CHAPTER 5

5. CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY AND CONCLUSIONS

The findings of this paper suggest that the financially healthy companies in construction sector are YTL, Gamuda, RoadBld, IJM, Propel, WCT, Mitra, and Brem. It's 27.59% of the construction sector. These companies, mostly, have medium to low in their leverage, medium to low liabilities were current, high cash flow to debts ratio, and good ROE and ROCE. Results indicate that 44.83% were financially vulnerable i.e. Abrar, Acta, BPuri, Mancon, Bescorp, Bridgecon, CPerdana, SCK, Renong, Promet, NamFatt, Muhibah, and Pilecon. These companies are basically high in leverage, low in cash flow to debts ratio, high percentage of liabilities were current, low in ROE, low in ROCE, and poor current ratio. 27.58% were in moderate financial performance or undetermined. These suggest that about half of the construction sector were financially vulnerable. It can be conclude from the above findings that low leverage, high cash flow to debts ratio, high ROE, high ROCE and good current ratio contribute to the financial healthiness of a corporation.

Results show that construction sector has high liquidity throughout all financial periods. Nevertheless, they still trapped in financial difficulties during crisis. This finding buttress the suggestion of Palepu, Healy and Bernard (2000) that high liquidity will not help a firm get away from financial difficulties if the firm is facing rapid losses. This study also suggests that high current liquidity will cause financial distress in the short run. In fact, company with high current liquidity is considered not liquid in the short run. Also, results indicate that high leverage in construction sector could be one of the reasons that this sector was stressed by crisis, and turned their loans into NPLs. Also, findings illustrate that construction sector in Malaysia does not has strong cash flow position.

5.2 SUGGESTIONS FOR ADDITIONAL RESEARCH

Other models such as neural network approach[17] can be used as an alternative approach in future and comparison of its results with current results to buttress or reject the current findings. Other financial framework such as Cash Value Added (CVA) can be used for the similar purpose. A more detail studies of Altman's Z Score need to be carried out in order to confirm its applicability to Malaysia construction company or to generate modified Z Score model that applicable to the Malaysia construction company.

To complement this study, a further research that includes all the construction companies listed on KLSE can be carried out to portray a better picture of the sector. Also, other financial ratios or evaluation models can be use to buttress or counter-examine the results and findings of this study.

Based on the current structure of the Malaysian construction firms listed in KLSE are mostly comprised of subsidiaries which are either having related diversification or unrelated diversification. Further study of the influences of the subsidiaries companies to the construction firms in Malaysia can be carried out to verify the findings of this study. Few suggested hypothesis below can be used for this purposed.

Suggested Hypothesis A: -

HO : The performance of the Malaysian construction firms are highly affected by the performance of its' subsidiaries companies.

H1 : The performance of the Malaysian construction firms are not highly affected by the performance of its' subsidiaries companies.

If the findings of future research, based on suggested hypothesis A, accepted the hypothesis null, then the findings of this research are not

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[17] *"Neural Network Approach is a mathematical algorithm for creating a perfect mapping between the input and output values for a set of training data. The neural network training process incrementally captures knowledge about the relationship between the output and the pattern in the input in order to categorise correctly the training situations."* (Abid and Zouari 2002 pp.601-612)

representative to the performance of pure construction sector in Malaysia. However, if the future research accepted the hypothesis 1, then the findings of this paper are representative to the performance of pure construction sector in Malaysia.

Suggested Hypothesis B: -

H0 : The performance of the Malaysian construction firms are highly related to the performance of its' subsidiaries companies.

H1 : The performance of the Malaysian construction firms are not highly related to the performance of its' subsidiaries companies.

If the findings of future research, based on suggested hypothesis B, accepted the hypothesis null, then the findings of this research are representative to the performance of pure construction sector in Malaysia. However, if the future research accepted the hypothesis 1, then the findings of this paper are not representative to the performance of pure construction sector in Malaysia.

5.3 IMPLICATIONS

This study was used to identify the financial performance of the construction sector in Malaysia. A similar studies can be carried out to identify the financial performance of others sector in Malaysia. A careful analysis of Altman's Z Score weight factors and its coefficients is required for others sector.

5.4 PITFALLS

The potential problem that might affect the findings in this paper is the different accounting standards that might be used by corporations in their annual report. Also, there is a possibility of the annual report was manipulated to have better appearance to attract investors. These two problems will cause

error in the evaluation of the data. Hence, the findings of this paper might not interpret the actual picture of the corporations.

Although Altman's Z score is capable of generate high reliable results in various contexts and countries. However, it is not applicable to all situations. The Z" score model is not been tested for its accuracy on the firms in Malaysia. Moreover, comparison of the Altman's original data sample with the construction firms in Malaysia was unable to be carried out due to the inaccessible of Altman's original data sample. Adding to that, the weight factors for the Z" score model might need to be redefined as the consolidated financial data of this study consist of firms' construction arms, which are involve in manufacturing and trading business. Therefore, there is a possibility that this model may as well misinterpret the results and findings. Furthermore, George (2000) pointed out that most of the scoring models were derived based on statistical relationship and they may have a significant level of error associated with them.