CHAPTER 9: STUDY FINDINGS

The economic profitability analysis is presented in Table 3. The results show only one(1) company achieved a positive EVA and the rest of them with reduced value (negative EVA).

Big is not necessarily beautiful or profitable. Most of the large companies in terms of turnover and net tangible assets appear close to the lower end of the list in terms of EVA.

Traditional profitability measures like earnings per share do not seem to reflect the underlying business economics. Rankings for some companies that appear high on the earnings per share have performed poorly on EVA.

Edaran Otomobil Nasional led the pack as the only value creator for its shareholders with a positive EVA of RM258.7 million. Its profit after tax amounted to RM595.6 million, whereas, the EVA was only R258.7 million. The difference represents capital charge on the invested capital. The positive EVA is a better indicator, resulting in value creation to its shareholders. This is reflected in the increase of its share price from RM14.20 as at 31 March 2000 to RM15.00 as at 31 May 2000.

In contrast, PROTON recorded a profit after tax of RM79.7 million. However, its EVA shows a loss of RM373.3 million. The capital charge amounted to RM477.7 million. The negative EVA is a value destroyer, as seen in its fall of the share price to RM5.35 as at 31 May 2000 from RM7.05 as at 31 March 2000.
ECONOMIC VALUE ADDED

Companies need to measure their performance by benchmarking their returns against their cost of invested capital rather than focus on accounting measures. Analysts and investors are actively applying EVA in making investment and divestment decisions. Large numbers of institutional investors are already exerting increasing pressure on company managements to enhance investor wealth through effective management of assets under their control. Therefore, it is imperative on companies to start looking at their businesses in EVA terms rather than in more conventional ways.