CHAPTER 8: Methodology

8.1 Source and Type of Data
The economic profitability study was based on the financial results and financial position of 15(fifteen) major operating companies under DRB-HICOM Group. No questionnaires were distributed in preparing for the study. All the financial information was obtained from the latest available audited accounts of the companies.

8.2 Method of Analysis
The economic profitability study ranks companies on economic indicators – EVA, Profit after tax, Earnings per share, Turnover and Net Tangible assets.

- EVA = Net Operating Profit after Taxes (NOPAT) less a Capital charge.
- Invested Capital = Short and Long Term Borrowings plus Shareholders’ Equity.
- Capital charges = Invested Capital x WACC.
- Weighted Average Cost of Capital (WACC) = weighted average cost of debt plus weighted average cost of equity.
- Weighted average cost of debt = % of debt x average interest rate x (1-28%).
- Weighted average cost of equity = % of equity x cost of equity.
- The proportion of debts and equity are based on the balance sheets of the companies.
- Cost of equity = Risk free rate + Beta (Market rate of return minus Risk free rate).
- Earnings/(Loss) per share = Profit/(Loss) attributable to shareholders divided by number of shares in issue.
- Turnover = Operating revenue of the company.
- Net Tangible Assets = Shareholders’ funds less Intangible assets.
- The rate of return on market of 13.61%, risk free rate of 6.33% and Beta of 1.36 times were applied in the study.