

# Hup seng industries berhad essay sample



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## 1. 0 Background

### 1. 1 Hup Seng Industries Berhad

Hup Seng Industries Berhad is an investment holding company and was incorporated in Malaysia as a public limited company on 4th October 1991 and received an approval certificate to run the business on 23rd April 1997. The mission and vision of the company is to produce quality fast moving consumer products as well as to be market leaders in fast moving consumer products. (Hii, 2010). The main doings of the company is investment holding. Hup Seng Perusahaan Makanan (M) Sdn. Bhd which was established in 1958, Hup Seng Hoon Yong Brothers Sdn. Bhd and In-Comix Food Industries Sdn. Bhd are the subsidiaries of HSIB Group Sdn. Bhd. The main activities of the subsidiaries are in manufacturing and selling the biscuits and coffee mix, and dealing or distributing the biscuits, confectionery and other food items (Hup Seng, 2014).

Hup Seng Industries Bhd was listed under Main Market of Bursa Malaysia under the Consumer Products sector. The stock symbol and code used in Bursa Malaysia is HUPSENG (5024) (Bursa Wave, 2014). Hup Seng's developments can be seen as the products have captured the hearts of customers, from all the age of young and old with an international market exposure that spans Africa, Asia, Oceania, North America and Europe. Hup Seng will be able to continue to enhance, improve and reach new point of excellence. In year 2013 annual report shows that Hup Seng Industries total profit for the year end is RM 50, 081, 724 which shows an increase in the profit compared to 2012 of RM 44, 351, 085 (Hup Seng, 2013).

## 1. 2 Hwa Tai Industries Berhad

Hwa Tai Industries Berhad is an investment holding company and also a leading biscuit manufacturer in Malaysia which was established in 1962 has been listed on the Stock Exchange Malaysia in 1992. The vision of the company is to be a leading biscuit company and confectionary manufacturer and best known for the product quality and variety of items. Hwa Tai Manufacturing Sdn. Bhd., Epro Industries Sdn. Bhd., Hwa Tai Wholesale Sdn. Bhd., Hwa Tai Food Industries (Sabah) Sdn. Bhd., Acetai Corporation Sdn. Bhd., Suria Merah Manufactory (Segamat) Sdn. Bhd. and Hwa Tai Import Sdn. Bhd are the subsidiaries of the company (Investor, 2014). The company manufacture products such as cracker, assorted biscuits, cookies, cream sandwich, cake and snack and these are labeled under the brand name of “ Hwa Tai” and “ Luxury”.

Hwa Tai Industries Bhd was listed under Main Market of Bursa Malaysia under the Consumer Products sector. The stock symbol and code used in Bursa Malaysia is HWATAI (8478) (Bursa Wave, 2014). Hwa Tai Industries Berhad is developing as it is manufacturing high quality biscuits for customers worldwide and also generating business chances for company partners. Hwa Tai has 50 years of manufacturing experience and ability in managing the whole business. In year 2013 annual report shows that Hup Seng Industries total profit for the year end is RM 744, 951 which shows an increase in the profit compared to 2012 which was in loss of (475, 954). (Hwa Tai, 2013)

## 2. 0 Roles of Directors

The role of chairman in a company is to be the company's main representative and whereby it will involve the company's goals and policies worldwide. Besides that, chairman takes lead at general meetings and board meetings. Chairman plans as well as conducts the board meeting with all the directors. The chairman ensures that all the directors are contributing in decision making and involve in all discussion regarding the company's management and focuses on key task. Chairman also makes sure that there is a great communication with shareholders (Institute of Directors, 2010).

The roles of board directors of in terms of financial reporting are whereby responsible to make sure that the financial statements are prepared following the appropriate official accounting standards in Malaysia and requirements of the Companies Act, 1965. The Board also responsible in giving a reasonable assessment of the financial position to its shareholders for quarterly and annually. The board will do some discussion before approving and publishing them to the public Securities Commission ("SC") and Bursa Securities if there is any recommendation stated by the Audit Committee regarding the financial statements (Hup Seng, 2013) (Hwa Tai, 2013).

The board directors will also be alert of the importance of establishing and maintaining a sound system in risk management and internal control in the company and its subsidiaries whereby it will protect the shareholders' interest and group's assets. The boards test the effectiveness and efficiency of the risk management and internal control system on monetary, operational and conformity threat and find various ways for improvement. The Board makes sure that there is free flow of risk information throughout

the Group and there is continuous monitoring of risk management processes in order to detect and minimize risks against corporate objectives on a timely basis. This can be done by internal auditors. The board and management will find the weaknesses detected by the internal auditors by taking the recommendation for further improvement (Hup Seng, 2013) (Hwa Tai, 2013).

The board also takes consideration in ethical conduct and sustainability whereby the employees are frequently viewed to make sure that the culture is practiced in their dealings within the group and also in their association with customers, distributors, suppliers, governmental and regulatory authorities and other business associates. The role of chairman in this is he or she plays an important role whereby he will take an action when the employee reports about any misconduct found within the Group (Hup Seng, 2013) (Hwa Tai, 2013). The board of directors also maintains a formal relationship with the auditors. The board seeks the auditors' advice to ensure compliance with the applicable accounting standards (Hup Seng, 2013) (Hwa Tai, 2013).

The role of independent auditors is to bring up important matters that need to be discussed during the Audit Committee meetings and Board meetings. Other than that, is to express to give opinion whether the management has produced acceptable information in financial statements. The auditors also perform their work by collecting evidence to acquire reasonable assurance that the sums and disclosures in the financial statements are free of material misstatement and if the auditors have issues about the amounts or disclosures, the auditors will amend the report to define the issues. The auditor also adds reliability to the management's financial statement so that

the owners, bankers, creditors and bankers to use with better confidence (Chartered Accountants, 2013).

### 3. 0 Ratio Analysis

#### 3. 1 Liquidity Ratio

##### FORMULAS

CURRENT RATIO =

CURRENT ASSETS

CURRENT LIABILITY

ACID TEST RATIO =

CURRENT ASSETS - CLOSING INVENTORY

CURRENT LIABILITIES

#### 3. 11 Hup Seng (2013)

Current Ratio =

RM140, 114, 822. 00

= 2. 98 : 1

RM47, 087, 947. 00

Acid Test Ratio =

RM140, 114, 822. 00-RM20, 817, 932. 00

= 2. 53 : 1

RM47, 087, 947. 00

## 3. 12 Hwa Tai (2013)

Current Ratio =

RM32, 252, 113. 00

= 0. 92 : 1

RM35, 215, 109. 00

Acid Test Ratio =

RM32, 252, 113. 00-RM5, 175, 586. 00

= 0. 77 : 1

RM35, 215, 109. 00

Current ratio is one of liquidity ratio that measures a company's ability to pay its short term liabilities. From the calculation, Hup Seng has better liquidity than Hwa Tai. Hwa Tai current ratio at 0. 92: 1 is so much lower than Hup Seng's at 2. 98: 1. It shows that Hup Seng is more capable to pay off its current liabilities at that point of due because of its higher current ratio whereas Hwa Tai's ratio under 1 indicates that the company will be unable to pay off its current liabilities at that point of due. It can be clearly seen that Hwa Tai's current liabilities' figure is larger than its current asset which is not good whereas Hup Seng's current liabilities' is far lower compared to Hwa Tai. Hwa Tai will not be able to pay its short term debt with lower current asset. Hwa Tai also has large figure of current liabilities because of the loans and borrowings.

The liabilities will increase straight away if the company gets a loan to increase their production whereby it is for good purpose. This does not mean

the company is doing badly but Hwa Tai is getting many loans consistently even in 2012 as stated in the financial position whereas Hup Seng is not getting any loan from the bank therefore the current liabilities figure is lower. Acid test ratio measures a company's ability to pay off its short term liabilities with short term asset without selling the inventory. This is also reflected in the acid test ratio of 0.77: 1 for Hwa Tai and 2.53: 1 for Hup Seng. There is a significant difference for both the companies in the same industries. Hup Seng is financially secure in short term.

It shows that Hup Seng has enough cash in hand to pay off its liabilities and keep going whereas Hwa Tai's liabilities will keep increasing and not paid in time. Based on the statements of financial position for both companies, Hup Seng has a very large amount of cash in hand and bank balances with low inventories whereas Hwa Tai has small amount of cash in hand and high inventories. Inventory contributes large part in current assets for Hwa Tai which means that it is hard for the inventories to turn into cash, thus the liquidity ratio is lower for Hwa Tai. Low cash and bank balances makes Hwa Tai could not meet its short term liabilities and if the payment of bills and others has to be made quickly, the company will face problems in paying of its liabilities because the company's current assets is depending on inventories.

### 3. 2 Asset Management Ratio

#### FORMULAS

INVENTORY TURNOVER =  
COST OF GOODS SOLD



## AVERAGE INVENTORY

AVERAGE COLLECTION PERIOD OF ACCOUNTS RECEIVABLE =

ACCOUNTS RECEIVABLE

X365

SALES

3. 21 Hup Seng (2013)

Inventory Turnover =

RM156, 828, 994. 00

= 7. 58 times

(RM20, 586, 831. 00+RM20, 817, 932. 00)/2

Average Collection Period of Accounts Receivable =

RM35, 872, 644. 00

X 365 = 52 days

RM251, 407, 055. 00

3. 22 Hwa Tai (2013)

Inventory Turnover =

RM48, 998, 011. 00

= 9. 47 times

(RM5, 172, 887. 00+RM5, 175, 586)/2

Average Collection Period of Accounts Receivable =

RM24, 624, 077. 00

x 365 = 137 days

RM65, 799, 286. 00

Inventory turnover measures the number of times a company's inventory is being sold and replaced over a period of time. The inventory turnover of Hup Seng in one year is 7. 58 times which is lower compared to Hwa Tai which is 9. 47 times. Hwa Tai's higher inventory turnover shows a greater sales efficiency and lower risk of loss through unsaleable inventory but in some case high inventory turnover can causes losses due to shortages. High inventory turnover are unhealthy because they represent an investment with a rate of return of zero. Hup Seng low inventory turnover is signal of inefficiency. It also suggests either poor sales or excess inventory. A low turnover rate can likely leads to overstocking, poor liquidity and obsolescence, but in Hup Seng it does not seem to be a concern as the company's gross profit is still higher than Hwa Tai even with low inventory turnover. Based on the analysis, low inventory turnover for Hup Seng is actually making profit to the company and it might be because of the pricing strategy of the product and others.

Hwa Tai high inventory turnover also might be because the company always runs out of inventory and making ineffective purchasing thus producing a low gross profit margin. Average collection period measures how well a company collects its accounts receivable form the debtors the inventory turnover for Hwa Tai is almost every 39 days but the accounts receivable

collection period is very late. In this case Hwa Tai will not be able to make the payments if the due is faster than the collection period of accounts receivables. Hup Seng will be able to pay the payments easily because it only takes 52 days for them to collect the accounts receivables.

The average collection period for accounts receivable of Hup Seng is 52 days which is so much lower compared to Hwa Tai of 137 days. It can be clearly seen that Hup Seng's management of debtors is more efficient and more liquid compared to Hwa Tai. Hwa Tai has a less liquid debtors compared to Hup Seng. Hup Seng is better in collecting their accounts receivables than Hwa Tai. Hwa Tai company should re-assess on its credit policy so that the management of debtors will be better.

### 3. 3 Financial Leverage Ratio

#### FORMULAS

DEBT TO TOTAL ASSETS =

TOTAL LIABILITIES

TOTAL ASSETS

DEBT TO STOCKHOLDERS' EQUITY =

TOTAL LIABILITIES

STOCKHOLDERS' EQUITY

### 3. 31 Hup Seng (2013)

Debt to Total Asset =

RM54, 815, 919. 00

= 0. 27 : 1

RM205, 202, 821. 00

Debt to Stockholders' Equity =

RM54, 815, 919. 00

= 0. 36 : 1

RM150, 386, 902. 00

3. 32 Hwa Tai (2013)

Debt to Total Asset =

RM35, 930, 856. 00

= 0. 70 : 1

RM51, 019, 722. 00

Debt to Stockholders' Equity =

RM35, 930, 856. 00

= 2. 38 : 1

RM15, 088, 866. 00

The debt ratio measures the extent to which borrowed funds have been used to finance a company's operation relative to its total asset. Total liabilities include all current and non-current liabilities which is also named as economic burdens whereas total asset represent the owned items of the company which is known as economic resources. The debt to total asset ratio for Hup Seng is 0. 27: 1 . This portrays that 27% of the company's total

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assets are financed through creditors such as banks, loans from the bank, inventory suppliers, government taxes, shareholders dividends and other types of debt. It can be said that for every RM0. 27 the company owes, it owns RM1. 00 worth of assets. Hup Seng has a lower debt to total assets ratio compared to Hwa Tai of 0. 70: 1 which indicates that Hup Seng is much more stable and the financial position also stronger. Hwa Tai has a higher debt to total asset ratio which maybe because the company pays more interest on borrowed funds which reduces their net income.

This clearly shows that Hwa Tai needs more cash to pay the monthly payments as well as interest related to the debt. Other cause of higher debt to total asset ratio for Hwa Tai is might because of the company was unable to pay off its current liabilities in that point of due which causes them to pay interest for the late payment. Other than that, debt to equity ratio measures the investments provided by the creditors against the investments provided by the company's stockholders. Hup Seng has a lower debt to equity ratio at 0. 36: 1 whereas Hwa Tai has a higher debt to equity ratio at 2. 38: 1. It can be said that for every RM 1. 00 invested by the company, the creditors have invested RM0. 36. It clearly shows that Hup Seng company's owners have invested more than the creditors, thus the lesser the money it owes. Hwa Tai company owners invested much lesser than their creditors which mean the company owes more money and less stable in terms of their financial position. Hwa Tai could be in risk if the creditors start to demand repayment of debt. The company also will have difficulties in obtaining loans for new project whereas Hup Seng will be able to get loans easier because the company is financially strong.

### 3. 4 Profitability Ratio

## FORMULAS

GROSS PROFIT RATE =

GROSS PROFIT

X100

SALES

ROCE (RETURN ON CAPITAL EMPLOYED) =

PROFIT BEFORE INTEREST AND TAX

X100

TOTAL ASSETS – CURRENT LIABILITIES

3. 41 Hup Seng (2013)

Gross Profit Rate =

RM94, 578, 061. 00

X100 = 37. 62%

RM251, 407, 055. 00

ROCE (Return on Capital Employed) =

RM50, 081, 724. 00

X100 = 31. 67%

RM205, 202, 821. 00-RM47, 087, 947. 00

3. 42 Hwa Tai (2013)

Gross Profit Rate =

RM16, 801, 275. 00

$\times 100 = 25. 53\%$

RM65, 799, 286. 00

ROCE (Return on Capital Employed) =

RM744, 951. 00

$\times 100 = 4. 7\%$

RM51, 019, 722. 00-RM35, 215, 109. 00

Gross profit ratio measures how profitable a company sells its inventory. Hup Seng gross profit rate is 37. 62% which is higher than Hwa Tai which is at 25. 53%. It can be said that Hup Seng is selling their inventory at higher profit percentage. Even though Hwa Tai's inventory turnover is higher but the gross profit figure is low compared to Hup Seng. It shows that Hwa Tai needs to sell a lot of items to maintain an enough return on the capital invested by the company whereas Hup Seng is selling fewer items but getting a higher and enough profit. Hup Seng get higher gross profit ratio with low inventory turnover because they might have bought the inventory very cheap compared to Hwa Tai.

Other than that, Hup Seng might have gotten a big amount of purchase discounts for the inventories been bought from the manufacturer whereas Hwa Tai got lesser or no discount for items purchased. In this case the gross profit will be higher because the costs of purchases are lower. Return on capital employed or ROCE measures how efficiently a company can generate profits from its capital employed by comparing profit and interest before tax

to capital employed. Hup Seng has an excellent ROCE of 31.67% but Hwa Tai has a rather poor ROCE of 4.7%. Hup Seng is achieving the superior ROCE with a more efficient use of its capital employed through its net profit to sales of 14.62% but Hwa Tai has poor net profit to sales of 0.63%. Hup Seng is totally making profit as their ROCE is higher than the borrowed money to fund the assets whereas Hwa Tai is not making much profit because the ROCE is very low compared to the owings.

Hwa Tai's low ROCE might be because of low asset turnover because the company is not generating a sufficient volume of business for the size of asset base. This can be prevented by increasing the sales of the company or disposing some of the assets to increase the ROCE. It shows that Hup Seng has a better long term profitability ratio based on the calculation with effectively performing assets for consideration on long-term financing. Hwa Tai must raise more money in a cost effective way to get a higher return. By this, the company will be able to see its share price increase which is measured by ROCE.

#### 4.0 Four other measurements

##### 4.1 Ratios

##### FORMULAS

ROA (RETURN ON ASSET) =

NET INCOME

X100

AVERAGE TOTAL ASSETS



NET PROFIT MARGIN =

NET PROFIT AFTER TAX

X100

SALES

4. 12 Hup Seng (2013)

ROA (Return on Asset) =

RM36, 744, 846. 00

x100 =

17. 92%

(RM205, 202, 821. 00+RM204, 947, 578. 00)/2

Net Profit Margin =

RM36, 744, 846. 00

x100 =

14. 62%

RM251, 407, 055. 00

4. 13 Hwa Tai (2013)

ROA (Return on Asset) =

RM413, 406. 00

x100 =

0. 78%

(RM51, 019, 722. 00+RM54, 453, 843. 00)/2

Net Profit Margin =

RM413, 406. 00

x100 =

0. 63%

RM65, 799, 286. 00

ROA or Return on Asset measures how profitable a company is relative to its total assets. By measuring how efficient the company is using its assets to generate earnings. Based on the calculation, Hup Seng has a much higher ROA which is 17. 92% whereas Hwa Tai is only at 0. 78%. It shows that Hup Seng is effectively converting the money it has to invest into the net income. Hup Seng higher ROA indicates that the company is earning more money but with less investment.

Hwa Tai's low figure indicates that the company is not efficiently using their assets because their earning is very low. It can be said that Hwa Tai is earning RM0. 0078 for each RM1 in assets. A very low figure of ROA for Hwa Tai shows that the company is very asset heavy whereby they are investing a lot of money on heavy and expensive machineries to generate income but it failed. This might be because of wrong allocation of assets. A very high figure of ROA for Hup Seng shows that the company is asset light. They are investing money on other assets and successfully generate good income because they allocated the assets efficiently.

Net profit margin measures how much net income a company makes relative to its sales. Hup Seng higher ratio of 14. 62% shows that the company is very good in cost control whereas Hwa Tai has a very low ratio of 0. 63%. A

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good management and operations of the company is very important in getting a high net income. It tells the investor how profitable the company is and how well the company is being managed. Net profit shows the percentage of remaining sales after being deducted by all operating expenses, interest and taxes. Based on the analysis from the statement of comprehensive income for both the companies, it can be seen that gross profit figure and total expenses figure for Hwa Tai is almost the same.

Hwa Tai's expense management is very poor but the net profit margin also significantly low because of long term loan that has been borrowed by the company to increase its production capacity as stated in the statement of financial position. It does not mean that the company is doing badly. The investors want to see high profit so that it is enough to distribute dividends whereas the creditors want the company to pay back its loans. Hwa Tai will be able to maximize its profit by cutting down the expenses and the management needs to budget the expenses. Hwa Tai should perform better in production, selling, pricing, tax and inventory management so that the net profit margin can be increased.

#### 4. 2 Theories

The factors that can affect a company's performance in negative view are lawsuit. Lawsuit against a company definitely can bring down a company's performance as it is very time consuming and especially can cost a lot of money. The situation will be very bad once the company lost against the lawsuit and the company will have to pay the fine and this will make the company to be in loss. It will be very hard for the company to get back in the

previous position as it is because of drastic changes. Besides that, poor management skill also can affect a company's performance. This might be because of lack of communication or failure communication between the workers about what is required and what is being sold in the company. It also can be because of technical incompetence and unrealistic expectation from the labor force. Poor management skill can lead to business failure.

The management of the company in terms of production, pricing, selling, distributing, debtor's management, inventory management and tax management plays an important role on company's performance. If these key factors are not given main priority, the company will not be able to perform well. As it is a biscuit company, poor management can be in terms of how the company manage their inventories buy not keeping it too long until outdate and always keep informing the management about the inventories of the company. It can cause loss for the company if the inventories are spoiled because it is a food item. The most significant impact of poor management will be on Human resource whereby reasons for high employee turnover. This is might be because the employees are not being heard and motivated for their work. The weak monitoring of cash also can affect the company's performance.

## 5. 0 Conclusion and Recommendation

Based on all the ratios and theories, I will recommend buying the shares of Hup Seng company because firstly the company is consistently making profit. Hup Seng is has a better liquidity than Hwa Tai and able to pay off its non-current liabilities with their assets. From the asset management ratio,

Hup Seng lower inventory turnover does not affect the company's performance but benefits their company in sense of they are getting their accounts receivable very fast once the inventories have been sold which in just 52 days. In terms of financial leverage ratio, Hup Seng clearly shows that the company is financially strong because of their low debts and most of the company's total assets and investments are from the owners of the company and not from the creditors. Besides, in profitability ratio, the gross profit for Hup Seng is much higher even with lower inventory turnover Hup Seng is making higher profit compared to Hwa Tai and Hup Seng also has a great ROCE with efficient use of capital employed.

Other than that, ROA of Hup Seng also much better than Hwa Tai because Hup Seng is better in allocating the assets and getting enough income. The net profit margin for Hup Seng is much higher compared to Hwa Tai as the company is very good in terms of expense management, cost control and great in operating the company. Lastly, the management of the company is very good in all aspects as for example the management of debtors, management of inventories and others.

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