia Berhad is an exchange holding company approved under Section 15 of the Capital Markets and Services Act 2007. It operates a fully integrated exchange, offering the complete range of exchange-related services including trading, clearing, settlement and depository services.

1.7 Problem Statement

High feeding cost in poultry industry

The higher cost of feed is one of the main reasons cited by many researchers on why the industry cannot perform better and highly rely on the price trend of the main feed ingredients (Elsedig *et al.*, 2015; Chanjula and Pattamarakha, 2002).

For pure poultry farming such as broiler and/or layer farming, the chicken feeds make up 70-75% of its cost of sales. So, the market price of soybean and corn which are used as the main source of chicken feeds will have a big impact on the company's performance. For instance, the margin between cost of production and sales is quite small forcing farmers to accept less profit on a single bird or a kilogram of chicken. Net of returns in broiler production are not promising and thus, limit the inflows of new investment (Rahman *et al.*, 2003). As of right now, feed cost is probably one of the most serious challenges for the industry.

As we know that the feeding cost will give the great impact to the company's performance, hence the incomes of the poultry companies will increase if the feeding cost of the poultry may be reduced. The main solution to solve this issue is finding others available alternative feed ingredients which cost lesser than imported feeds recently such as palm husks. If this issue may be overcome, the poultry industries in Malaysia will strive to the excellent level in the future time and attract more potential investors to invest in poultry companies as well as to expand the business scale of the poultry farming. Hence, the poultry firms need to raise more capital through the stock market in order to have sufficient capital to meet this problem.

Limited information of poultry industry in Bursa Malaysia

Every investor will do their research or study regarding the company background and financial performance before they make the decisions. The company with good financial stability and capable of handling its financial obligations is always be the favourite of potential investors. Besides, investors look for experienced entrepreneurs and management teams with a track record of high performance and leadership in the company's industry or in prior ventures.

Nevertheless, there are a few local poultry companies which have produce high earnings in this recent years such as Lay Hong Berhad and QL Resources Berhad. Both of the companies have a good financial performance and background in the industry. However, there is not much information about the financial performance or the background of poultry companies in Bursa Malaysia so this may lose a lot of potential investors which are decided to invest in poultry industries. Hence, the poultry industries in Malaysia will gain more attention from the potential investors and attract more investors to invest in the industry if there is sufficient information provided in Bursa Malaysia or other websites.

1.8 Objective of the Study

General objective:

To study the effect of financial ratios on the poultry's stock returns in Bursa Malaysia.

Specific objective:

1. To describe the financial performance of poultry industry in Bursa Malaysia by using relevant financial ratio.

2. To examine the relationship between the stock returns from the poultry firms in Bursa Malaysia with financial ratio indicators.

1.9 Significance of the Study

This study will be a significant endeavour in providing more online information regarding the background or the performance of the poultry companies in Malaysia to the investors and avoiding loss of potential investor for investing in poultry industries. Hence, the investors will more understand about the certain poultry company's background and its financial performance as well. This may allow them to have much more choices to invest in poultry industry rather than other industries.

Moreover, this study will also help out the owners of poultry farm or company by attain the information relevant to the farm profitability and etc. The owners of the poultry farm or company may run their farm activities with proper ways which can help to increase their net profit based on all the knowledges or information gained in this study.

Furthermore, this study will also be beneficial to the government which help to encourage more potential investors in making decision to invest in Malaysia's poultry industries. Probably might attract new comers to involve or set up a new business in poultry industry. Thus, the production would be increase if the number of poultry farms increase.

Last but not least, this study will be helpful to the students in learning what stock market returns is and how to evaluate the performance of a certain company by using the financial ratio indicators. It is a learning process for students to understand and analyze the financial statements of poultry firms in Bursa Malaysia. Thus, it is the best time for them to gain

more knowledge regarding stock market returns which may assist them a lot in their future investment journey.

1.10 Organization of the Study

The study is divided into five chapter. First chapter is briefing about background of the study, problem statement, objective and significant of the study. Next, chapter two is the literature review of the research while chapter three is about the methodology of the research. Chapter four is the result and discussion of the research and last chapter is about the conclusion of the research.

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