

**PERFORMANCE OF CONSTRUCTION COMPANY  
LISTED IN KUALA LUMPUR STOCK EXCHANGE**

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## **ABSTRACT**

This research measures and analyses the performance of construction company listed in Kuala Lumpur Stock Exchange for year 2008 and 2009. The performance is compared with Earnings Per Share (EPS), Quick Ratio, Current Ratio, Return On Equity (ROE), Return On Assets (ROA), and Profit Margin. The main aim of this study is to study the stock performance of Kuala Lumpur Stock Exchange. The minor aims of this study are to identify the listed construction company in Kuala Lumpur Stock Exchange (focus on construction company in Malaysia) and to analyze the healthiness of the public listed construction company. In order to achieve the objectives of this study, the scope of this study will be focusing on a few listed construction companies in Malaysia. The scopes of the data collection in this study focus the successful of construction companies and the selected construction companies must have their own management properties such as their background, asset and others. Data were collected from Kuala Lumpur Stock Exchange and construction companies annual reports. Microsoft Excel spreadsheets were used to calculate and analyze the data.

## ABSTRAK

Kajian ini menganalisis prestasi syarikat pembinaan yang berdaftar di Kuala Lumpur Stock Exchange untuk tahun 2008 dan 2009. Prestasi dibandingkan dengan Laba Bersih Per Saham (EPS), Nisbah Cepat, Nisbah Lancar, Imbal Hasil Ekuiti (ROE), Imbal Hasil Aktif (ROA), dan Profit Margin. Tujuan utama kajian ini adalah untuk mempelajari prestasi saham Bursa Saham Kuala Lumpur. Tujuan seterusnya daripada kajian ini adalah untuk mengenalpasti syarikat pembinaan yang berdaftar di Bursa Saham Kuala Lumpur (tumpuan pada syarikat pembinaan di Malaysia) dan untuk menganalisis kesihatan dari syarikat pembinaan awam yang berdaftar. Dalam rangka mencapai tujuan kajian ini, ruang lingkup kajian ini akan menumpukan pada beberapa syarikat pembinaan yang berdaftar di Malaysia. Lingkup dari pengumpulan data dalam kajian ini focus pada kejayaan syarikat pembinaan dan syarikat pembinaan yang dipilih mesti mempunyai sifat-sifat pengurusan mereka tersendiri seperti asset latar belakang mereka dan lain-lain. Data dikumpulkan dari Bursa Saham Kuala Lumpur dan laporan tahunan syarikat pembinaan. Microsoft Excel spreadsheet digunakan untuk mengira dan menganalisis data.

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## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 General**

Since the construction market recovery in 1988-89, the number of listed construction company had doubled in numbers on the Construction sector of the Kuala Lumpur Stock Exchange. The world market of today is characterized by a move towards globalization, escalating requirement for research and development. In order to be successful, a construction company must have clear objectives recognizing the markets it wishes to address, services it will provide, risk to carry, structure to use, the environment it will operate within, controls it will put in place and also returns it wishes to achieve. The current contracting business in construction is facing tough and challenging times ahead due to tough competition. The demand in construction is cyclical and it is rare for one construction companies to undertake only one particular type of construction though some may be specialists in a specific area of construction.

Corporate strategy can be seen as the linking process between the management of the organization's internal resources and its external relationships with its customers, suppliers, competitors and the economic and social environment in which it exists. The organization develops these relationships from its abilities and resources. Hence, the organization uses its history, skills, resources, knowledge and various concepts to explore its future actions. The industry environment is the set of factors that directly influences a firm and its competitive actions and competitive

response; the threats of new entrants, the power of suppliers the power of buyers, the threat of product substitutes and the intensity of rivalry among competitors. An opportunity is a condition in the general environment that if, exploited helps a company achieve strategic competitiveness. A threat is a condition in the general environment that may hinder a company's efforts to achieve strategic competitiveness. The resources of an organization include its human resource skills, the investment and the capital in every part of the organization. Organizations need to develop corporate strategies to optimize the use of these resources. In particular, it is essential to investigate the sustainable competitive advantage that will allow the organization to survive and prosper against competition. In this context environment encompasses every aspect external to the organization itself: not only the economic and political circumstances, which may vary widely around the world, but also competitors, customers and suppliers, who may vary in being aggressive to a greater or lesser degree - customers and competitors are particularly important here.

## **1.2 Problem Statement**

This study was intended to contribute to the problems faced by most of the construction companies in Malaysia to be listed in Kuala Lumpur Stock Exchange.

## **1.3 Objectives of Study**

The objectives of this study are:

- 1) To study the Kuala Lumpur Stock Exchange's outlook.
- 2) To identify the listed construction company in Kuala Lumpur Stock Exchange (focus on construction company in Malaysia).
- 3) To analyze the healthiness of the public listed construction companies.

#### **1.4 Scope of Study**

In order to achieve the objectives of this study, the scope of this study will be focusing on a few listed construction companies in Malaysia. The scopes of the data collection in this study focus on the following aspects:

- 1) The successful of construction companies.
- 2) The selected construction companies must have their own management properties such as their background, asset and others.

#### **1.5 Significant of Study**

The success of a construction company to be listed on KLSE Malaysia depends on several factors. One of these which is the competencies of the leaders. Besides, the management of the construction company may be another factor. It has always been the dream of every construction company, large or small to make it big by venturing beyond their traditional markets and to be listed on KLSE. Therefore, this study is significant to assist the management level of construction companies to achieve their objectives.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Stock is becoming a significant investment tools that contributes towards Malaysia economic growth. Since the construction market recovery in 1988-89, the number of listed construction company had doubled in numbers on the Construction sector of the Kuala Lumpur Stock Exchange. The world market of today is characterized by a move towards globalization, escalating requirement for research and development. In order to be successful, a construction company must have clear objectives recognizing the markets it wishes to address, services it will provide, risk to carry, structure to use, the environment it will operate within, controls it will put in place and also returns it wishes to achieve. The current contracting business in construction is facing tough and challenging times ahead due to tough competition. The demand in construction is cyclical and it is rare for one construction companies to undertake only one particular type of construction though some may be specialists in a specific area of construction.

Mulcahy (1990, p12) observed that, to be successful, a construction company “must have clear objectives recognizing the markets it wishes to address, services it will provide, risks it will carry, structure it will use, the environment it will operate within, controls it will put in place and returns it wishes to achieve. The current contracting business in construction is facing tough and challenging times ahead due to tough competition. The demand in construction is cyclical and it is rare for one

construction companies to undertake only one particular type of construction though some may be specialists in a specific area of construction. When firms grow bigger they tend to diversify into a range of construction types and also in various geographical regions (Mohd Ali, 1995).

Performance of a construction company in Kuala Lumpur Stock Exchange can be seen as the linking process between the management of the organization's internal resources and its external relationships with its customers, suppliers, competitors and the economic and social environment in which it exists. The organization develops these relationships from its abilities and resources. Hence, the organization uses its history, skills, resources, knowledge and various concepts to explore its future actions.

The industry environment is the set of factors that directly influences a company and its competitive actions and competitive response; the threats of new entrants, the power of suppliers the power of buyers, the threat of product substitutes and the intensity of rivalry among competitors. An opportunity is a condition in the general environment that if, exploited helps a company achieve strategic competitiveness. A threat is a condition in the general environment that may hinder a company's efforts to achieve strategic competitiveness. The resources of an organization include its human resource skills, the investment and the capital in every part of the organization.

Organizations need to develop corporate strategies to optimize the use of these resources. In particular, it is essential to investigate the sustainable competitive advantage that will allow the organization to survive and prosper against competition. In this context environment encompasses every aspect external to the organization itself: not only the economic and political circumstances, which may vary widely around the world, but also competitors, customers and suppliers, who may vary in being aggressive to a greater or lesser degree - customers and competitors are particularly important here.

Numerous studies have been conducted to examine the construction sector in stock market anomalies in stock returns. These include studies on the January effect, and the day-of-the-week effect.

French (1980) studied the S & P 500 Composite Index daily returns for the period 1953-1977 and found the average Monday returns to be significantly negative. Gibbons and Hess (1981) also investigated the day-of-the-week effects of the S & P 500 Composite Index for the period 1962-1978 and found the Monday returns to be abnormally low and at times negative. Using the S & P Composite Index over a longer period 1928-1982, Keim and Stambaugh (1984) examined the week-end effect in the US market and found the existence of a strong negative Monday return, consistent with earlier findings. The results also showed that smaller firms seem to exhibit higher average returns on Friday than larger firms. Rogalski (1984) also investigated the interrelationship between weekend, January and firm size effects and found that small firms have higher returns on Monday in January than large firms.

Jaffe and Westerfield (1985a) investigated the week-end effect in UK, Japan, Canada and Australia, and found that these countries exhibit statistically negative average Monday returns and high average Friday and Saturday returns. In fact, in Japan where Saturday was a trading day until recently, Jaffe and Westerfield (1985b) showed it is the Saturday returns and not the Friday returns that are abnormally high and positive. This is consistent with the results obtained by Keim and Stambaugh(1984). Various probable explanations for the week-end effect such as settlement procedure, specialist biases and measurement errors were examined but the findings found no support for these factors.

Wong and Ho (1986) investigated the day-of-the-week effect on the Singapore stock market by using the SES All-Share Index and the six sector indices, and found a strong weekly seasonal pattern of a low negative Monday return and a high positive Friday return. Consistent with the findings of Rogalski (1984), Wong and Ho (1986) also found an interrelationship between weekend effect and turn of the year effect whereby Monday returns are high and positive in January and December.

Jaffe, Westerfield and Ma (1989) explored the possible link between the low Monday returns and the market rise or decline in Canada, Australia, England and Japan. Although the results clearly showed a pronounced low Monday effect in a market decline but no apparent Monday effect in a market rise, several possible explanations such as serial correlation and risk were found to be not satisfactory.

Liano (1989) explored the day-of-the-week effect in stock returns over business cycles by using the equally weighted and the value weighted stock indices constructed by the Center for Research in Security Prices. The results revealed significantly low and negative Monday returns and high and positive Friday returns during economic expansion which are consistent with the findings of other studies. The findings for the period of economic contraction revealed highly significant negative Monday returns but the Friday returns are significantly high for small firms and not for large firms.

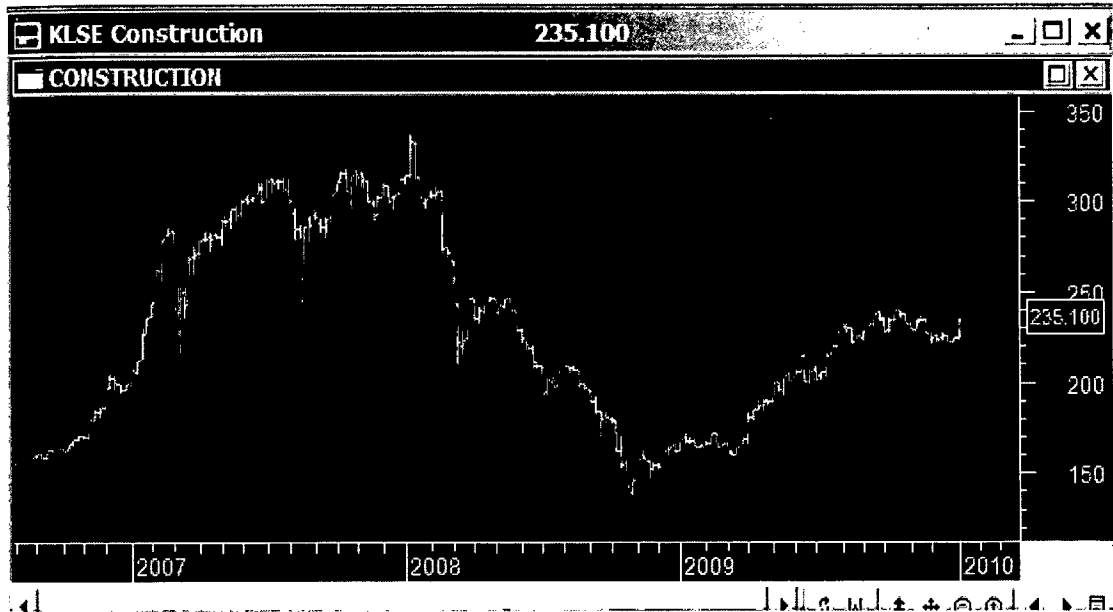
Lakonishok and Maberly (1990) examined the relationship between the week-end effect and the stock trading behaviour of investors. The results showed that individual investors tend to trade more on Mondays and also tend to increase the number of selling transactions relative to buying transactions than institutional investors, thereby partly explaining the low and negative Monday returns.

Sias and Starks (1995) also examined the relationship between the day-of-the-week effect and the trading behaviour of investors by comparing the daily returns of portfolios primarily held by institutional investors and portfolios primarily held by individual investors. Their results showed that stocks with high institutional holdings clearly exhibit greater seasonal effects compared to those held by individual investors. Thus, their findings implicated institutional investors with the day-of-the-week anomaly and generally contradicted the findings obtained by Lakonishok and Maberly (1990) which concluded that the weekend effect is primarily caused by individual investors.

On the local front, Annuar and Shamsher (1987) conducted similar studies on the Kuala Lumpur Stock Exchange (KLSE) by using the New Straits Times (NST) Industrial Index over the period 1975-1985. Their findings of negative Monday and



Tuesday returns are generally consistent with the findings of other studies. Yong (1989) studied the January effect by using the KLSE sector indices (Industrial, Finance, Hotel, Property, Tin and Plantation) and found that the various sectors, except the hotel sector, consistently recorded the highest returns in January. Yong (1989) postulated that the January effect in Malaysia is due to the investors being predominantly Chinese who trade in the market to derive speculative gains for the Chinese New Year which falls in January or February.



**Figure 2.1:** Construction Index in KLSE

## 2.2 History

Bursa Malaysia (MYX: 1818) previously known as Kuala Lumpur Stock Exchange (KLSE, Bursa Saham Kuala Lumpur in Malay) dates back to 1930 when the Singapore Stockbrokers' Association was set up as a formal organization dealing in securities in Malaya. The first formal securities business organization in Malaysia was the Singapore Stockbrokers' Association, established in 1930. It was re-registered as the Malayan Stockbrokers' Association in 1937. The Malayan Stock

Exchange was established in 1960 and the public trading of shares commenced. The board system had trading rooms in Singapore and Kuala Lumpur, linked by direct telephone lines.

In 1964, the Stock Exchange of Malaysia was established. With the secession of Singapore from Malaysia in 1965, the Stock Exchange of Malaysia became known as the Stock Exchange of Malaysia and Singapore. In 1973, currency interchangeability between Malaysia and Singapore ceased, and the Stock Exchange of Malaysia and Singapore was divided into the Kuala Lumpur Stock Exchange Berhad and the Stock Exchange of Singapore. The Kuala Lumpur Stock Exchange which was incorporated on December 14, 1976 as a company limited by guarantee, took over the operations of the Kuala Lumpur Stock Exchange Berhad in the same year.

On April 14, 2004, Kuala Lumpur Stock Exchange was renamed Bursa Malaysia Berhad, following the demutualization exercise, the purpose of which was to enhance competitive position and to respond to global trends in the exchange sector by making themselves more customer-driven and market-oriented. It consisted of a Main Board, a Second Board and MESDAQ with total market capitalization of MYR700 billion (US\$189 billion).

Bursa Malaysia has since then focused on various initiatives aimed at improving its product and service offerings, increasing the liquidity and velocity of its markets, improving the efficiency of its businesses and achieving economies of scale in its operations. On 18 March 2005, Bursa Malaysia was listed on the Main Board of Bursa Malaysia Securities Berhad with a 17% or RM0.50 premium over its retail price of RM3.00.

## **2.3 Events**

On 18 April 2005, Bursa Malaysia introduced CBRS, a scheme which allows all investors to access research reports of Bursa-listed companies free-of-charge.

In June 2006, a new index series jointly developed by Bursa Malaysia and FTSE Group was introduced which is FTSE Bursa Malaysia Index. On November 7, 2006, the index finally passed the 1,000 mark hurdle and closed at 1,003.28. It was partly boosted by the strong overnight close in the Wall Street.

On March 10, 2008, trading on the exchange was suspended for one hour due to composite index fall by more than 10 percent or 130 points to 1166.32 points. This was largely by combination of factors such as the United States Subprime mortgage crisis and the political uncertainty caused by the 12th General Election. Dealers expected the move was an overreaction to the election results and the market will correct itself. The index gained 2.1% the next day on the morning session as investor reinvest in plantation stocks and blue chips.

On July 3, 2008, trading on the exchange was suspended for the day when it suffered multiple hardware glitches. The glitches only affected the equities market, not the bonds and commodity market. Trading resumed the next day.

## **2.4 Importance of Stock Market**

### **2.4.1 Function and Purpose**

The stock market is one of the most important sources for companies to raise money. This allows businesses to be publicly traded, or raise additional capital for expansion by selling shares of ownership of the company in a public market. The liquidity that an exchange provides affords investors the ability to quickly and easily sell securities. This is an attractive feature of investing in stocks, compared to other less liquid investments such as real estate.

History has shown that the price of shares and other assets is an important part of the dynamics of economic activity, and can influence or be an indicator of social mood. An economy where the stock market is on the rise is considered to be an up and coming economy. In fact, the stock market is often considered the primary indicator of a country's economic strength and development. Rising share prices, for instance, tend to be associated with increased business investment and vice versa. Share prices also affect the wealth of households and their consumption. Therefore, central banks tend to keep an eye on the control and behavior of the stock market and, in general, on the smooth operation of financial system functions.

Exchanges also act as the clearinghouse for each transaction, meaning that they collect and deliver the shares, and guarantee payment to the seller of a security. This eliminates the risk to an individual buyer or seller that the counterparty could default on the transaction.

The smooth functioning of all these activities facilitates economic growth in that lower costs and enterprise risks promote the production of goods and services as well as employment. In this way the financial system contributes to increased prosperity. An important aspect of modern financial markets, however, including the stock markets, is absolute discretion. For example, American stock markets see more unrestrained acceptance of any firm than in smaller markets. For example, Chinese firms that possess little or no perceived value to American society profit American bankers on Wall Street, as they reap large commissions from the placement, as well as the Chinese company which yields funds to invest in China. However, these companies accrue no intrinsic value to the long-term stability of the American economy, but rather only short-term profits to American business men and the Chinese; although, when the foreign company has a presence in the new market, this can benefit the market's citizens. Conversely, there are very few large foreign corporations listed on the Toronto Stock Exchange TSX, Canada's largest stock exchange. This discretion has insulated Canada to some degree to worldwide financial conditions. In order for the stock markets to truly facilitate economic growth via lower costs and better employment, great attention must be given to the foreign participants being allowed in.

### **2.4.2 The Stock Market, Individual Investors, and Financial Risk**

Riskier long-term saving requires that an individual possess the ability to manage the associated increased risks. Stock prices fluctuate widely, in marked contrast to the stability of (government insured) bank deposits or bonds. This is something that could affect not only the individual investor or household, but also the economy on a large scale. The following deals with some of the risks of the financial sector in general and the stock market in particular. This is certainly more important now that so many newcomers have entered the stock market, or have acquired other 'risky' investments (such as 'investment' property, i.e., real estate and collectables).

With each passing year, the noise level in the stock market rises. Television commentators, financial writers, analysts, and market strategists are all overtaking each other to get investors' attention. At the same time, individual investors, immersed in chat rooms and message boards, are exchanging questionable and often misleading tips. Yet, despite all this available information, investors find it increasingly difficult to profit. Stock prices skyrocket with little reason, then plummet just as quickly, and people who have turned to investing for their children's education and their own retirement become frightened. Sometimes there appears to be no rhyme or reason to the market, only folly.

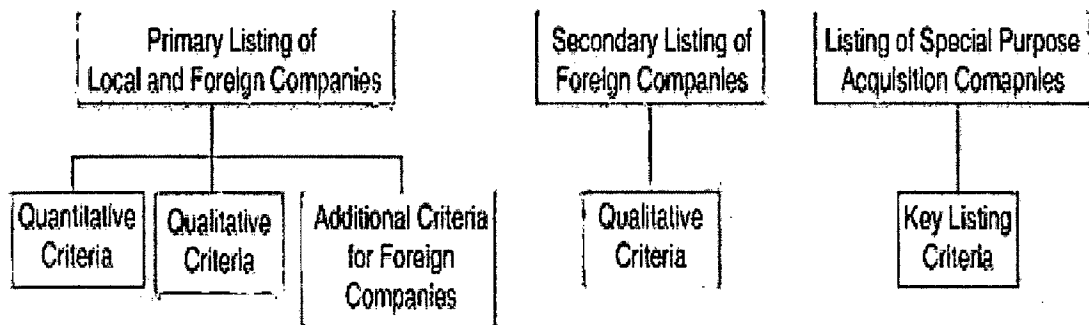
### **2.5 Stock Market Index**

The movements of the prices in a market or section of a market are captured in price indices called stock market indices, of which there are many. Example: the S&P, the FTSE, and the Euro next indices. Such indices are usually market capitalization weighted, with the weights reflecting the contribution of the stock to the index. The constituents of the index are reviewed frequently to include/exclude stocks in order to reflect the changing business environment.

## 2.6 Listing criteria for Local Companies

Bursa Malaysia offers a choice of 2 dynamic markets for your listing requirements. Main Market provides an ideal platform for established companies to raise funds. ACE Market is an alternative sponsor-driven market designed for companies of all business sectors looking for a conducive growth platform.

The summary of the relevant listing criteria are as follows:



**Figure 2.1:** Listing Criteria for Local Companies

## 2.6.1 Primary Listing of Local and Foreign Companies

**Table 2.1: Quantitative Criteria**

Aspect	Main Market	ACE Market
Three (3) Alternative Routes for Listing		
(a) Profit Test	Uninterrupted profit after tax (“PAT”) of 3 - 5 full financial years (“FY”), with aggregate of at least RM20 million; and PAT of at least RM6 million for the most recent full FY	No minimum operating track record or profit requirement
(b) Market Capitalization Test	A total market capitalization of at least RM500 million upon listing; and Incorporated and generated operating revenue for at least 1 full FY prior to submission	-
(c) Infrastructure Project Corporation test	Must have the right to build and operate an infrastructure project in or outside Malaysia:- with project costs of not less than RM500 million; and for which a concession or license has been awarded by a government or a state agency, in or outside Malaysia, with remaining concession of license period of at least 15 years	-

	Applicant with shorter remaining concession or license period may be considered if the applicant fulfills the profit requirements under profit test	
IPO price	Minimum RM0.50 each	No minimum
Public Spread	At least 25% of the Company's share capital; and Minimum of 1,000 public shareholders holding not less than 100 shares each	At least 25% of the Company's share capital; and Minimum of 200 public shareholders holding not less than 100 shares each
Bumiputera Equity Requirement*	Allocation of 50% of the public spread requirement to Bumiputera investors on best effort basis**	No requirement upon initial listing. Allocation on best effort basis** of 12.5% of their enlarged issued and paid-up share capital to Bumiputera investors: within 1 year after achieving Main Market profit track record or 5 years after being listed on ACE Market, whichever is the earlier