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The Dynamic Analysis of Malaysian Listed Construction Companies

Atasya Osmadi, Norfaizah Kamalbaharin, Shardy Abdullah

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

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ABSTRACT

Islamic finance and banking has taken on increased significance in recent years. This has reflected a diverse range of Shariah-compliant financial products, as well as an increased demand for Shariah-compliant investment opportunities for Muslim investors in the Middle East and Asia (e.g. Malaysia, Indonesia). This research focuses on the performance of public listed construction companies in Malaysia. The study explores literatures as presented in the past studies; and assesses the significance and portfolio diversification benefits of Shariah-compliant listed construction companies in a mixed‐asset portfolio in Malaysia over 1993–2013, contrasting this performance with Shariah non-compliant listed construction companies and KLSE sectors in Malaysia. The study will analyse 36 out of 43 listed construction companies (29 Shariah-compliant, 7 Shariah non-compliant) will be selected to reflect diversity in portfolio and location. Data will be extracted from the reports of selected companies for a 20-year transaction period (1993-2013). The ongoing implications for Shariah-compliant listed construction companies are also highlighted.

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INTRODUCTION

According to a study [1], the main determinants of failure of the firms are bad financial management and lack of capital. The construction industry in Malaysia is facing these problems and the failure rate of the construction companies is quite high. Besides that, the construction companies depend heavily on debt financing compared to equity financing for expansion and growth. They discovered from their analysis that asset tangibility has most influence especially on the debt. The reason is because when a company has more asset tangibility, they are more demand for debt in financing which is due to increase of assets. They also suggest that, when a construction company becomes bigger in terms of size and total assets, they rely more on debt compare to equity financing. Therefore, financial institutions play an important role to act as capital providers in order to help better stimulate the construction financial needs for its future developments and country growth. Therefore, from the statements above, performance of construction sectors is significant pertaining to the economy as well as to the owners. Apart from that, Malaysia is a developing country which towards the industry country soon. Hence, in this study, researcher would like to look into the performance of construction especially construction listed companies in term of their financial analysis in order to view their strength towards the economy and sector as well.

Methodology:

This study adopted quantitative research method and purposively selected 36 out of 43 listed construction companies (29 Shariah-compliant, 7 Shariah non-compliant) to be assessed with other KLSE sectors. The reason for this selection is because these companies were listed on the main market (Board) of the Bursa Malaysia Securities Berhad between 1993 and 2013. Quantitative data relating to risk-return attributes were collected from DataStream and calculated.

RESULTS AND DISCUSSION

(i) Efficient Portfolios and Optimal Asset Allocations:

Efficient frontiers of mixed-asset portfolios have been constructed to evaluate the diversification benefits of Shariah non-compliant listed construction companies and Shariah-compliant listed construction companies in a mixed-asset portfolio. In order to estimate the diversification benefits of Shariah non-compliant listed

Corresponding Author: Atasya Osmadi, School of Housing, Building and Planning, Universiti Sains Malaysia.
E-mail: a.osmadi@usm.my

Advances in Environmental Biology, 9(5) April 2015, Pages: 94-97

construction companies and Shariah-compliant listed construction companies in a mixed asset portfolio, efficient portfolios and optimal asset allocations are constructed applying data generated from Solver using the risk, returns and correlation data calculated from DataStream over 20 years (1993-2013). Table 1 shows the details for the efficient portfolios and optimal asset allocations.

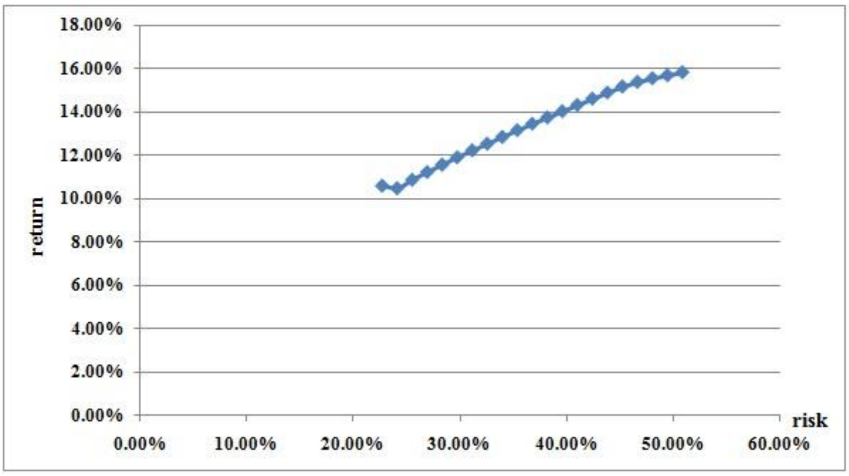
Table 1: Efficient Portfolios and Optimal Asset Allocations.

Risk	Return	SHARIAH CONST.	KLSEPLN	KLSECOP
22.73%	10.60%	0.00%	0.00%	100.00%
24.14%	10.48%	3.50%	6.12%	90.38%
25.55%	10.87%	8.49%	8.70%	82.81%
26.96%	11.23%	13.25%	11.03%	75.71%
28.37%	11.57%	17.80%	13.26%	68.94%
29.78%	11.91%	22.18%	15.41%	62.41%
31.19%	12.23%	26.44%	17.49%	56.07%
32.60%	12.54%	30.59%	19.53%	49.88%
34.01%	12.85%	34.66%	21.54%	43.81%
35.42%	13.16%	38.64%	23.52%	37.84%
36.83%	13.46%	42.63%	25.38%	31.99%
38.23%	13.75%	46.47%	27.32%	26.21%
39.64%	14.04%	50.35%	29.15%	20.50%
41.05%	14.33%	54.08%	31.14%	14.77%
42.46%	14.62%	57.91%	32.92%	9.17%
43.87%	14.90%	61.58%	34.88%	3.54%
45.28%	15.18%	68.47%	31.53%	0.00%
46.69%	15.39%	78.43%	21.57%	0.00%
48.10%	15.56%	86.52%	13.48%	0.00%
49.51%	15.70%	93.58%	6.42%	0.00%
50.92%	15.84%	100.00%	0.00%	0.00%

Source: Author's calculation

(ii) Efficient Frontier of a Mixed Asset Portfolio:

Figure 1 presents the efficient frontier of a mixed asset portfolio consisting of Shariah-compliant listed construction companies, KLSE Plantation and KLSE Consumer Products for the period of 1993 to 2013. When Shariah-compliant listed construction companies sectors are added to the portfolio, the addition of another asset class to the mixed-asset portfolio has resulted in significant diversification improvement. Overall, Shariah-compliant listed construction companies sectors have a significant allocation at almost all risk-return levels. It is apparent that as the Shariah-compliant listed construction companies allocations increased at the expense of reductions in KLSE Consumer Products, portfolio return increased significantly.



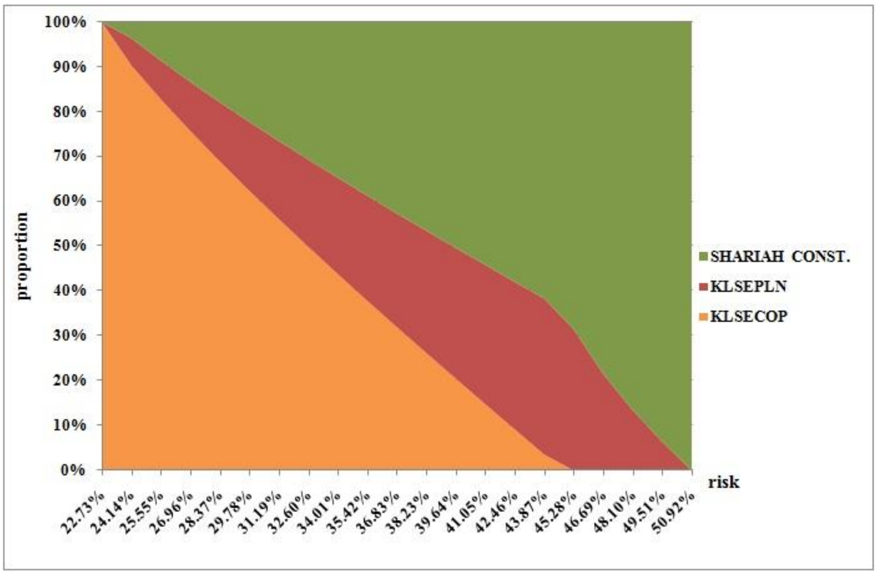
Source: Author's calculation

Fig. 1: Efficient Frontier of a Mixed Asset Portfolio.

(iii) Asset Allocation Diagram of a Mixed Asset Portfolio:

Figure 2 presents the asset allocation diagram of a mixed asset portfolio consisting of Shariah-compliant listed construction companies, KLSE Plantation and KLSE Consumer Products for the period of 1993 –2013. The Shariah-compliant listed construction companies dominated the upper risk region of the portfolio and are substituted by KLSE Consumer Products when moving down the portfolio risk spectrum. The lesser returns and higher risk for other KLSE sectors sees they are not contributing to the efficient frontier across the full risk spectrum. The lesser performance of KLSE consumer product sees them only contributing to the mixed-assed portfolio at the lower portfolio risk levels, with KLSE plantation contributing to the portfolio at both low risk and higher risk levels. At higher portfolio risk levels, the portfolio is dominated by Shariah-compliant listed construction companies; reflecting it's strong performance for the period of 20 years. The robustness of Shariah-compliant listed construction companies is clearly shown; with Shariah-compliant listed construction companies increasingly contributing to the mixed-asset portfolio across the full risk spectrum. Overall, Shariah-compliant listed construction companies have shown a high degree of robustness with enhanced portfolio diversification benefits, where these enhanced portfolio diversification benefits were not evident for Shariah non-compliant listed construction companies. This further reinforces the separation of Shariah-compliant listed construction companies and Shariah non-compliant listed construction companies as different types of investment vehicles in Malaysia.

This empirical analysis has also highlighted a number of significant investment issues regarding the future development of Shariah-compliant listed construction companies. In particular, the robust risk-adjusted performance and improved portfolio diversification benefits may indicate that Shariah-compliant listed construction companies are a separate listed construction companies, reflecting the benefits of their Shariah-compliant nature (e.g. restricted levels of debt). This demonstrated that performance by Shariah-compliant listed construction companies is consistent with previous finance research regarding Shariah-compliant stocks, where generally no evidence of under-performance by Shariah-compliant stocks (compared with Shariah non-compliant stocks) was evident; as well as some evidence of out- performance by Shariah-compliant stocks being evident in a depressed market [2].



Source: Author's calculation
Fig. 2: Asset Allocation Diagram of a Mixed Asset Portfolio.

Summary:

Shariah-compliant listed construction companies have a significant allocation in almost all risk levels, where the portfolio risk increases as the allocation of Shariah-compliant listed construction companies increases. The addition of another asset class particularly Shariah-compliant listed construction companies to the mixed-assets portfolio has resulted in significant diversification improvement. When the Shariah-compliant listed construction companies sector is increasingly added to the portfolio, the portfolio return has increased. The return increases from 10.60% to 15.84% as the allocations to Shariah-compliant listed construction companies are raised from 0.00% to 100%. Since having the right asset mix will help to determine the performance of Shariah-compliant listed construction companies, in this case, zero allocations of the Shariah non-compliant listed construction companies and other KLSE sectors in the mixed-asset portfolio will ensure a positive risk-return ratio.

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Advances in Environmental Biology, 9(5) April 2015, Pages: 94-97

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