

Benchmarking the Performance of Malaysian Listed Construction Companies.

Atasya Osmadi and Nur Safuraa Mohamed Salib

School of Housing, Building and Planning, Universiti Sains Malaysia.

ARTICLE INFO

Article history:

Received 12 October 2014

Received in revised form 26 December 2014

Accepted 1 January 2015

Available online 17 February 2015

Keywords:

Benchmarking, Performance, Construction

ABSTRACT

The performance of construction sector in Malaysia shows a great growth as the years goes on. Therefore, what is the performance of construction sector listed in Bursa Malaysia? To measure this, the research objective would be to develop Construction sector indices and compare it with Kuala Lumpur Composite Index (KLCI) to identify the performance of construction sectors with other Kuala Lumpur Stock Exchange sectors. In order to look at the trend of performance, this study used benchmark as the tool to measure the performance and KLCI was chosen. 3 new indices which consists of All Construction, Shariah-compliant Construction and Shariah non-compliant Construction will be developed. The finding shows that Shariah-compliant Construction shows a greater performance followed by All Construction and Shariah non-compliant Construction. The reason why Shariah-compliant Construction shows a better performance because they are in line with Shariah principle. In the overall ranking, Shariah-compliant Construction was ranked as the second and this shows that Shariah-compliant construction companies are vital and strong. Therefore, for the investors either local or international they are encouraged to invest in Shariah-compliant construction companies because their companies are more safe in term of financial and return of investment.

© 2015 AENSI Publisher All rights reserved.

To Cite This Article: Atasya Osmadi and Nur Safuraa Mohamed Salib., Benchmarking the Performance of Malaysian Listed Construction Companies.. *Adv. Environ. Biol.*, 9(5), 104-106, 2015

INTRODUCTION

Analysts should benchmark the companies in order to view the performance of the securities market and of the securities they own. The indices were measures to represent the direction of the market and specific subsets of the market. By having the benchmark of the indices, it allows the investors to measure the performance of a variety of securities and portfolios which do not follow the trend but overall market and perhaps they can make the best decision to invest. It is important to select the correct index which matches the composition of the specific portfolio during the examining performance [1].

Performance measurement and benchmarking is important for managers, stakeholders and investors in order to view and achieve their target for future. In the perspective of end user, performance measurement is important because the only way of getting profit margin high is by reducing the prices for end users. In order to reduce prices, there should have elimination of the unnecessary costs. Therefore, by having performance measurement, the parties involves will view more on the costs and will try to reduce as much as possible after the performance is done. Another objective of doing performance measurement and benchmarking, it is the first stage to any improvement process. Without having the performance measurement, the firm or companies will not know where they are standing and what types of improvement they need in order to motivate them to be more outstanding [2]. Benchmarking is also considered as a valuable tool to set necessary goals in order to remain competitive and also to learn new ideas [3].

Methodology:

These indices are intended to be used to assist investors compare the performance of listed construction companies with other asset classes. Performance analyses will be carried out for each listed construction companies index (29 Shariah compliant, 7 non-Shariah compliant) [4] to be assessed with KLCI and other KLSE sectors from 1993-2013. This is to reflect the diversification in terms of properties in the portfolio in order to have adequate representation of the diversity. The companies were listed on the main market (Board) of

Corresponding Author: Atasya Osmadi, School of Housing, Building and Planning, Universiti Sains Malaysia.

E-mail: a.osmadi@usm.my

the Bursa Malaysia Securities Berhad between 1993 and 2013. The data collected from 1993 to 2013 reflecting a full year annual return of the companies in the sample for the period regardless of each company's financial year. Quantitative data were collected from DataStream. Using the data from Bursa Malaysia, this research will compare the performance of listed construction companies with shares and in Malaysia. The objective is to measure asset performance using the investment concepts of return by calculating the risk adjusted return. For the risk free rate, the 10-year government bond yield will be used. To analyse portfolio diversification benefits, the inter-asset correlation matrix is used.

RESULTS AND DISCUSSION

(i) *Index Development:*

The Overall Listed Construction Companies, Shariah non-compliant Listed Construction Companies and Syariah-compliant Listed Construction Companies index have been developed to assist further empirical analyses in this reserach. In this context, the construction of the Listed Construction Companies indices is significant to show the historical performance of previous Listed Construction Companies in Malaysia. The Listed Construction Companies indices will start from 1993 until 2013. All total return indices are constructed on a yearly basis to ensure sufficient data points over this time period in constructing these Listed Construction Companies indices, with the market capitalisation-weighted scheme applied due to the consistency with the other existing KLSE indices. As such, the Listed Construction Companies indices will be benchmarked against the overall Malaysian stock market performance indicators, including the Kuala Lumpur Composite Index (KLCI). All indices have been rebased at base date = 100. Figure 1 shows the Listed Construction Companies Indices in comparison to KLCI.

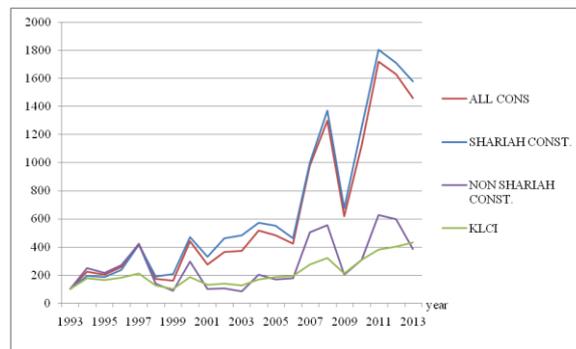


Fig. 1: Listed constuction companies indices in comparison to KLCI:1993-2013.

(ii) *Risk-adjusted Returns Analysis: Construction Sector:*

Table 1 presents the risk-adjusted performance analysis for the Listed Constuction Companies sector over the period of 1993-2013. The Shariah-compliant Construction sector showed the second highest average annual return (15.84% p.a.) in comparison to the other sectors, which ranged from -2.75% to 16.49%. The lowest average annual return was given by the KLSE property sector with -2.75%, while the highest was given by the All Construction sector with 16.49%. The The Shariah-compliant Construction sector annual risk level (50.92%) has the eighth lowest risk level in comparison to other sectors (22.73% to 88.67%). The highest risk was given by the Shariah non-compliant Construction sector (88.67%), while the lowest risk was given by the KLSE Consumer Product sector with 22.73%. From the risk-adjusted ranking based from the return-to-risk ratio, the KLSE Consumer Product is the best performed sector followed by the Shariah-compliant Construction sector. KLSE Industrial Product sector was the second worst performed sector, while the KLSE property sector is the worst performed sector during the period of analysis.

(iii) *Portfolio Diversification Benefits: Constuction Sector:*

Table 2 presents the Construction sectors inter-asset correlation matrix over the period of 1993 – 2013 with KLCI and other KLSE sectors. Overall, All Construction sector have a higher correlation ($r = 0.59$ to 0.98) with the other sectors. Shariah-compliant Construction sector ($r = 0.60$ to 0.90) have a higher correlation than Shariah non-compliant Construction sector ($r = 0.51$ to 0.88) and reflects some degree of portfolio diversification benefits with the other asset classes over this period. In comparison to other sectors ($r = 0.35$ to 0.87), the KLSE Mining sector has a low correlation with the other sectors, which indicates that they offer more portfolio diversificatio benefits in a mixed asset portfolio.

Table 1: Risk-Adjusted Return analysis: 1993-2013.

	Average Annual Return (%)	Annual Risk (%)	Risk Return Ratio	Sharpe Index	Risk Adjusted Ranking
ALL CONS	16.49	61.08	3.70	0.19	3
SHARIAH CONST.	15.84	50.92	3.22	0.22	2
NON SHARIAH CONST.	10.56	88.67	8.39	0.07	10
KLCI	7.50	31.74	4.23	0.09	7
KLSETAS (Trading and Services)	10.49	39.76	3.79	0.15	5
KLSETIN (Mining)	10.08	75.45	7.48	0.07	9
KLSEPRP (Property)	-2.75	52.88	-19.23	-0.14	12
KLSEPLN (Plantation)	13.74	46.93	3.42	0.19	4
KLSEINP (Industrial Product)	3.30	44.92	13.61	-0.03	11
KLSEIND (Industrial)	6.66	25.85	3.88	0.08	8
KLSEFIN (Finance)	11.09	48.95	4.41	0.13	6
KLSECOP (Consumer Product)	10.06	22.73	2.26	0.24	1
BOND	4.70	n.a	n.a	n.a	n.a

Source: Author's calculation

Table 2: Correlation analysis of construction sector indices: 1993-2013.

	ALL Cons	SC	NON-SC	KLCI	TAS	TIN	PRP	PLN	INP	IND	FIN	COP
ALL Const.	1.00											
Shariah Const.	0.98	1.00										
Non-Shariah Const.	0.93	0.86	1.00									
KLCI	0.92	0.88	0.88	1.00								
KLSETAS	0.78	0.69	0.78	0.75	1.00							
KLSETIN	0.65	0.63	0.66	0.73	0.52	1.00						
KLSEPRP	0.71	0.72	0.61	0.85	0.56	0.87	1.00					
KLSEPLN	0.59	0.60	0.51	0.70	0.57	0.84	0.88	1.00				
KLSEINP	0.72	0.64	0.74	0.64	0.91	0.35	0.36	0.39	1.00			
KLSEIND	0.92	0.90	0.86	0.95	0.79	0.76	0.83	0.75	0.70	1.00		
KLSEFIN	0.83	0.80	0.75	0.94	0.70	0.81	0.94	0.80	0.57	0.93	1.00	
KLSECOP	0.82	0.83	0.76	0.91	0.69	0.71	0.81	0.70	0.60	0.94	0.88	1.00

Source: Author's calculation

Summary:

In the comparison of construction indices with other sub-indices, researcher found out that Shariah-compliant construction companies shows a greater performance among the 3 new indices and followed by other indices. This shows that, the growth of the construction sector are mostly contributed by the Shariah-compliant construction companies and they have more stability. Overall the construction sector is important to the nation in order to attract more tourists and investors to our country.

ACKNOWLEDGMENTS

The authors acknowledge the financial support of the University Sains Malaysia under the Short-term Grant (account number: 304/PPBGN/6313035), which made this publication possible.

REFERENCES

- [1] Burgauer, J., 1994. Do it Yourself Investment Analysis: Practical Guide to Life Cycle, Fundamental and Technical Analyses, Golden Books Centre.
- [2] Cain, C.T., 2004. Performance Measurement for construction profitability, Blackwell publishing Ltd., Oxford.
- [3] Balm, G.J., 1996. Benchmarking and gap analysis: what is the next milestone?, Benchmarking for Quality Management and Technology, 3: 28-33.
- [4] Information on <http://www.sc.com.my/data-statistics/list-of-shariah-compliant-securities-by-scs-shariah-advisory-council/>