Comparative Financial Performance and Firm Valuation Analysis: A Malaysian Logistics Service Provider Case Study

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ABSTRACT

This study examines the financial performance of Tiong Nam Logistics Holdings Berhad (TNLHB) in the past five financial years (FY2018 to FY2022) ending on 31st March 2022. Data from the audited annual reports were used to conduct financial analysis, covering profitability performance, capital structure and solvency analysis, working capital and liquidity analysis, risk assessment, and firm's valuation. Peer comparison is used to provide benchmarking analysis. Comparatively, TNLHB has lower profitability ratios, lower solvency ratios, and lower liquidity ratios. The lower profitability was a result of weaker revenue generation and less operational efficiency in profit generation. The lower solvency ratios and liquidity ratios connote a weaker financial position. The top three risk exposures are market and competitive risks, operational risks, and financial risks. Based on a three-method approach, TNLHB is valued between RM0.78 to RM0.93. This paper contributes to the extant literature on performance analysis and firm valuation.

Keywords: Financial analysis, profitability, capital structure, working capital, firm valuation.

INTRODUCTION

The catastrophic impact of the COVID-19 pandemic proliferates across countries and industries in the past few years. The logistics and transportation industry is one of those severely affected industries. Business operations were gravely crippled, resulting in massive global supply chain disruption. 39% of Malaysian logistics service providers suffered sales decline during the pandemic (Hirschmann, 2021). As Malaysia is phasing from pandemic to endemic, the logistics and transportation industry is also picking up the recovery momentum. Tiong Nam Logistics Holdings Berhad (TNLHB), listed on the Main Market of Bursa Malaysia (8397), is a regional logistics service provider (LSP) with more than 46 years of operational history. TNLHB's logistics and warehousing segment contributed more than 97% of the group revenue in the financial year (FY) ending 31st March 2022. Two LSPs were picked to provide the benchmarking comparison (Forker & Mendez, 2001).

TASCO Berhad (TB)was chosen as the main benchmarking company as it shares several similarities with TNLHB, including both companies were incorporated around the same time, involved in the same business categories, listed on the Main Market of Bursa Malaysia, having the same financial year end, and revenue size for both companies were within 10% different in FY2018. See Hup Consolidated Berhad (SHCB) was chosen as the second benchmarking company because its main business is in transportation and logistics, listed on the Main Market of Bursa Malaysia, has the same financial year-end, and is a family-owned business. However, SHCB's FY2022 revenue was only 1/6 of TNLHB's. Despite sharing some similarities, TB and SHCB's business operations vary from TNLHB's. Data from audited annual reports of these three LSPs were used to perform the necessary financial analysis (see Appendix 1). This paper investigates the

profitability, solvency position, liquidity position, and risk analysis of TNLHB before diving into a valuation exercise.

LITERATURE REVIEW

Logistics Service Provider (LSP)

Logistic services have always played a critical role in the commercial world. Typically, companies outsource their logistics to external LSPs for operational efficiency reasons(Delfmann et al., 2002). The logistics service industry has evolved from being a commoditized sector with hundreds of thousands of logistics firms providing only transportation or warehousing services (Marquardt et al., 2011) to one that also includes third-party LSPs (3PLs) that provide bundled and more complex logistics services (Wagner & Sutter, 2012) and fourth-party LSPs (4PLs) that subcontract and coordinate other third-party LSPs (Zacharia et al., 2011). LSPs provide a wide range of services from warehousing management to goods delivery (Oláh et al., 2018). Oláh et al. (2018) submit that some LSPs can play a more advanced role by fully integrating into the supply chain management. (Meng et al., 2010) submit that the increasing customer service expectations and supply chain demand have fuelled the rapid development of LSPs. There was tremendous growth in the logistics services industry in the past several decades (Maloni& Carter, 2006). Thus, the significant contribution of LSPs had also received increasing recognition (Huemer, 2012). As the industry developed, competition within the industry will also follow suit. LSPs need to establish and continuously improve their operational efficiency to maintain their competitiveness (Marchet et al., 2017).

Financial Performance Analysis

Financial performance analysis is a common practice to scrutinize the performance of a firm's management team in using its resources to generate revenue and profits. This examination helps investors who experience asymmetric information to evaluate their investment decisions. Profitability analysis, capital structure and solvency analysis, working capital and liquidity analysis, and risk analysis are essential components of financial analysis. The ability of a company in generating profit is known as profitability (Dicu et al., 2019). Explanation of profitability can either be economic profits or accounting profits (Hofstrand, 2009). Economic profits take into account opportunity costs and offer a long-term perspective of the business, whereas accounting profits provide an intermediate position of the viability of the business. Profitability ratios are used to evaluate the firm's efficiency in generating profits (Markonah et al., 2020; Rosdini et al., 2021) and measure the degree of operational efficiency in utilizing its assets (Hirdinis, 2019). The profitability ratio reflects the income-generating capacity of a company from all its resources and capabilities, such as assets, capital, debts, sales activities, and others (Suryamis&Oetomo, 2014). Profitability performance can be assessed by comparing the actual results with targeted goals (Ali et al., 2019). Maston and Sinaga (2022) describe that the sales and cost management competency of a company is reflected in its profitability performance.

Different industries and firms exhibit differences in the capital structure (Lu & Xin, 1998) and it is significantly influenced by the asset structure of the firm (Harjito, 2011). The capital structure of a firm reflects its long-term financing strategy and has a direct impact on its solvency position. The solvency ratios are used to determine a firm's ability in meeting its financial obligations when insolvency occurs. Based on the signalling theory, investors perceive a higher debt-to-equity ratio (DER) as higher financial risk (Chabachib et al., 2020).

Working capital management (WCM) deals with managing the cash conversion cycle (CCC) and the amount of working capital (WC)(Dhole et al., 2019) to maximize a firm's profitability and maintain a healthy liquidity level(Panigrahi et al., 2022; Wassie, 2021). WCM is vital to a firm because it influences

profitability and liquidity significantly (Aktas et al., 2015; Baños-Caballero et al., 2012; Deloof, 2003; Dinku, 2013; Paul & Mitra, 2018). Different levels of WC bring different impacts on the firm's profitability performance (Wassie, 2021). Too much WC implies lower efficiency in using current assets to generate profits (Chandra et al., 2019) and too low WC triggers the concern of liquidity (Arnaldi et al., 2021; VanHorne&Wachowicz, 2001). Ding et al. (2013) submit that high investment in WC enables companies to increase investment during financial difficulties. Therefore, WCM involves a constant effort toward optimizing WC. Efficient WCM support operating performance advancement with reasonably favourable liquidity (Izadi &Taaki, 2010) besides strengthening firms' financial position during economic adversity and enhancing shareholders' value (Zeidan&Shapir, 2017). Liquidity is concerning a firm's ability to meet its short-term financial obligations without incurring unnecessary losses (Rinofah&Mumpuni, 2019). Liquidity ratios are useful to predict failures and potential financial stress (Situm, 2015). The trade-off theory submits that liquidity can positively affect leverage, but the pecking order theory concludes otherwise (Khaki & Akin, 2020).

PROFITABILITY ANALYSIS

Profitability is a necessary prerequisite for an economic entity's commercial performance and revenue is fundamental to profitability analysis. TNLHB achieved a record high revenue in the FY2022 with an increase of 14.6% over last year, 6.5% over the past five years, and 102.9% over the past ten years. This was mainly contributed by higher market demand, new customer acquisitions, the Malaysian economic recovery, and relaxation of containment measures. While TNLHB's logistics and warehousing segment grew by 14.1% in FY2022, it was comparatively lower than TB (56.5%) and SHCB (41.2%). TNLHB's strategic focuses are to increase its multinational customers to 45% by FY2025, expand its business in the third-party logistics sub-sector, and continuously warehouse capacity expansion. Besides these, there is no indication of how TNLHB planning to grow its revenue. With a relatively slower growth rate, TNLHB's management should allocate more strategic attention to revenue generation since revenue plays fundamental importance in financial performance. There lies a great opportunity in enhancing its asset utilization for revenue generation.

Table 1: Profitability ratios of TNLHB, TB, and SHCB (FY2018–FY2022)

	FY2018	FY 2019	FY2020	FY2021	FY2022	5YA
TNLHB						
Gross profit margin (GPM)	22.94%	17.37%	19.40%	17.56%	17.22%	18.90%
Operating profit margin (OPM)	7.90%	1.88%	1.70%	3.47%	3.84%	3.76%
Net profit margin (NPM)	4.83%	0.10%	0.36%	1.97%	0.91%	1.64%
Total assets turnover ratio (TATR)	36.20%	31.70%	30.97%	28.37%	32.78%	32.00%
Return of assets (ROA)	1.75%	0.03%	0.11%	0.56%	0.30%	0.55%
Return of equity (ROE)	4.41%	0.09%	0.31%	1.48%	0.79%	1.42%
Earnings per share (EPS) (cent)	6.29	(-0.31)	0.15	2.42	1.01	1.91
Dividend per share (cent)	0.00	0.00	0.00	0.00	1.00	0.20
TB						
Gross profit margin (GPM)	24.71%	13.66%	14.62%	15.97%	13.77%	16.55%
Operating profit margin (OPM)	5.91%	2.53%	2.76%	6.41%	5.95%	4.71%
Net profit margin (NPM)	4.18%	1.82%	1.33%	4.61%	4.57%	3.30%
Total assets turnover ratio (TATR)	94.90%	94.00%	100.22%	98.50%	107.89%	99.10%
Return of assets (ROA)	3.90%	1.50%	0.90%	4.30%	4.80%	3.08%

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Return of equity (ROE)	8.10%	3.50%	2.00%	8.80%	12.60%	7.00%
Earnings per share (EPS) (cent)	14.70	1.63	1.11	5.16	8.16	6.15
Dividend per share (cent)	4.50	0.31	0.25	1.50	2.50	1.81
SHCB						
Gross profit margin (GPM)	17.95%	16.18%	17.26%	17.99%	13.80%	16.64%
Operating profit margin (OPM)	2.05%	-4.35%	-7.29%	-5.23%	20.34%	1.10%
Net profit margin (NPM)	1.38%	-5.03%	-8.21%	-5.92%	19.91%	0.43%
Total assets turnover ratio (TATR)	76.65%	69.17%	70.14%	57.25%	73.64%	69.37%
Return of assets (ROA)	1.06%	(3.48%)	(5.76%)	(3.39%)	14.66%	0.62%
Return of equity (ROE)	1.46%	(5.37%)	(9.51%)	(6.13%)	22.97%	0.68%
Earnings per share (EPS) (cent)	1.43	(-5.67)	(-8.27)	(-4.09)	30.89	2.86
Dividend per share (cent)	2.70	1.80	0.00	1.17	3.60	1.85

Source: Author's calculations and compilation

The heterogeneity of companies breeds different profit-generating abilities (Ramadhanti et al., 2021). Thus, a comparative analysis of profitability ratios is critical for a better perceptive of the analysis. Gross profit margin (GPM), operating profit margin (OPM), and net profit margin (NPM) are good indicators of operational efficiency in profit generation (see Table 1). The five-year average (5YA) GPM for TNLHB is on a declining trend resulting from the increase in the cost of goods sold, but comparatively higher than TB. LSP is a heavy operations-intensive business and a lower OPM is expected because of high asset maintenance costs, fluctuating fuel prices, and high labour costs. TNLHB's 5YA NPM is significantly lower than its average NPM from FY2013 to FY2017 (13.2%). The impact of the pandemic and disruption of the global supply chain in recent years could be the cause of the declining trend in OPM and NPM. Part of the lower net profit was caused by the huge losses in the hotel and dormitory segment due to travel restrictions. Comparatively, TNLHB's 5YA OPM and NPM are lower than TB's despite TB having a lower 5YA GPM. This reflects a weaker profitability position. Firms with higher profitability are likely to expand whilst less profitable firms' share value is likely to decline (Coad, 2007). A higher profitability ratio connotes that a company is less likely to be caught in financial difficulties situations (Finishtya, 2019). Therefore, the lower operating margins may impair TNLHB's expansion capabilities and subject it to higher financial risks.

Total assets turnover ratio (TATR), return on assets (ROA), and return on equity (ROE) can also be used to add more dimensions to the analysis. TNLHB's 5YA TATR is 11.9pp lower than the 5YA of FY2013 to FY2017. TNLHB's 5YA TATR is also lower than both TB and SHCB. TNLHB has an average of two times lower net profit than TB and this explains TB's 5YA ROA and ROE are five times more than TNLHB. It was found that Malaysian companies with higher profitability have lesser debt (Saif-Alyousfi et al., 2020). With lower profitability, TNLHB has to use debt-financing to fuel its growth and its large amounts of assets enable it to offer higher collateral to secure larger debt (Mujiatun et al., 2021; Sukma, 2016). The large debt incurs higher interest payments and thus diluted TNLHB's profits. Even though it is common for heavy operations-intensive industries to have lower TATR, ROA, and ROE, TNLHB's relatively lower profitability ratios infer that it needs to work on improving its operational efficiency in generating profits.

TNLHB has good business foundations and has proven its capabilities of delivering good profitability performance in FY2013–FY2017. However, comparatively, TNLHB's profitability ratios are overall less favourable than TB but better than SHCB. It is recommended that TNLHB's management look into ways to improve its profitability performance by strengthening its operational efficiency in profit generation and growing its revenue. Higher revenue and operational efficiency can elevate profit margins, TATR, ROE, and ROA. The improved net profit can improve earnings per share (EPS) and may lead to a constant high

dividend pay-out. There are many ways to improve profitability, including engaging in strategic management of its operations and cash flow (Ghani et al., 2018). Other measures such as acquiring more new customers, expanding its logistics and warehousing segment, more efficient use of resources, and improved pricing can also improve its operating margins. TNLHB can improve its TATR, ROA, and ROE by improving the utilization efficiency of its assets, increasing the use of leases, liquidating low-efficient assets (obsolete and unused), increasing revenue, improving operation cost management, and accelerating accounts receivables. Capital structure and liquidity can also influence profitability. Studies show that company size and liquidity significantly impact profitability positively, while profitability is negatively but insignificantly influenced by capital structure (Chabachib et al., 2020; Hirdinis, 2019). However, Ali et al. (2019) submit that there is no consensus on how liquidity and firm growth relate to profitability.

CAPITAL STRUCTURE AND SOLVENCY ANALYSIS

The shareholder equity ratio (SER) and debt-to-assets ratio (DAR) (see Table 2) provides a good understanding of a firm's capital structure. TNLHB's DAR and SER indicate that TNLHB has a higher reliance on debt financing. A different capital structure was observed in TB and SHCB where both companies have lower DAR. Management should always opt for the capital structure that they believe can bring the highest value to the firm (Ross et al., 2021). Executives have a direct impact on capital structure. Feng and Ma (2004) submit that adjustment of the firm's debt is motivated by the executives' self-interest. The personal financing behaviour of top executives of the firms greatly influenced a firm's debt level as stated in the behavioural consistency theory (Cronqvist et al., 2012). Thus, with the same top executives running TNLHB, there is consistency in its capital structure strategy.

Table 2: Capital structure and solvency ratios of TNLHB, TB, and SHCB (FY2018–FY2022)

	FY2018	FY 2019	FY2020	FY2021	FY2022	5YA
TNLHB						
Shareholder equity ratio (SER)	39.62%	37.73%	35.75%	37.74%	37.98%	37.76%
Debt-to-assets ratio (DAR)	60.38%	62.27%	64.25%	62.26%	62.02%	62.24%
Cost of debt	3.12%	3.95%	3.82%	3.22%	2.89%	3.40%
Cost of equity	9.11%	8.74%	9.70%	8.11%	8.55%	8.84%
Weighted average cost of capital (WACC)	5.04%	5.17%	5.33%	4.58%	4.61%	4.95%
Long-term debt-to-assets ratio (LTDAR)	32.45%	32.73%	39.86%	41.28%	40.99%	37.46%
Debt-to-equity ratio (DER)	152.39%	165.07%	179.74%	164.95%	163.29%	165.09%
Net gearing ratio (NGR)	118%	135%	154%	120%	120%	129.40%
Equity multiplier (EM)	2.52	2.65	2.80	2.65	2.63	2.65
Cash flow to CAPEX ratio (CFCR)	38.33%	17.38%	53.98%	85.74%	24.24%	43.94%
TB						
Shareholder equity ratio (SER)	48.40%	43.20%	45.90%	48.90%	37.60%	44.80%
Debt-to-assets ratio (DAR)	51.40%	60.40%	58.07%	44.17%	57.40%	54.29%
Cost of debt	2.60%	3.89%	4.24%	3.39%	1.67%	3.16%
Cost of equity	9.16%	8.78%	9.75%	8.15%	8.59%	8.88%
Weighted average cost of capital (WACC)	5.45%	5.58%	6.34%	5.12%	3.96%	5.29%
Long-term debt-to-assets ratio (LTDAR)	30.33%	33.69%	29.85%	26.51%	13.63%	26.80%
Debt-to-equity ratio (DER)	105.77%	152.54%	138.47%	79.10%	134.74%	122.12%
Net gearing ratio (NGR)	76.10%	99.50%	68.40%	50.50%	43.20%	67.54%

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Equity multiplier (EM)	2.06	2.53	2.38	1.79	2.35	2.22
Cash flow to CAPEX ratio (CFCR)	174.74%	72.20%	728.56%	176.43%	211.23%	272.63%
SHCB						
Shareholder equity ratio (SER)	72.68%	64.81%	60.58%	55.35%	63.84%	63.45%
Debt-to-assets ratio (DAR)	27.32%	35.75%	40.05%	45.18%	36.64%	36.99%
Cost of debt	2.03%	3.68%	3.77%	2.43%	3.05%	2.99%
Cost of equity	5.99%	5.73%	6.04%	5.09%	5.74%	5.72%
Weighted average cost of capital (WACC)	4.77%	4.71%	4.81%	3.65%	4.51%	4.49%
Long-term debt-to-assets ratio (LTDAR)	8.92%	15.24%	19.64%	15.84%	17.56%	15.44%
Debt-to-equity ratio (DER)	37.58%	55.17%	66.11%	81.62%	57.39%	59.57%
Net gearing ratio (NGR)	21.39%	41.72%	38.92%	37.77%	33.03%	34.57%
Equity multiplier (EM)	1.38	1.54	1.65	1.81	1.57	1.59
Cash flow to CAPEX ratio (CFCR)	-71.07%	83.14%	64.54%	148.30%	-75.26%	29.93%

Source: Author's calculations and compilation

According to the theory of priority financing (Myers & Majluf, 1984), equity financing implies a negative signal about business operations and therefore, corporate financing follows a sequence of internal financing, debt financing, and equity financing (Zhao, 2018). Mujiatun et al. (2021) submit that higher profitability can affect capital structure by reducing DAR. Even though TNLHB had a 100% plow back ratio in the recent four out of five years, due to lower profitability, it has to resolve to use long-term debts to finance its growth. This is aligned with the findings of Zhang et al. (2000) where the debt ratio is related positively to the size and growth of the company, but negatively correlated with the retained earnings and profitability of the company. Having huge debt may not be completely bad as based on the asymmetric information theory (Ross, 1977), external investors imply a higher debt ratio as a positive signal (Zhao, 2018). TNLHB's highest stock price in the past five years was RM1.09 on 1st April 2018 and was on a declining trend till 25th Aug 2022. This implies that TNLHB's investors do not share such a positive interpretation.

According to the traditional theory of capital structure (Myers, 1977), a firm can achieve an optimal capital structure (OCP) through an optimal mix of equity and debt financing that minimizes the weighted average cost of capital (WACC) and maximizes the firm's value (Mujiatun et al., 2021). With an OCP, a firm can reduce the overall cost of capital (Alshatti, 2015). Any increase in debt when the capital structure is beyond the optimal level, there will be a devaluation of the firm (Hirdinis, 2019). The tax saving from interest payments influences the use of debt financing (Oktavina & Manalu, 2018) and thus, influences the determination of a firm's capital structure. The nearer a firm's capital structure to OCP, the lower its WACC. Among the three LSPs, SHCB has the lowest 5YA WACC, followed by TNLHB (see Table 2). This implies that TNLHB has room in working toward achieving OCP. The management needs to analyse to understand the determinants of its capital structure (Pamungkas et al., 2018). A good understanding of the factors of asset structure and profitability can enable a firm to determine the appropriate capital structure to materialize an OCP (Mujiatun et al., 2021). Nonetheless, there is no consensus on how to achieve OCP (Oktavina & Manalu, 2018).

The long-term debt-to-assets ratio (LTDAR), DER, and net gearing ratio (NGR) are used to show a firm's ability in discharging its financial obligations when liquidation occurs (see Table 2). LSP operates in a capital-intensive industry and thus, it tends to have a higher debt ratio. TNLHB's 5YA LTDAR is the highest among the three LSPs and increased by 7.7pp over the past ten years. The same phenomenon is observed in TNLHB's 5YA DER and NGR. This could be due to the additional RM339 million Islamic term loan taken from FY2019 to FY2021 which constitutes 40% and 26% of long-term debt and total debt

respectively. This is explained by the trade-off theory that a firm tends to increase debt when its assets increase (Oktavina & Manalu, 2018). The equity multiplier (EM) is another way to gauge the leveraged level of a firm. As mentioned above, due to high DAR, TNLHB's 5YA EM is higher compared to TB and SHCB. EM reflects the risk exposure of a firm's investors and creditors. These debt ratios are indicating the relatively weak repayment ability of TNLHB. In the event of liquidation, TNLHB's investors may not be able to recover their investments.

While it is common for a firm to use debt to finance its growth, when revenue growth is less performing than expected, the finance cost will dilute the net profit and put the firm in a less favourable position in terms of profitability, solvency, and the firm's value. The use of the cash flow to capital expenditures ratio (CFCR) can indicate the growth potential of a firm. TNLHB's 5YA CFCR is almost double SHCB but is 6 times lesser than TB. Such a huge difference is caused by a lower cash flow and higher capital expenditures. CFCP connotes that TNLHB is relatively less agile in growing its business and thus, this may explain the observation that TNLHB's revenue growth was slower than its peers.

The current capital structure of TNLHB is the result of its management approach to use debt to finance asset acquisition and then use its assets to further secure larger debt. The lower profitability could be the main cause of opting for debt financing. Such an approach has resulted in lower solvency ratios and puts TNLHB in a weaker financial position. TNLHB's management should allocate more strategic attention to increasing its revenue and improving its profit margin. Higher revenue and improved profit margins can enable TNLHB to reduce liabilities and thus increase equity and this will eventually translate into improved solvency ratios and closing the gap to achieve an OCP.

WORKING CAPITAL AND LIQUIDITY ANALYSIS

TNLHB has a comparatively lower WC where WC was negative in the past four out of five years and its 5YA WC from FY2013 to FY2017 was RM118.6 million (see Table 3). TNLHB's management should pay more attention to WC because its WC did not improve even with a reduction of TNLHB's current liabilities over the past five years. This gets more alarming when TB was able to maintain above RM100 million WC in FY2022 despite 76.3% current liabilities, and SHCB had a positive WC from FY2019 to FY2021 when it had a negative net profit. CCC is core to WCM and cash flow management (CFM). CCC has an inverse and significant correlation with profitability (Thi et al., 2018), but a positive relationship with liquidity ratios (Yucel & Kurt, 2002). TNLHB's 5YA CCC is 5 times more than SHCB and 5YA CCC excluding days of inventory outstanding (DIO) is 22 days. Thus, TNLHB needs to look into ways to improve its CCC. Lengthening the period for payment to suppliers and shortening the customer payment period are two common useful approaches to improve CCC (Thi et al., 2018). Kroes and Manikas (2014) submit that CFM is a cardinal aspect of a firm's strategic operations. Inefficient WCM weakens firms' abilities to manoeuvre in dynamic markets (Seth et al., 2020) besides being a major cause of business failure (Van Horne & Wachowicz, 2001). Financial constraints can hurt firms' investment (Almeida &Campello, 2007; Campello & Chen, 2010) and even force firms to exit (Musso & Schiavo, 2008).

Table 3: Working capital and liquidity ratios of TNLHB, TB, and SHCB (FY2018–FY2022)

	FY2018	FY 2019	FY2020	FY2021	FY2022	5YA
TNLHB						
Working capital (WC) ('000)	(19,647)	(58,717)	(34,477)	49,772	(16,559)	(15,926)
Cash conversion cycle (CCC) (days)	60	200	279	293	270	220
Cash ratio	6.76%	4.88%	4.58%	16.50%	9.46%	8.44%
Quick ratio (QR)	50.09%	49.19%	44.76%	64.96%	84.50%	58.70%

Current ratio (CR)	96.07%	89.32%	92.76%	111.18%	96.26%	97.12%
Interest coverage ratio (ICR)	250%	120%	123%	150%	160%	160.60%
TB						
Working capital (WC) ('000)	117,499	213,497	105,279	166,983	126,723	145,996
Cash conversion cycle (CCC) (days) Note: DIO is zero due to no inventory	20	20	12	17	(16)	11
Cash ratio	50.98%	36.86%	91.14%	68.58%	14.55%	52.42%
Quick ratio (QR)	161.54%	86.90%	139.55%	180.68%	75.16%	128.77%
Current ratio (CR)	175%	143%	201%	198%	121%	167.70%
Interest coverage ratio (ICR)	520%	201%	212%	522%	768%	444.67%
SHCB						
Working capital (WC) ('000)	40,620	14,631	11,809	18,344	40,734	25,228
Cash conversion cycle (CCC) (days)	56	58	41	31	27	43
Cash ratio	119.51%	52.28%	48.79%	15.32%	102.58%	67.70%
Quick ratio (QR)	277.24%	146.85%	133.24%	91.86%	198.87%	169.61%
Current ratio (CR)	280.34%	151.48%	142.48%	144.94%	239.83%	191.82%
Interest coverage ratio (ICR)	384%	-129%	-239%	-173%	1442%	257.09%

Source: Author's calculations and compilation

Regarding liquidity ratios, TNLHB shows a lower cash ratio, quick ratio (QR), and current ratio (CR) compared to TB and SHCB (see Table 3). TNLHB's 5YA QR and CR are lower than TB by 73.9pp and 70.9pp respectively. TNLHB is also in a weaker position than SHCB. All these liquidity ratios signal that TNLHB has a higher risk of defaulting on its short-term debts and less efficiency in asset utilization. Fortunately, TNLHB's QR is showing signs of improvement. Liquidity also means the ability to meet interest payments and interest coverage ratio (ICR) is used to assess such ability. Even though TNLHB has substantial debts, its 5YA ICR is 161%, above the minimum acceptable level of 150%. Comparatively, this is still weaker than TB and SHCB. Isa (2018) argues that lower liquidity could be a result of low profit. Zaid et al. (2014) found that profitability and liquidity are significantly related, and V?tavu (2015) argues that profitability is negatively affected by liquidity. Studies have found a mixed impact on capital structure decisions influenced by liquidity ratios and this led to an inference of a positive correlation between liquidity and debt ratios (Saif-Alyousfi et al., 2020). Kiraci and Aydin (2018) submit that firms with higher liquidity borrow more debt since they have a better payoff ability, but this was not the case for TNLHB. Furthermore, it was found that firms with weaker financial performance tend to show a positive correlation between higher debt levels and higher cash flow volatility (Harris & Roark, 2019). This was observed in TNLHB.

The liquidity analysis seems to suggest that while TNLHB has a relatively weaker liquidity position, it is slightly better than its solvency position. Generally, firms tend to maintain higher liquidity levels to fuel growth and avoid unfavourable financing constraints (Saif-Alyousfi et al., 2020). In the pursuit of profit, firms may dilute their liquidity position (Niresh, 2012) and thus liquidity management is critical in balancing profitability and liquidity appropriately (Ardila &Siregar, 2022). Effective liquidity risk management focuses on the ability to satisfy cash flow obligations (Wuave et al., 2020). TNLHB's management should pay more attention to its WCM and liquidity risk management. A clear understanding of the determinants of its WC and liquidity, coupled with further analysis can enable TNLHB's management to identify ways to improve these ratios. Improving CCC can lead to better CFM and WCM. With improved

profitability, TNLHB is likely to see improvement in its WC and liquidity position.

RISK ANALYSIS

TNLHB is a regional LSP with risk exposure (Bartošová et al., 2021). LSP's risk exposure has been greatly amplified in the recent few years due to industry-related factors and externalities happening in Malaysia and internationally. Thus, it is paramount that LSP strengthens its risk management process (Bartošová et al., 2021). Three major risks are identified, including market and competitive risks, operational risks, and financial risks (TNLHB, 2022). MCRs deal with the inability to compete with other competitors in acquiring new customers and retaining existing customers. The increase in the cost of service is a factor that can impair TNLHB's competitiveness in the LSP market (Tongzon, 2007). Crude oil price hike (Aramex, 2022), the pandemic (Hohenstein, 2022), minimum wages hike (MBLS, 2022), inventory and warehouse management (Wang et al., 2020), and global supply chain disruption (Clark, 2022) are contributors to cost of service increase. Enhanced operational efficiency can minimize the cost increase. TNLHB can apply the resource-based view approach (Barney, 1991) to develop and strengthen its core competencies and thus, elevate its competitiveness.

As deliberated, TNLHB has a relatively weaker operational efficiency and this triggers the significance of operational risks. Besides the typical safety hazards, loss of labor, and asset management risks, LSPs experienced novel operational risks in recent years, particularly the unexpected outbreak of the COVID-19 pandemic that started major global supply chain disruption in 2020 onwards (Shastitko, 2020). Consequently, 39% of Malaysian LSPs suffered a revenue decline (Hirschmann, 2021). Externalities such as the recent geopolitical development and the Shanghai lockdown (Han, 2022) further aggravated the disruption. In Malaysia, multiple cities were heavily affected by floods in the past year resulting in business operations disruption and economic losses (DOSM, 2022). TNLHB is not exempted from these external uncertainties (Giuffrida et al., 2021). These risks will eventually translate into delivery uncertainty (Ren et al., 2020). The resilience of LSPs is pushed towards extreme conditions and if TNLHB is incapable to respond to these challenges, it will face great operational difficulties (Hohenstein, 2022). Therefore, TNLHB's management needs to look into effective ways to minimize operational disruptions while working to improve operational efficiency.

From the financial analysis result, TNLHB's financial risks demand utmost attention. TNLHB's relatively operational inefficiencies resulted in lower profit margins. When the cost-of-service increase, its profit margins will further dilute. Furthermore, the solvency and liquidity analyses reveal that TNLHB has a relatively weaker financial position. In order words, TNLHB is more sensitive to financial distress and constraints. With huge debt, the recent increase in the overnight policy rate can further dilute TNLHB's profit and liquidity. Furthermore, as a regional LSP, TNLHB is exposed to currency exchange risk (Ekinci, 2016). Ringgit Malaysia has been depreciating in the past year, setting a new lowest rate against the US dollar (BNM, 2022). Mismanagement of financial risks not only affects the stock price but may force firms to exit (Noor & Abdalla, 2014).

FIRM'S VALUATION

Many determinants can influence a firm's value and profitability is one of the most important determinants. It is important to note that profitability is constantly on the radar of investors when determining their investment decisions (Wang & Chou, 2018). Profitability can positively impact the firm's value (Chabachib et al., 2020). Profitability is paramount as it signifies the firm's ability to deliver a satisfactory profit so that shareholders and investors will continue to provide capital to the firm (Mujiatun et al., 2021).A profitable firm with high profitability can increase its owners' wealth while a firm without profit has no sustainable future (Ngari& Kamau, 2021). TNLHB's 5YA EPS is significantly lower than the average from FY2013 –

FY2017 (15.5 cents). Comparatively, TB has three times higher average EPS with continuous dividend pay-out. Based on the signalling theory, higher profitability indicates better prospects and thus, drives positive behaviours by investors which can lead to a firm's value increase (Chabachib et al., 2020). A firm must provide information or signals, such as profitability, that demonstrate the strength of a firm (Andriani, 2021), an area that TNLHB needs to improve.

Besides profitability, investors pay attention to capital structure in financial decision-making because it impacts the cost of capital (Valaskova et al., 2019). Capital structure is correlated to firm valuation (Bajaj et al., 2020). There are different capital structure strategies and each strategy may lead to a different market valuation. TNLHB's high DAR is a result of using debt financing for business expansion and eventually, leads to a weaker solvency position. This may affect investors' confidence.

WC and liquidity are indicators commonly used by investors in making investment decisions. Firms with more efficient WCM can attract higher market valuation, despite having financial constraints (Dhole et al., 2019). Moreover, Kieschnick et al. (2013) found that incremental investment in WC for financially unconstrained firms caused valuation to decline. Firms with weaker liquidity positions may miss potentially profitable investment opportunities due to being financially constrained and thus, adversely impacting their growth and valuations(Campello & Chen, 2010). The lower WC and liquidity ratios put TNLHB in a weaker financial position. However, a recent study by Markonah et al. (2020) found that a firm's value is not correlated to its liquidity. Further investigation is required to understand the mixed results.

Investors will also evaluate a firm based on firm size since it positively influences the firm's value (Chabachib et al., 2020; Hirdinis, 2019; Niresh & Thirunavukkarasu, 2014). Ownership is also an investment consideration. Studies found that managerial ownership and higher institutional investment can lead to higher market valuation (Aggarwal et al., 2011; Andriani, 2021). The environmental, social, and governance (ESG) theme is a contemporary indicator of a good investment sort after by investors (Wong et al., 2021). It was found that corporate governance improvement can bring higher firms' valuations in emerging markets (Morey et al., 2009). Cesarone et al. (2022) found that ESG can lead to portfolio profitability in the United States, but not in the European market. These factors could be working in favour of TNLHB since it has a relatively big firm size, high managerial ownership, and ESG compliance.

Some investors may be looking for dividend payments and this may put TNLHB less attractive to these investors. However, it was found that a firm's value is not influenced by its dividend policy because it does not affect the cost of capital or the stock price (Manos, 2003). It is indifferent in the shareholders' wealth between capital gains and dividends (Jabbouri & el Attar, 2018). Shareholders' wealth is related to income generated by the firm, not by the method of income distribution (Miller & Modigliani, 1961). Hence, TNLHB's value may not be affected by its recent dividend policy.

The utmost objective of a firm is value maximization under the theory of the firm (Hirdinis, 2019). There is no conclusive consensus on a single best approach to determine a firm's value. All valuation methods share the common goal of providing the best estimation of a firm's value (Basci, 2019). To obtain a more comprehensive firm valuation, a three-method approach is used in this paper (see Table 4). Each method has its limitations and thus, collectively they complement each other. Even though TNLHB has relatively poor profitability, it has a stable business foundation that is expected to generate reasonably good cash flow. Therefore, the discounted cash flow (DCF) method (Fisher, 1930) is used. DCF is a well-established method to determine the intrinsic value of the firm (Basci, 2019).

The EV/EBITDA multiplier method is used in consideration of TNLHB's huge liabilities. Enterprise value (EV) takes into account liabilities. Earnings before interest, tax, depreciation, and amortization (EBITDA) is useful for firms with large debt and high-interest payment. It was found that less profitable firms, more capital intensive, and more leveraged than their peers used EV/EBITDA multiple for valuation (Bouwens et

al., 2019). EV/EBITDA multiplier offers better predictions than operating profits (Loughran & Wellman, 2011).

Since the EV/EBITDA multiplier does not take into account capital structure, the price-to-book value (PBV) method is used to complement the firm's valuation. Many investors use PBV to determine the fair value of shares by comparing stock market prices to the firm's book value (Brigham & Houston, 2014). PBV indicates the firm's ability in creating value relative to the invested capital (Hirdinis, 2019). PBV depends on market reactions to the firm's financial success as represented in the high stock market price and to determine the high return possibilities that a firm can provide (Shabib-ul-Hasan et al., 2015). In other words, a high PBV reflects high market confidence in the firm's prospects (Lestari & Susetyo, 2020). Contrary, Beliani and Budiantara (2015) found that the PBV ratio has no significant impact on the stock price. Pastor and Veronesi (2003) also found that PBV correlates positively with the uncertainty of profitability.

To strengthen the quality of the investment decision, a margin of safety (Klarman, 1991) of 40% to 50% is applied to the average price of the three-method valuation to get a price range of RM0.78–RM0.93. Even though TNLHB was traded at RM0.64 on 25th August 2022, the stock price of TNLHB has been trading below RM0.74 since 21 February 2022 and this reflects the lack of market confidence. Based on the signalling theory, external investors derive a conclusion about a firm's position based on the available financial and non-financial information of that firm. Hirdinis (2019) explains that a firm with a good prospect can enhance its bargaining power of the stock which translates to the incremental firm value. The market will respond by showing high demand for the firm's shares which will result in elevating the stock price (Andriani, 2021). Thus, this may not be a good time to invest in TNLHB. TNLHB needs to work on improving its financial ratios to win over investors' confidence before we execute the investment decision.

Table 4: TNLHB's valuation

Valuation Method	**Price per share**
Discounted cash flow (DCF)	RM1.66
EV/EBITDA multiplier	RM0.91
Price-to-book value (PBV)	RM2.08
Average price per share	RM1.55
Margin of safety	40%–50%
Adjusted price range per share	**RM 0.78–RM0.93**

Source: Author's calculations

CONCLUSION

From the above performance analysis, TNLHB is relatively weak in its profitability performance due to lower profit margins. This is mainly contributed by weak operational efficiency in generating profits and relative asset utilization inefficiency to generate revenue. TNLHB has a capital structure with more than 60% DAR. Due to lower profitability, TNLHB has to rely on debt to fuel its growth. This has led to a relatively weaker solvency position. Even though TNLHB's WC and liquidity position is better off than its solvency position, it is still comparatively lower than its peers. Despite these, TNLHB has a solid business foundation. TNLHB needs to be attentive to the market and competitive risks, operational risks, and financial risks as they are paramount to the success of TNLHB in increasing its revenue and gaining back market confidence. A three-method valuation approach, coupled with a 40%–50% margin of safety, derive at a value of RM0.78–RM0.93 per share. Since TNLHB has been trading below RM0.74 since 21 February, it may not be a good investment call at this moment until and unless TNLHB can win back investors'

confidence.

From an industry perspective, as Malaysia transitions into the phase where the endemic situation prevails, there are clear indications of recovery on the horizon. Consequently, it is expected that LSPs can experience a boost in their revenue. This positive trend in the market's revival presents an opportunity for agile LSPs to enhance their profitability performance. It is advisable for LSPs to continuously strive for improved efficiency in resource utilization to generate long-term profits, even if it necessitates making short-term investments. This research study highlights that LSPs can adopt various strategies related to their capital structure. However, it is crucial for them to maintain a reasonably healthy solvency and liquidity position to bolster investor confidence in their company. If investor confidence weakens, it can negatively impact the stock performance of LSPs, as exemplified by the case of TNLHB.

This paper has its limitations mainly in two areas. First, data used for the analysis were mainly taken from audited annual reports only. Hence, undisclosed information in the annual reports is omitted. Second, this paper adopted a peer comparison approach instead of using industry benchmarking data.

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APPENDIXES

Table: Financial data of TNLHB, TB, and SHCB (FY2018–FY2022)

Financial data	Tiong Nam Logistics Holdings Berhad (TNLHB)					TASCO Berhad (TB)					See Hup Consolidated Berhad (SHCB)				
	FY2018	FY2019	FY2020	FY2021	FY2022	FY2018	FY2019	FY2020	FY2021	FY2022	FY2018	FY2019	FY2020	FY2021	FY2022
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Income Statement															
Revenue	647,789	589,900	604,248	602,120	689,825	710,209	736,801	747,438	946,612	1,481,413	93,845	95,825	95,564	79,664	112,460
Gross profit	148,611	102,447	117,222	105,712	118,808	175,507	100,634	109,302	151,165	203,941	16,848	15,509	16,493	14,332	15,522
Finance costs	(33,699)	(45,768)	(47,910)	(42,558)	(37,739)	(9,994)	(18,429)	(18,348)	(14,397)	(13,196)	(678)	(1,824)	(2,056)	(1,528)	(1,704)
Operating profit	51,177	11,072	10,301	20,879	26,511	42,003	18,661	20,597	60,689	88,147	1,923	(4,169)	(6,971)	(4,167)	22,869
Profit before taxation	51,120	10,739	12,517	20,946	16,768	42,003	18,661	20,597	60,689	88,147	1,830	(4,375)	(7,371)	(3,926)	23,235
Profit after taxation	31,274	604	2,183	11,882	6,291	29,657	13,382	9,906	43,669	67,721	1,297	(4,819)	(7,847)	(4,720)	22,393
EBIT	84,876	56,840	58,211	63,437	64,250	51,997	37,089	38,945	75,086	101,343	2,601	(2,345)	(4,915)	(2,640)	24,573
Depreciation	26,866	32,530	50,273	60,138	64,439	23,412	30,330	31,003	28,442	28,956	6,393	7,667	9,002	7,982	8,095
EBITDA	111,742	89,370	108,484	123,575	128,689	75,409	67,419	69,948	103,528	130,299	8,994	5,322	4,087	5,342	32,668
Capital expenditure	146,175	111,338	168,553	92,447	134,967	24,137	143,301	9,672	40,970	48,128	5,284	14,181	4,479	5,505	12,743
Balance Sheet															
Total non-current assets	1,309,384	1,369,953	1,509,915	1,627,345	1,678,430	473,166	360,989	430,114	624,350	645,419	59,293	96,268	97,482	80,728	83,579
Total current assets	480,271	491,138	441,472	495,002	426,087	275,231	422,871	315,700	336,676	727,647	63,144	43,050	39,606	59,163	69,865
Total assets	1,789,655	1,861,091	1,951,387	2,122,347	2,104,517	748,396	783,861	745,814	961,027	1,373,066	122,437	138,537	136,241	139,163	152,716
Cash and cash equivalents	12,766	14,740	13,050	38,090	11,649	80,418	77,179	191,781	110,938	87,462	26,919	14,857	13,563	6,254	29,882
Interest bearing debts	837,381	947,501	998,581	1,035,924	1,009,593	255,948	351,115	323,580	246,476	219,669	17,346	33,842	31,567	30,634	26,794
Long-term and deferred Liabilities	580,667	609,131	777,878	876,081	862,551	226,955	264,099	222,648	254,761	187,199	10,921	21,113	26,761	22,050	26,818
Current liabilities	499,918	549,855	475,949	445,230	442,646	157,732	209,374	210,422	169,693	600,924	22,524	28,419	27,797	40,819	29,131
Total liabilities	1,080,585	1,158,986	1,253,827	1,321,311	1,305,197	384,687	473,473	433,069	424,455	788,123	33,445	49,532	54,558	62,869	55,949
Total equity	709,070	702,105	697,560	801,036	799,320	363,709	310,388	312,745	536,572	584,943	88,992	89,785	82,529	77,022	97,495
Retained earnings	407,101	408,334	412,275	426,325	432,057	260,475	209,662	212,009	367,463	414,713	0	1,250	(5,397)	(9,628)	12,159
Inventory	183,624	325,500	350,590	355,656	280,647	0	0	0	0	0	137	629	741	841	1,718
Account receivable	232,200	243,680	191,234	215,748	332,146	132,545	104,760	101,866	190,231	364,171	35,527	27,656	24,321	31,968	28,780
Account payable	207,413	161,155	121,843	123,423	121,792	64,363	69,745	64,589	107,887	481,851	14,237	13,944	12,522	23,973	16,601
Ordinary shares	455,743	455,671	448,500	514,050	514,048	200,000	200,000	200,000	800,000	800,000	52,258	80,426	80,426	80,426	80,426
Cash Flow															
Net cash from/(used in) operating activities	56,032	19,354	90,990	79,264	32,718	42,177	103,459	70,466	72,282	101,662	(3,755)	11,790	2,890	8,164	(9,590)

Source: Adapted from TNLHB (2018, 2019, 2020, 2021, 2022), TB (2018, 2019, 2020, 2021, 2022), and SHCB (2018, 2019, 2020, 2021, 2022)