

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.

- $EVA = \text{Net Operating Profit after Taxes (NOPAT)} - \text{Capital charge}$.
- $\text{Invested Capital} = \text{Short and Long Term Borrowings} + \text{Shareholders' Equity}$.
- $\text{Capital charges} = \text{Invested Capital} \times \text{WACC}$.
- $\text{Weighted Average Cost of Capital (WACC)} = \text{weighted average cost of debt} + \text{weighted average cost of equity}$.
- $\text{Weighted average cost of debt} = \% \text{ of debt} \times \text{average interest rate} \times (1 - 28\%)$.
- $\text{Weighted average cost of equity} = \% \text{ of equity} \times \text{cost of equity}$.
- The proportion of debts and equity are based on the balance sheets of the companies.
- $\text{Cost of equity} = \text{Risk free rate} + \text{Beta} (\text{Market rate of return} - \text{Risk free rate})$.
- $\text{Earnings/(Loss) per share} = \frac{\text{Profit/(Loss) attributable to shareholders}}{\text{number of shares in issue}}$.
- $\text{Turnover} = \frac{\text{Operating revenue of the company}}{\text{Invested Capital}}$.
- $\text{Net Tangible Assets} = \text{Shareholders' funds} - \text{Intangible assets}$.
- 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.