ACE

ASSESSING COOPERATIVES' EFFECTIVENESS

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Co-operative:

SAMPLE KOPERASI

ASSESSING COOPERATIVES' EFFECTIVENESS

360-DEGREE REVIEW OF THE MANAGEMENT AND EFFECTIVENESS OF COOPERATIVES

LITE+

COOPERATIVE

SAMPLE KOPERASI

Industry: Koperasi
Currency: RM
Latest FY: 2018
Date of Report: 21 June 2021

Table of Contents

FINANCIAL SNAPSHOT

Does the firm have sufficient equity to pay liabilities?

NO

Liabilities-to-Equity: 3890.4%

Is the firm profitable?

YES

Profit Margin (after tax): 1.1%

Is the firm growing?

YES

Sales Growth: 21.3%

FINANCIAL HEALTHCHECK

Good growth was recorded by the firm, well-supported by a consistent demand for its products and services. Costs levels have generally increased for the firm with corresponding increase in operational needs and activities. The cost of generating additional revenue was almost similar compared to the previous year. Highly limited profit margins were recorded by the firm during the period. Profit margin growth had been fairly consistent year on year with a fairly moderate movement in profit margins.

Very high returns to shareholders was achieved by the firm during the period. There could be a high likelihood that the firm's underlying valuation could improve as a result. Significantly high levels of exposure to liabilities, have likely contributed to an extremely weak solvency position indicating a high risk balance sheet profile for the period. The firm's valuation is very likely to be adversely affected as a result. The firm experienced strong profit growth compared to the previous year. Profit levels remained modest relative to sales. May not be adequately attractive for shareholders who may demand for higher margins.

FINANCIAL RISK AREAS

The firm's revenue performance had weakened over the period; with declining demand for its goods and services.

55.0%

Business Performance

Quite constrained level of shareholder returns were attained during the period. The overall valuation of the firm need to be improved.

70.0%

Shareholders' Value

The firm's revenue performance reduced slightly over the period; with demand for its goods and services proving to be uninspiring.

16.7%

Risk & Liabilities

Experienced a major decline in the value of its overall assets.

53.3%

Productivity

FINANCIAL OUTLOOK

1. Check if the increase in costs is part of the firm's expansion plans; that corresponds to higher sales.

   Business Performance

2. Determine whether the liability in the firm is short-term or long-term and what it is the cost to the firm, to maintain this level of debt in the business.

   Shareholders' Value

3. Urgency to spread out the duration and lengthen the degree of short-term financing.

   Risk & Liabilities

4. Examine to what extent price margins or debt acquisition was responsible for the increased level of profits.

   Productivity

FINANCIAL IMPACT

Was the firm able to generate higher sales?

YES

Sales Growth *

21.3%

This indicates where the firm's topline is growing or not and to find out if there are any structural or cyclical factors affecting it.

Did sales move faster than cost growth?

YES

Cost Growth /Sales

-0.2%

This gives a broad picture if the costs are growing in line with the growth in sales or if the firm is exposed to higher cost structure even if the sales is growing.

Was the company financially strong generally?

NO

Credit Score

48.8%

The credit score takes into account balance sheet and P&L of the company. A higher score indicates a stronger credit position.

Was the exposure to liabilities manageable?

NO

Liabilities to Equity

3890.4%

This reflects the extent the firm is exposed to fixed obligations versus the capital it has built over the years and whether it has adequate buffer.

Was the company relying heavily on short-term obligations?

YES

Current Liability Ratio

1.00

Assesses the proportion of total liabilities that are due in the near term. A secondary measure of liquidity as it does not measure the firm's ability to pay for the liabilities.

Were the shareholders well rewarded by the firm's performance?

YES

Return on Equity

49.5%

This measure relates to how much profits the firm is generating for the company's shareholders; a higher ROE needs to be measured against the risks it is taking.

Were the profit levels growing?

YES

Pre-Tax Profit

48.3%

A company that is showing consistent earnings growth indicates a positive outlook. A company that shows negative growth may indicate tougher times ahead.

Were the assets generating profits?

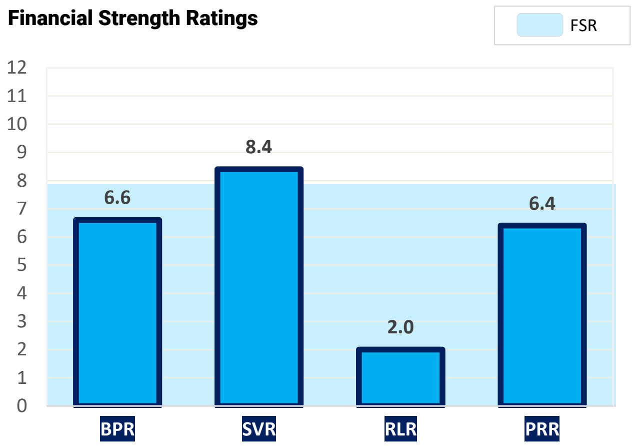
YES

Return on Asset

1.2%

This is a measure of how well the firm is utilising its assets to generate profits for the firm. A productive asset backed by a cost-efficient operation is a good indicator of a well-run firm.

KEY FINDINGS



Overall Financial Strength Rating (FSR) 7.9

High Financial Strength *Greater than or equal to 10, less than or equal to 12*	
Above Average Financial Strength *Greater than or equal to 7, less than 10*	
Average Financial Strength *Greater than or equal to 4, less than 7*	
Low Financial Strength *Less than 4, greater than or equal to 1*	

Business Peformance Rating (BPR) 6.6

Good growth was recorded by the firm, well-supported by a consistent demand for its products and services. Costs levels have generally increased for the firm with corresponding increase in operational needs and activities. The cost of generating additional revenue was almost similar compared to the previous year. Highly limited profit margins were recorded by the firm during the period. Profit margin growth had been fairly consistent year on year with a fairly moderate movement in profit margins.

Shareholders' Value Rating (SVR) 8.4

Very high returns to shareholders was achieved by the firm during the period. There could be a high likelihood that the firm's underlying valuation could improve as a result. Significantly high levels of exposure to liabilities, have likely contributed to an extremely weak solvency position indicating a high risk balance sheet profile for the period. The firm's valuation is very likely to be adversely affected as a result. The firm experienced strong profit growth compared to the previous year. Profit levels remained modest relative to sales. May not be adequately attractive for shareholders who may demand for higher margins.

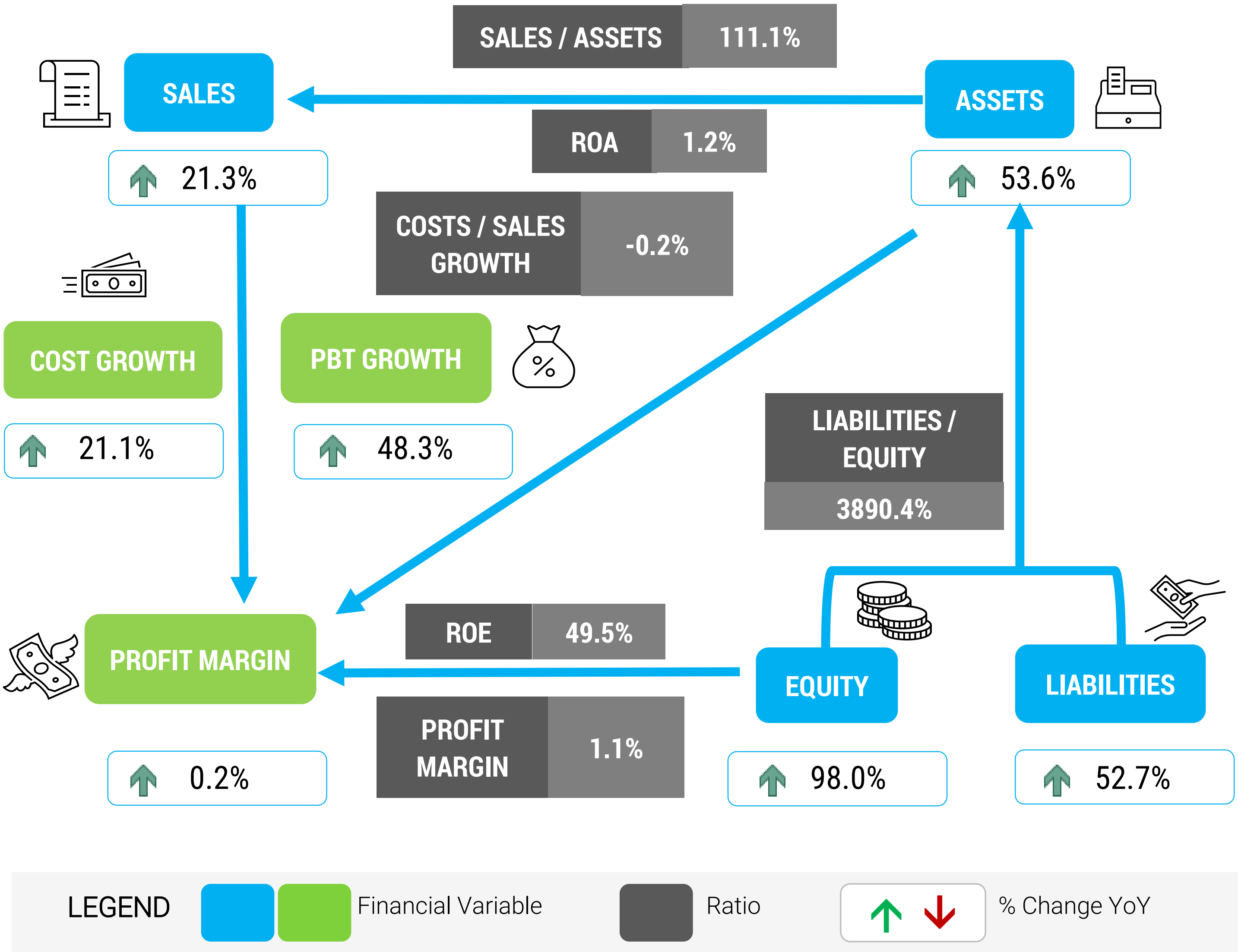
Risk & Liabilities Rating (SLR) 2.0

Very high exposure to short-term creditors/financing to support asset base - extremely high frequency dealings to manage creditors to meet working capital orders. Extremely weak solvency position with very high exposure to liabilities - high risk balance sheet profile for the period. Shareholder funds were highly inadequate to cover all of the firm's obligations. The firm registered a faster liability growth than its sales growth during the period. The drive for expansion appeared to be driven by aggressive gearing process, rather than margins and pricing management. The products and services of the firm continued to demonstrate consistent demand which resulted in good sales growth. Its pricing model and market strategies appeared to drive positive sales growth during the period.

Productivity Rating (PRR) 6.4

The firm's profitability experienced an almost neutral performance compared to previous period when compared against its asset base. The use of the firm's assets had generated limited level of profitability for the business. The profitability growth of the firm experienced strong growth compared to the previous year. The firm's asset base had significantly increased during the period. It appeared to be adopting aggressive measures to expand via asset growth.

CAUSE-AND-EFFECT ANALYSIS



NARRATIVE INSIGHTS

From a top-line growth standpoint, SAMPLE KOPERASI registered higher revenues compared to the previous period. Its profits improved by 0.2% due to the surge in operational expenses. Total costs grew at a slower rate compared to sales, by 0.2%.

Revenue changes had been driven by the expansion of assets - SAMPLE KOPERASI increased its asset base by 53.6% with recorded sales growth of 21.3%. In addition, ROA declined from 1.3% to 1.2% because of improvement in profits, likely due to the increase in operational costs.

Total liabilities increased by 52.7% whilst equity increased by 98.0%. Consequently, debt to equity levels were alarming as equity was inadequate to cover debt obligations.

SAMPLE KOPERASI posted ROE of 49.5% during the period, on the back of equity of $31,526 (change of 98.0%) and profit of $15,610 (change of 48.3%).

FINANCIAL RISK TEST: Z- SCORE

LEGEND

Safety Zone (Z > 2.99)	
Grey Zone (2.99 > Z > 1.88)	
Bankrupt Zone (Z < 1.88)	

Z-SCORE -0.60

DISTRESS ZONE

Z = 6.56*X1 + 3.26*X2 + 6.72*X3 + 1.05*X4

ITEMS	CURRENT YEAR RM
Current Assets	1,078,811
Total assets	1,258,030
Current liabilities	1,226,504
Total liabilities	1,226,504
Equity	31,526
Retained earnings	22,410
Revenue	1,397,102
Earnings before interest and tax (EBIT)	15,610

X1	**-0.12**	Working Capital over Total Assets (WC/TA)
X2	**0.02**	Retained Earnings over Total Assets (RE/TA)
X3	**0.01**	Earnings Before Interest and Tax over Total Assets (EBIT/TA)
X4	**0.03**	Equity over Total Liabilities (MVC/TL)

ANALYSIS

The Z-score model looks at the prediction on the probability of SAMPLE KOPERASI potentially collapsing/going bankrupt in the next two years.

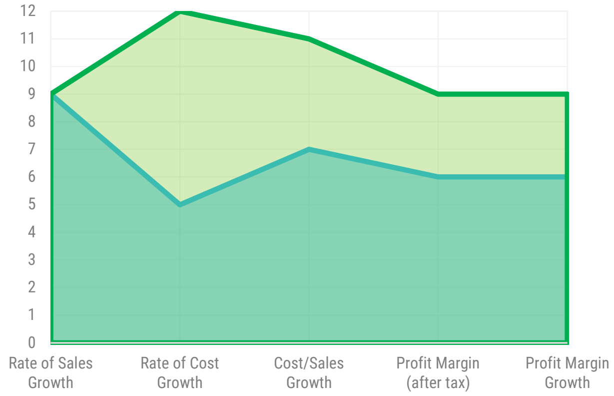
Usually, the lower the Z-score, the higher the odds that a company is heading for bankruptcy. A Z-score that is lower than 1.8 means that the company is in financial distress and with a high probability of going bankrupt. On the other hand, a score of 3 and above means that the company is in a safe zone and is unlikely to file for bankruptcy. A score of between 1.8 and 3 means that the company is in a grey area and with a moderate chance of filing for bankruptcy.

In this case, the Z-Score of SAMPLE KOPERASI is at -0.60 and it has been classified to be in the DISTRESS ZONE , with a high probability of distress occuring within this time period. Will need to evaluate the performance to prevent it from happening.

BENCHMARK AND VARIANCE ANALYSIS

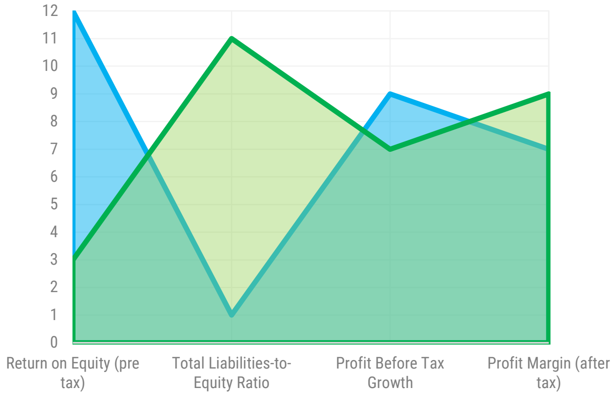
Legend: The Company Industry

Business Performance



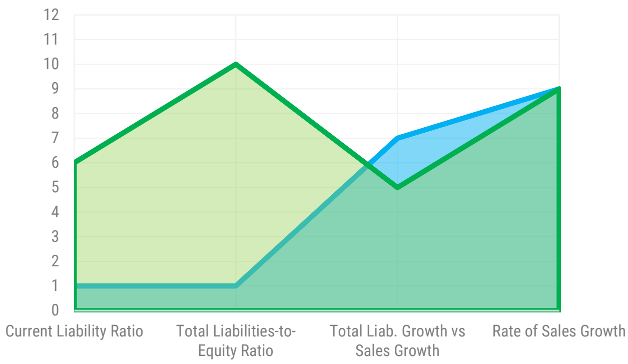
	Company	Industry	Variance
Rate of Sales Growth	21.3%	35.7%	-14.4%
Rate of Cost Growth	21.1%	22.4%	-1.4%
Cost/Sales Growth	-0.2%	7.1%	-7.3%
Profit Margin (after tax)	1.1%	25.5%	-24.4%
Profit Margin Growth	0.2%	10.2%	-10.0%

Shareholders' Value



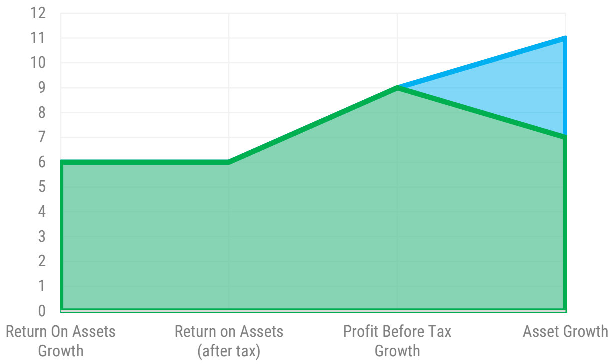
	Company	Industry	Variance
Return on Equity (pre tax)	49.5%	15.3%	34.2%
Total Liabilities-to-Equity Ratio	3890.4%	45.9%	3844.5%
Profit Before Tax Growth	48.3%	30.6%	17.7%
Profit Margin (after tax)	1.1%	25.5%	-24.4%

Risks & Liabilities



	Company	Industry	Variance
Current Liability Ratio	97.5%	12.2%	85.3%
Total Liabilities-to-Equity Ratio	3890.4%	45.9%	3844.5%
Total Liab. Growth vs Sales Growth	31.4%	3.1%	28.3%
Rate of Sales Growth	21.3%	35.7%	-14.4%

Productivity



	Company	Industry	Variance
Return On Assets Growth	0.0%	5.1%	-5.1%
Return on Assets (after tax)	1.2%	8.2%	-6.9%
Profit Before Tax Growth	48.3%	30.6%	17.7%
Asset Growth	53.6%	18.4%	35.2%

STRATEGIC RISK CHECKLIST

ACTION STEPS

BUSINESS PERFORMANCE	PHASE 1	Check if the increase in costs is part of the firm's expansion plans; that corresponds to higher sales.	List down the variable and fixed costs in the last 24 months and evaluate the trends.	Distinguish between one-off and ongoing costs.	Compare the cost behaviour against sales and profitability performance.	
	PHASE 2	Seek inputs if Management has formulated a business strategy to improve margins for subsequent years.	Ascertain if there are going to be any improvements to be made on the business model of the firm.	Check if there are concentration of customer base within its revenue mix.	Check if there are limited product/service lines that may be less relevant for the changing demographics or settings.	
SHAREHOLDERS' VALUE	PHASE 1	Determine whether the liability in the firm is short-term or long-term and what it is the cost to the firm, to maintain this level of debt in the business.	Perform an analysis to determine whether the existing level of debt, is threatening the on-going nature of the firm and assess to what extent its asset-liability management can be improved.	Discuss with management on the potential for leveraged recapitalisation or debt restructuring in the business.	Obtain management estimates of future profitability and revenue projections.	Perform an analysis on the long-term debt in the business in terms of purpose, nature and financing costs.
	PHASE 2	Identify customer base of firm and review its growth rate over the past few years.	Ascertain the level of risks undertaken by the firm to generate the current/recent profit growth.	Evaluate the sustainability of the performance in subsequent years as this may be a one-off streak.	Examine whether there are single major client or large contract that resulted in the strong performance.	Ascertain whether there are any possible mergers and acquisitions or non-organic growth to maintain position.
RISKS & LIABILITIES	PHASE 1	Urgency to spread out the duration and lengthen the degree of short-term financing.	Check creditor listings and negotiate for longer-term financing.	Check for any occurrence of default payments or delinquency in making payments to creditors.	Check the size and validate its asset base and its functions.	Evaluate existing relationships with creditors and check for existence of supplier concentration or related-party suppliers.
	PHASE 2	Determine which products or multiple of products contributed most to the increased level of sales.	Assess the market place for products which may be used to replace the firm's good and service; determine to what extent that they can affect the momentum of the sales increase.	Rank the customers of the firm by contribution to sales and determine whether there were any significant changes or movements.	Perform a price analysis to determine whether there had been any price adjustments which resulted in higher volumes but lower prices.	Perform an assessment to determine whether lowering of margins were responsible for the increased sales growth.
PRODUCTIVITY	PHASE 1	Examine to what extent price margins or debt acquisition was responsible for the increased level of profits.	Assess to what extent was the increase in profitability, generated by increased risks undertaken by the firm.	Analyse whether the profitability growth experienced by the firm is sustainable, or whether it was more of a short term improvement.	Determine whether the increased level of profitability growth was a result of a single client / contract.	Identify whether the firm's dominant position, can be maintained through organic or non-organic means.
	PHASE 2	Gain insights on how the acquired assets formed part of the expansion plans of the firm.	Find out what are the controls and measures being established to mitigate any risks associated with rapid expansion.	Check their rates of revenue and profitability arising from the rapid asset expansion trends experienced by firm.	Establish any volatility arising from assets by evaluating historical trends of asset levels - both for fixed and current levels -	Evaluate whether the acquired assets are part of a horizontal or vertical types of expansion.

KEY FINANCIAL RATIOS

FINANCIAL DATA

RM	2018	2017	% Change
Sales	1,397,102.33	1,151,649.61	21.3%
Profit Before Tax	15,610.04	10,524.02	48.3%
Profit After Tax	15,610.04	10,524.02	48.3%
Total Asset	1,258,030.43	819,166.72	53.6%
Total Liabilities	1,226,504.40	803,242.70	52.7%
Current Liabilities	1,226,504.40	803,250.73	52.7%
Shareholders' Fund	31,526.03	15,924.02	98.0%

PERFORMANCE METRICS

Business Potential Ratios

	%
Rate of Sales Growth	21.3%
Rate of Cost Growth	21.1%
Cost/Sales Growth	-0.2%
Profit Margin (after tax)	1.1%
Profit Margin Growth	0.2%
Return On Assets Growth	0.0%
Return on Assets (after tax)	1.2%
Profit Before Tax Growth	48.3%
Asset Growth	53.6%

Risk & Valuation Ratios

	%
Return on Equity (pre-tax)	49.5%
Total Liabilities-to-Equity Ratio	3890.4%
Profit Before Tax Growth	48.3%
Profit Margin (after tax)	1.1%
Current Liability Ratio	97.5%
Total Liability Growth vs Sales Growth	31.4%
Rate of Sales Growth	21.3%

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ABOUT MYFINB

MyFinB is an award-winning, high growth AI start-up with core operations in KL/SG and serving more than 30 markets globally.

We specialises in Artificial Intelligence and Natural Language Generation & Understanding (NLGU). Our AI-powered solutions translates structured data (financial statements, bank statements, incorporation info) and unstructured data (publications, social media, journals and video images) into decisioning reports.

MyFinB uses its proprietary NLGU and Cognitive Analytics capabilities to serve 10 core segments: Financial institutions, Enterprises / SMEs, Accounting and Auditing co-operatives / Consultants, Government Agencies , Credit bureaus, Stock Exchanges, Insurers, Trade Associations and Business chambers, Universities and Investment Promotion Agencies.

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