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# FINANCIAL STRATEGY REPORT

Company: **AHMAD ZAKI RESOURCES BERHAD**  
Date of Report: **24 December 2020**  
Industry: **Building Construction**

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# FINANCIAL INSIGHTS

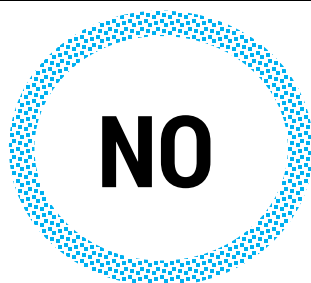


## COMPANY INFORMATION

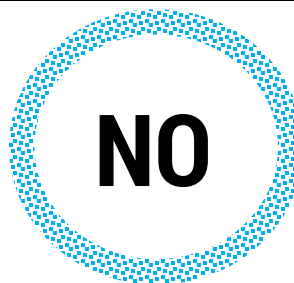
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<b>Company Name:</b> AHMAD ZAKI RESOURCES BERHAD		<b>Registration Number:</b> N.A.	<b>Country:</b> Malaysia
<b>MSIC Code:</b> N.A.	<b>Industry:</b> Building Construction	<b>Latest Financial Year:</b> 2020	<b>Currency:</b> MYR'000

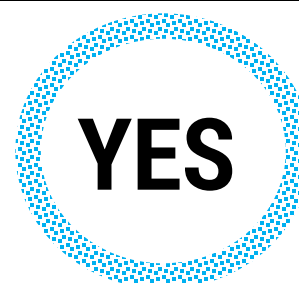
**Sufficient equity to pay liabilities?**



**Is the firm profitable?**



**Is the firm growing?**



## FUNDAMENTAL AREAS TO LOOK AT

### ISSUES RELATING TO BUSINESS PERFORMANCE

Profit margins have severely declined - major structural challenges in the operating environment and business model may be experienced by the firm during the period.

Costs levels have generally increased for the firm with corresponding increase in operational needs and activities.

Severe net losses were experienced- highly inadequate revenue levels and overall inefficient cost structure.

### IMPACT OF STRATEGIES ON SHAREHOLDER VALUE

There was a severe decline in profit growth rate compared with the previous period.

High risk exposure to liabilities relative to equity, contributed to a weak balance sheet position. The firm's valuation is very likely to be adversely affected as a result.

Severe net losses were experienced- highly inadequate revenue levels and overall inefficient cost structure. The firm's pricing strategies and its ability to control costs were ineffective. Valuation for the firm based on earnings would be severely affected.

### RISK AREAS TO WATCH FOR

The level of sales for the firm experienced a reasonable increase. This would indicate that there was a positive demand for its goods and services. The positive sales growth during the period appear to be driven by both its market positioning and price points.

Overall sales growth generally outpaced the firm's total liability growth during the period. The drive for expansion appeared to be driven by margins and pricing management; rather than aggressive gearing process.

Weak balance sheet position with high risk exposure to liabilities relative to equity. Shareholder funds were not adequate to cover all of the firm's obligations.

### EFFECTIVENESS OF RESOURCES

In comparison with the previous period for the firm, profit growth for the firm experienced a severe decline.

The growth of the firm's total assets was fairly benign during the period. The firm's expansion plans do not appear to be aggressive from asset-based expansion.

The ability of the firm to generate more profits from its assets compared to the previous year had significantly declined.

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Based on Financial Year

2020

**Was the company able to generate higher sales?**

**YES**

**Sales Growth** 19.1%

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?**

**NO**

**Growth Cost/Sales** 7.2%

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** 19.1%

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** 1149.9%

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?**

**NO**

**Current Liability Ratio** 0.29

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?**

**NO**

**Return on Equity** -21.02%

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?**

**NO**

**Pre-Tax Profit** -405.4%

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?**

**NO**

**Return on Asset** -2.5%

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.

# FINANCIAL DRIVERS



## COMPANY INFORMATION

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<b>SSIC Code:</b> N.A.	<b>Industry:</b> Building Construction	<b>Latest Financial Year:</b> 2020	<b>Currency:</b> MYR'000

## OVERALL FINANCIAL STRENGTH RATING

2.3

EXCELLENT	GOOD	MODERATE	LOW
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 Performance Rating (BPR)

2.7

The firm experienced a reasonable level of sales growth. There had been positive demand for its goods 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 slightly higher compared to the previous year. Severe net losses were experienced- highly inadequate revenue levels and overall inefficient cost structure. Profit margins have severely declined - major structural challenges in the operating environment and business model may be experienced by the firm during the period.

## Shareholder Value Rating (SVR)

1.2

Quite constrained level of shareholder returns were attained during the period. The overall valuation of the firm need to be improved. High risk exposure to liabilities relative to equity, contributed to a weak balance sheet position. The firm's valuation is very likely to be adversely affected as a result. There was a severe decline in profit growth rate compared with the previous period. Severe net losses were experienced- highly inadequate revenue levels and overall inefficient cost structure. The firm's pricing strategies and its ability to control costs were ineffective. Valuation for the firm based on earnings would be severely affected.

## Risk and Liabilities Rating (RLR)

4.2

Fairly low exposure to short-term creditors/financing relative to asset base - appears to have low dependency on short-term facilities to support working capital needs. Weak balance sheet position with high risk exposure to liabilities relative to equity. Shareholder funds were not adequate to cover all of the firm's obligations. Overall sales growth generally outpaced the firm's total liability growth during the period. The drive for expansion appeared to be driven by margins and pricing management; rather than aggressive gearing process. The level of sales for the firm experienced a reasonable increase. This would indicate that there was a positive demand for its goods and services. The positive sales growth during the period appear to be driven by both its market positioning and price points.

## Productivity Rating (PRR)

1.2

The ability of the firm to generate more profits from its assets compared to the previous year had significantly declined. The capacity of the firm's assets to generate profits was highly limited. It appeared unable to utilise its assets to generate basic minimum of profitability. In comparison with the previous period for the firm, profit growth for the firm experienced a severe decline. The growth of the firm's total assets was fairly benign during the period. The firm's expansion plans do not appear to be aggressive from asset-based expansion.

# FINANCIAL RISK CHECKLIST (I)



## COMPANY INFORMATION

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## PART ONE (I)

	ROADMAP STATEMENT	ACTION PLAN	CHECK LIST	TARGET DATE
BUSINESS PERFORMANCE REPORT (BPR)	Profit margins have severely declined - major structural challenges in the operating environment and business model may be experienced by the firm during the period.	<ul style="list-style-type: none"> <li>Need to review the firm's product/service mix and their contribution to profitability by product/service line.</li> <li>Assess the quality of clientele/customers and pricing effectiveness.</li> <li>Seek information on the strategic direction of the firm and assess its viability to turn around the profit trends.</li> <li>To check if there are any structural or one-off expenditures that materially affect the firm's bottomline.</li> <li>Evaluate the quality of management running the firm's revenue generating activities.</li> </ul>		
SHAREHOLDER VALUE REPORT (SVR)	There was a severe decline in profit growth rate compared with the previous period.	<ul style="list-style-type: none"> <li>Assess the cost structure between the two periods.</li> <li>Evaluate major sources of revenue and detect for any significant withdrawal of major clients during the period.</li> <li>Examine the primary and secondary inputs utilised to generate profits for the firms.</li> <li>Conduct price margin analysis between the two periods.</li> <li>Detect for any concentration risk of clients that resulted in severe decline in profitability rate.</li> </ul>		
RISK AND LIABILITIES REPORT (RLR)	The level of sales for the firm experienced a reasonable increase. This would indicate that there was a positive demand for its goods and services. The positive sales growth during the period appear to be driven by both its market positioning and price points.	<ul style="list-style-type: none"> <li>Determine which products or multiple of products contributed most to the increased level of sales.</li> <li>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.</li> <li>Rank the customers of the firm by contribution to sales and determine whether there were any significant changes or movements.</li> <li>Perform a price analysis to determine whether there had been any price adjustments which resulted in higher volumes but lower prices.</li> <li>Perform an assessment to determine whether lowering of margins were responsible for the increased sales growth.</li> </ul>		
PRODUCTIVITY REPORT (PRR)	In comparison with the previous period for the firm, profit growth for the firm experienced a severe decline.	<ul style="list-style-type: none"> <li>Perform an analysis of the costs in the business, over the two most recent financial years.</li> <li>Perform an assessment of clients contribution to revenues and determine whether any single or significant clients, have materially affected the reduced level of sales.</li> <li>Inspect in detail the main and supporting contributors to profits of the firm.</li> <li>Evaluate the profit margins by prices of the various products and/or services over the two most recent financial years.</li> <li>Determine whether the severe decline in sales was as a result of over reliance on a single client.</li> </ul>		

# FINANCIAL RISK CHECKLIST (II)



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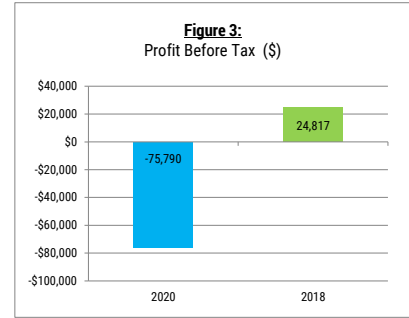
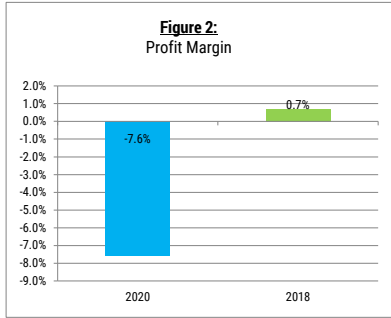
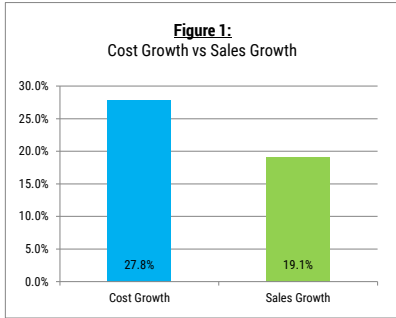
## PART TWO (II)

ROADMAP STATEMENT	ACTION PLAN	CHECK LIST	TARGET DATE
<p><b>BUSINESS PERFORMANCE REPORT (BPR)</b></p> <p>Costs levels have generally increased for the firm with corresponding increase in operational needs and activities.</p>	<ul style="list-style-type: none"> <li>Check if the increase in costs is part of the firm's expansion plans; that corresponds to higher sales.</li> <li>List down the variable and fixed costs in the last 24 months and evaluate the trends.</li> <li>Distinguish between one-off and ongoing costs.</li> <li>Compare the cost behaviour against sales and profitability performance.</li> </ul>		
<p><b>SHAREHOLDER VALUE REPORT (SVR)</b></p> <p>High risk exposure to liabilities relative to equity, contributed to a weak balance sheet position. The firm's valuation is very likely to be adversely affected as a result.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>Discuss with management on the potential for leveraged recapitalisation or debt restructuring in the business.</li> <li>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.</li> <li>Perform an analysis on the long-term debt in the business in terms of purpose, nature and financing costs.</li> </ul>		
<p><b>RISK AND LIABILITIES REPORT (RLR)</b></p> <p>Overall sales growth generally outpaced the firm's total liability growth during the period. The drive for expansion appeared to be driven by margins and pricing management; rather than aggressive gearing process.</p>	<ul style="list-style-type: none"> <li>Evaluate liability trends in past years and compare against revenue.</li> <li>Assess creditor payment policies and drawdown facilities to have better understanding how the firm manages its liabilities.</li> <li>Examine the firm's access to trade finance and long-term financing facilities.</li> <li>Obtain insights on the firm's expansion plans and financing strategies.</li> <li>Ascertain the extent the firm relies on internal financing to expand or manage its working capital needs.</li> </ul>		
<p><b>PRODUCTIVITY REPORT (PRR)</b></p> <p>The growth of the firm's total assets was fairly benign during the period. The firm's expansion plans do not appear to be aggressive from asset-based expansion.</p>	<ul style="list-style-type: none"> <li>Establish management antecedents of the firm's expansion plans if any.</li> <li>Examine the firm's current level of resources in terms of its current assets and how these are being deployed.</li> <li>Evaluate historical trends of asset levels - both for fixed and current levels.</li> <li>Ascertain the use and functions of the asset types that were acquired.</li> </ul>		

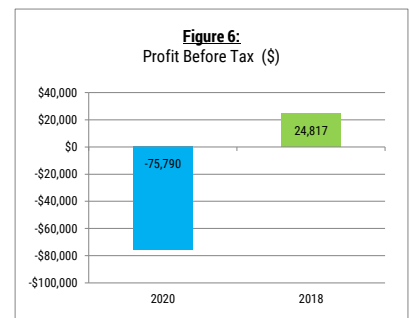
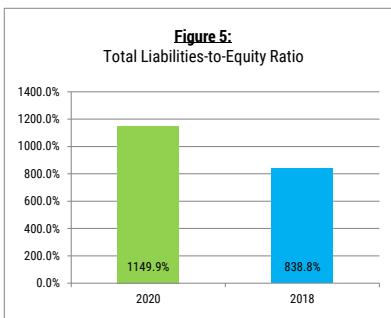
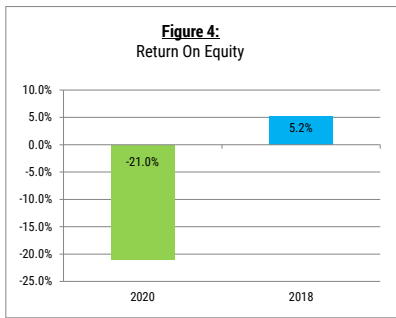
# KEY FINANCIAL METRICS



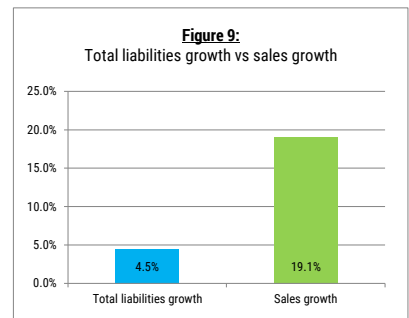
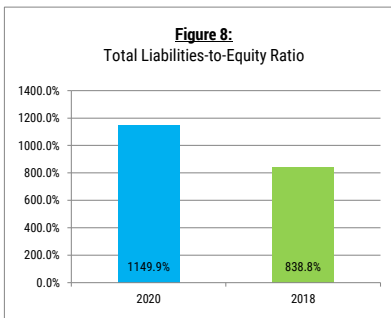
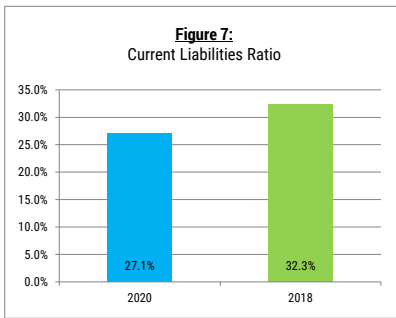
## BUSINESS PERFORMANCE RATING (BPR)



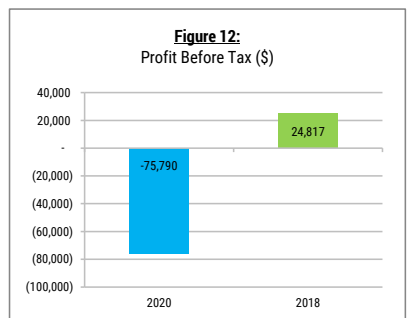
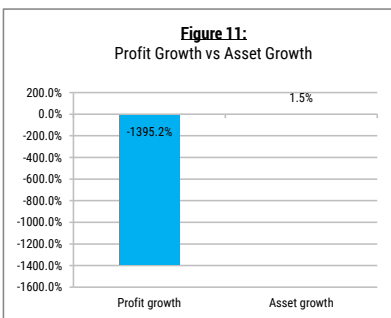
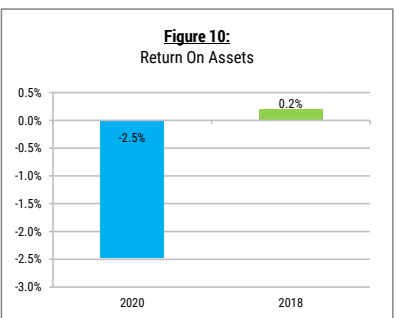
## SHAREHOLDER VALUE RATING (SVR)



## RISK & LIABILITIES RATING (RLR)



## PRODUCTIVITY RATING (PRR)



# KEY BENCHMARK AND VARIANCE



## COMPANY INFORMATION

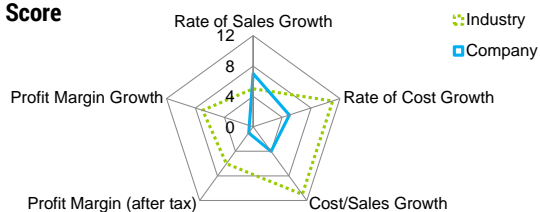
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## KEY RATIO BENCHMARK

EXCELLENT	GOOD	MODERATE	LOW
High Intrinsic Value	Above Average Intrinsic Value	Average Intrinsic Value	Low Intrinsic Value
Greater than or equal to 10, less than or equal to 12	Greater than or equal to 7, less than 10	Greater than or equal to 4, less than 7	Less than 4, greater than or equal to 1

### BPR Score

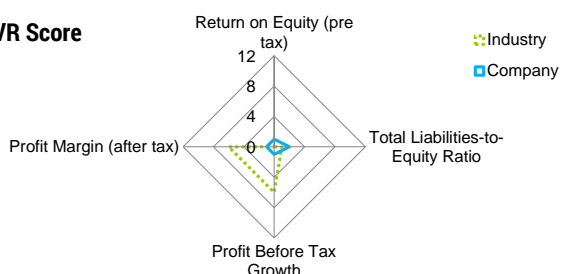


### Business Performance Rating (BPR)

**2.7**

Key Ratios	Company	Industry	Variance
Rate of Sales Growth	19.1%	7.0%	12.1%
Rate of Cost Growth	27.8%	4.4%	23.4%
Cost/Sales Growth	7.2%	1.4%	5.8%
Profit Margin (after tax)	-7.6%	5.0%	-12.6%
Profit Margin Growth	-8.3%	2.0%	-10.3%

### SVR Score

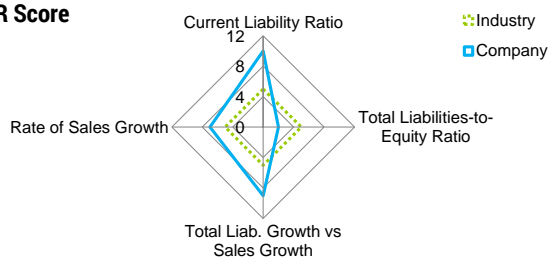


### Shareholder Value Rating (SVR)

**1.2**

Key Ratios	Company	Industry	Variance
Return on Equity (pre tax)	-21.0%	3.0%	-24.0%
Total Liabilities-to-Equity Ratio	1149.9%	9.0%	1140.9%
Profit Before Tax Growth	-405.4%	6.0%	-411.4%
Profit Margin (after tax)	-7.6%	5.0%	-12.6%

### RLR Score

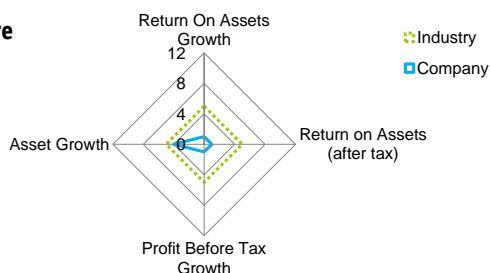


### Risk and Liabilities Rating (RLR)

**4.2**

Key Ratios	Company	Industry	Variance
Current Liability Ratio	27.1%	2.4%	24.7%
Total Liabilities-to-Equity Ratio	1149.9%	9.0%	1140.9%
Total Liab. Growth vs Sales Growth	-14.6%	0.6%	-15.2%
Rate of Sales Growth	19.1%	7.0%	12.1%

### PRR Score



### Productivity Rating (PRR)

**1.2**

Key Ratios	Company	Industry	Variance
Return On Assets Growth	-2.7%	1.0%	-3.7%
Return on Assets (after tax)	-2.5%	1.6%	-4.1%
Profit Before Tax Growth	-405.4%	6.0%	-411.4%
Asset Growth	1.5%	3.6%	-2.1%

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# KEY FINANCIAL RATIOS - SUMMARY



## COMPANY INFORMATION

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## KEY FINANCIAL DATA

MYR'000	2020 (18 months)	2019 (12 months)	%Chg
Sales	1,462,761.00	1,228,590.00	19.1%
Profit Before Tax	(75,790.00)	24,817.00	-405.4%
Profit After Tax	(111,228.00)	8,588.00	-1395.2%
Total Asset	4,506,226.00	4,440,691.00	1.5%
Total Liabilities	4,145,690.00	3,967,689.00	4.5%
Current Liabilities	1,219,964.00	1,434,585.00	-15.0%
Shareholder Fund	360,536.00	473,002.00	-23.8%

\* Sales in 2020 would had declined if the figures are annualised to 12 months

## PERFORMANCE METRICS

Business Performance	Percentage
Rate of Sales Growth	19.1%
Rate of Cost Growth	27.8%
Cost/Sales Growth	7.2%
Profit Margin (after tax)	-7.6%
Profit Margin Growth	-8.3%

Shareholder Value	Percentage
Return on Equity (pre tax)	-21.0%
Total Liabilities-to-Equity Ratio	1149.9%
Profit Before Tax Growth	-405.4%
Profit Margin (after tax)	-7.6%

Risk & Liabilities	Percentage
Current Liability Ratio	27.1%
Total Liabilities-to-Equity Ratio	1149.9%
Total Liab. Growth vs Sales Growth	-14.6%
Rate of Sales Growth	19.1%

Productivity	Percentage
Return On Assets Growth	-2.7%
Return on Assets (after tax)	-2.5%
Profit Before Tax Growth	-405.4%
Asset Growth	1.5%

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# FINANCIAL RATIO EXPLANATION



## "BEAR" RATINGS

BLACK (B)	EMERALD (E)	AMBER (A)	RED (R)
High Intrinsic Value	Above Average Intrinsic Value	Average Intrinsic Value	Low Intrinsic Value
Greater than or equal to 10, less than or equal to 12	Greater than or equal to 7, less than 10	Greater than or equal to 4, less than 7	Less than 4, greater than or equal to 1

## DESCRIPTION

## METHODOLOGY

The Financial Scores are the result of conducting the regression analysis of more than 100,000 companies since 1992 and have been validated/back tested against credit downgrades, defaults, corporate actions and significant shifts in the economic cycles: by countries and industry groups.

- Measures sales, expenses and profitability of the business
- Assess suitability for investment purposes
- Evaluates sustainability for generation of future inflows
- Identification of ways to improve current performance

### Business Performance

- Rate of Sales Growth:**  $(\text{Sales (Current year)} - \text{Sales (previous year)}) / \text{Sales (previous year)}$
- Rate of Cost Growth:**  $(\text{Cost (Current year)} - \text{Cost (previous year)}) / \text{Cost (previous year)}$
- Cost/Sales Growth:**  $\text{Cost} / \text{Sales (Current year)} - \text{Cost} / \text{Sales (Previous year)}$
- Profit Margin (After Tax):**  $\text{Profit after Tax} / \text{Sales}$
- Profit Margin Growth:**  $(\text{Profit after tax} / \text{sales (Current year)}) - (\text{Profit after Tax} / \text{Sales (previous year)})$

- Measures Return on Equity, Debt-to-Equity, Profit before Tax Growth, Profit Margin for latest year
- Understand the efficiency and effectiveness of investments
- Indicates how much funds are used for expansion/ secure new markets

### Shareholder Value

- Return on Equity (Pre-tax):**  $\text{Profit before Tax} / \text{Shareholders fund}$
- Total Liabilities-to-Equity Ratio:**  $\text{Total Liabilities} / \text{Shareholder Fund}$
- Profit before Tax Growth:**  $(\text{Profit before Tax (Current year)} - \text{PBT (previous year)}) / \text{Profit before Tax (previous year)}$
- Profit Margin (After Tax):**  $\text{Profit after Tax} / \text{Sales}$

- Measures current liability, liability-to-equity, total liabilities growth and rate of sales growth of the business
- Determines the direction in which the business is heading
- Identify types of financing plans of the business Indicates the level of risk exposure and leverage faced by the business

### Risk and Liabilities

- Current Liabilities Ratio:**  $\text{Current Liabilities} / \text{Total Assets}$
- Total Liabilities-to-Equity Ratio:**  $\text{Total Liabilities} / \text{Shareholder Funds}$
- Total Liabilities Growth vs Sales Growth:**  $((\text{Liabilities (Current year)} - \text{Liabilities (Previous year)}) / \text{Liabilities (Previous year)}) - ((\text{Sales (Current year)} - \text{Sales (Previous year)}) / \text{Sales (Previous Year)})$
- Rate of Sales Growth:**  $(\text{Sales (Current year)} - \text{Sales (previous year)}) / \text{Sales (previous year)}$

- Indicates the performance of assets
- Provides an overview on how the assets are being utilized and liabilities are managed
- Portrays the interrelation between assets efficiency and the profitability of the business

### Productivity

- Return on Assets Growth:**  $(\text{Profit after tax} / \text{Total Assets (current year)}) - (\text{Profit after tax} / \text{Total Assets (previous year)})$
- Return on Assets:**  $\text{Profit after tax} / \text{Total asset}$
- Profit Before Tax Growth:**  $(\text{Profit before tax (current year)} - \text{Profit before tax (previous year)}) / \text{Profit before tax (previous year)}$
- Asset Growth:**  $(\text{Total Assets (Current year)} - \text{Total Assets (previous year)}) / \text{Total Assets (previous year)}$

# HOW TO USE THE REPORTS (Illustration)



## PRACTICAL USES

### Business Performance

- If you are an investor or thinking of partnering with this company, the factors listed here could assist you in the decision whether to invest in a company or consider partnering with them via joint ventures.
- For creditors and debt financiers, you would want to have a good understanding of whether this company's business performance is sustainable to generate future inflows to pay existing and/or future obligations.

### Shareholder Value

- Existing and even potential new shareholders should use this report to find out how much the profits are being generated and how these are being achieved.
- It is also to gauge the adequacy of returns to shareholders who may come into the firm at different period of time.
- Users could have a closer look at how internal reserves are used for expansion, new funds being raised to secure new markets/clients and how much dividends could be paid out to manage its ROE levels.

### Risk and Liabilities

- Financiers such as bank and private lenders should use this report under two circumstances:
  1. At the point of lending
  2. Upon lending, they can get a sense of how the balance sheet risks may evolve based on ascertaining their risk appetite at the onset.
- The effects of ascertaining risk appetite usually come at a later stage; and it is a powerful indicator to determine where the firm is heading and how it is going to finance its plans

### Productivity

- Financiers with vested interests in the firm are required to know the performance of assets that have been invested by the firm.
- The asset structure of the firm is a good indicator of how resourceful or efficient management has been in order to generate profits for the period; and to what extent this has been achieved.

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