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DOES OF SUKUK ISSUE INFLUENCE THE PROFITABILITY PERFORMANCE OF PUBLIC LISTED FIRM IN MALAYSIA?

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ABSTRACT

The purpose of this study is to investigate the relationship between amount of sukuk issued and their profitability performance. This study focus on issuer firm that issues sukuk in Malaysia by considering 46 samples of public listed companies that issues sukuk from year 2012 until 2016. The data are collected from Securites commission and Bursa Malaysia. The profitability performance of sukuk issuer firms are measured by return on asset (ROA) as a dependent variable while, size of issues sukuk as independent variables. Other variables, for instance, size of firm, operating revenue and growth domestic product (GDP) are control variables. Regression test are utilized to identify the relationship between dependent variables and independent variables. The results show that there is a significant relationship between ROA and size of sukuk issued. Thus, this study highly to build confident level for investor to invest in sukuk since the issuances can influence the performance of sukuk issuer. For future researcher need to make comparison between performance of sukuk and conventional bonds or cover broader region of studies in ASEAN emerging market economies.

Keywords: Sukuk, Issuances, Profitability, Public Listed Firms, Malaysia

INTRODUCTION

Sukuk is an Islamic Bonds that structured in a way to generate return to investor without violating laws of shariah. Mohd Saad et. al, (2012) stated that development of sukuk market

start with the Malaysian Government as the first issuer of Islamic bond with the issuance of the Government Investment or GII in 1983 to facilitate the management of asset in the Islamic Banking System. Balkish, Azwan, Alawiyah, (2012) stated that the Securities Commission Malaysia (SC) has defined Islamic Private Debt Securities (IPDS) as any securities issued pursuant to any Shariah principles and concepts approved by the Shariah Advisory Council (SAC) of the SC (SC, 2004).

A bond is an instrument issued for a specific period of more than one year with the purpose of raising capital by borrowing. Said, (2011) stated that, sukuk is certificate that represent the values of an asset because sukuk as one of the Islamic financial instrument that is a wholesale asset-based capital market security. Mohamed, (2008) the researcher stated that Sukuk had developed as one of the most significant mechanism to raise finance in market through Islamically acceptable structure Sukuk can increase in value when the asset value increase, while the profit of bonds (conventional bonds) can generate when fixed interest that make as riba. Hisham Hanifa, Mansur and Obiyathulla, (2015) had been found that, using their sample from 2000 to 2012 only 80 bond from 200 bond had been issues. So, the problem are mostly investor more confident to invest in conventional bonds compared to sukuk.

However, nowadays the sukuk issuance increase the amount of issuance in Malaysia as a market leader. Based on the Bloomberg data, from 2002 until 2014, there are RM95, 209 millions of amount issued in Malaysia. Thus the objective of this study is to investigate relationship between performances of sukuk in issuer firm in their ROA with size of issues sukuk.

LITERATURE REVIEW AND RESEARCH METHODOLOGY

Development of Theoretical Framework

The study derived its foundations based on the previous study on this issue. Hanifa et. al, (2015) in his study for a sample of 580 firms that issued debt securities from year 2001 until 2009 found a significant and negative association concerning the firm size variable with sukuk offer. This was supported by Nagano (2016) that also indicates the parameter of issuance size is significant with firm's performance by controlling negative result with GDP. Further, his study found an evident that large firms prefer sukuk issuance to debt issuance, and that they prefer equity issuance to sukuk issuance.

Bekhet, Mohd Saad and Mohamed (2014), used a sample selected from Bank Negara Malaysia for 5 years starting from year 2005 until 2009. By employed multiple regression method, they found that the estimated coefficient results for rating, coupon rate and size of issuance has statistically significant relationship with ROA at the 1% significant level. In different setting, Mohd Abulgasem et. al. (2015), found that the CEO duality, board size and profitability are positively correlated with sukuk rating and issues size.

Next, Alam et. al, (2013) studied on 79 sukuk firm from year 2004 until 2012 found that for sukuk issuance size, it shows significant negative coefficient with the overall period which are before crisis, during crisis and after crisis. The result is inconsisitent with Mohd Saad andMohamed (2012) whereby size of issuance indicate negatively is significant value. In contrast, Shahida and Sapiyi (2013) report a positive relationship between total sukuk and firm size by using 79 listed firms on Bursa Malaysia that issuing both bonds and sukuk in year 2001 until 2010. They also utilized the regression and correlation method. Similar to Ab. Hamid, Zakaria and Ab. Aziz (2014) found that ROA has significant relationship with sukuk issued. Their data consist of 312 listed firms from 2008 until 2011 across industries in Malaysia. Said (2012), focus on fourteen Islamic banks that used sukuk part of their operation from year 2007 until 2009. This study use the regression analysis to measure the variables. The result of this study show the increase of the uses of performance based on ROA in their operation in 2009 towards their variables.

By controlling GDP variable, Mohd Saad, Haniff and Ali (2016) used 537 of issuance conventional bonds and sukuk from Bond Info Hub, Bank Negara Malaysia starting 2000 until 2014 found that size of issues insignificant to sukuk issuer performance and GDP have a relationship with sukuk issuance. However, Mat Radzi (2011) found that there is significant effect of GDP in the issuance of sukuk. From the economic factor perspective, GDP have positive relationship with the amount issued. In his studied, he considered 20 annual observations of sukuk issuance starting from 1990 until 2001 obtained from the monthly statistical by Bank Negara Malaysia. Based on the literature review as discussed above, the hypothesis in the alternate form developed as follows:

H1: Size of sukuk issue do influence the profitibilty performance of public listed firms in Malaysia

Sample and variable Selection

Secondary data are used in this study. The sources of data for this study are taken from Bursa Malaysia. The data cover a period of 5 years from 1st June 2012 to 30st June 2016 of 46 companies that issues sukuk from Bursa Malaysia. This study used ROA to represent the firm's profitability which is relative to its total assets followed the study done by Ab Hamid, Zakaria and Ab Aziz (2014) . It was computed by dividing a company's annual profit by its total assets.

While, for the independent variable, the first variable is represent by size of issued sukuk (Mohd Saad and Haniff, 2013). It was measured by the amount of sukuk issuance in MYR million. There are many sukuk tranche for one company usually, so the total of all types of sukuk can give the size of issued sukuk to the issuer firm. The size of the issued sukuk will also be driven by the size of suitable identified assets to be tied to the sukuk structure. Mohd

Saad and Haniff (2013) used size of issues as independent variables in their study. In addition, the size of the firm are being using to measure the profitability performance of sukuk issuer. To measure size of firm used the total asset of the company by log the value. Total asset have two types which are current asset and non-current asset. The example of asset may be found are cash, inventory and others. The large size are best decision to issue sukuk. Shahida and Sapiyi (2012) use the several of firm size in their study. It separates the operating and non-operating revenues and expenses to give external users a clear picture of how the company makes money. The higher the operating revenue, the more profitable of company core business. Paul Oliver- Klein, et. al, (2015), the researcher use earning before interest tax (EBIT) as independent variables. From these result, shows the overall better in operating performance which is EBIT for sukuk issuance.

Lastly, Gross Domestic Product (GDP) represents the monetary value of all goods and services produced within a nation's geographic borders over a specified period of time. More specifically, GDP is the broadest quantitative measure of a nation's total economic activity (Mat Radzi, 2011).

Regession Estimation Model

In the regression model, the dependent variables and independent variables have to be identified and these are usually based on the theoretical basis. A linear regression expresses the linear relationship between two or more variables as follows:

$$ROA = \alpha + \beta 1\ (Amount\ Issues) + \beta 2\ (Size\ of\ Firm) + \beta 3\ (OR) + \beta 4\ (GDP) + \varepsilon$$

Where:
α = The Constant term
ROA = Return on Asset
Amount Issues = Size of issues sukuk
Size of firm = Total asset
OR= Operating revenue
GDP = Growth Domestic Product
β = Coefficient of the value of the independent variables
ε = Residual Term

RESULTS AND ANALYSIS

The descriptive analysis was present in Table 1 for all the dependent and independent variables from year 2012 until 2016. Among the 46 listed companies in Malaysia, some of the company do not published their ROA whereby the data obtained from the Bursa Malaysia indicated not available (NA). However, the mean shows that in average, the ROA indicated

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37.9%. With respect to the amount of sukuk issued in MYR' millions is shows in average is MYR 19,352 millions of sukuk issued which is slightly high amount of capital financing created to boost the business operations to secure in profit performance. Other control variables such as operating revenue and size of firms' proxy by total assets indicate 20.962% and 22.325% respectively. The result of GDP show the mean is 5.2%. The average GDP in Malaysia is not achieving more than 7%. This result GDP of mean is the good GDP in Malaysia during year 2012 until 2016.

Table 1: Descriptive Statistics

	Minimum	Maximum	Mean	Standard Deviation
ROA	0.000	5.026	0.379	0.881
Amount Issues (MYR' Millions)	16.810	21.57	19.352	1.212
Operating Revenue	15.530	24.340	20.962	2.109
Size of Firm	17.950	29.160	22.325	2.018
GDP	4.200	6.000	5.270	0.586

Next, in Table II show the regression result based on dependent variable towards size of issues sukuk, size of firm, operating revenue and GDP. Based on the coefficient table, it show the highest of R-square 0.513 which is indicating the overall impact of independent variable toward the dependent variable at 51.3%, while the Durbin Watson (D-W) is 1.965. The D-W are stated in the average which is between 1.5 until 2.5 is acceptable.

For the coefficient table shows that any increase of 1% in independent variable will affect the dependent variable at B level. The results are as follows:

- 1% increasing in operating revenue will increase the ROA by 0.99%
- 1% increasing in amount issues will decrease the ROA by -0.81%
- 1% increasing in size of firm will decrease the ROA by -0.33%
- 1% increasing on GDP will decrease the ROA by -0.22%

From the regression result, the coefficient table show that operating revenue (OR) and size of firm are significant at the level 1% (as p- value <0.01). The OR and size of firm have positive significant relationship on the performance of sukuk, return on asset (ROA).

For others independent variables (amount issues and GDP) show that is not significant at the level 1% (as p-value <0.01). Amount issues and GDP show negative significant relationship o performance of sukuk issuer, return on asset (ROA).

Based on the correlation analysis Table III, the significant level at 0.01 level (2-tailed).The result only operating revenue (OR) has a significant relationship with the performance of sukuk issuer (ROA) at significant at the level <0.01 (2-tailed) which is at 0.009. From the

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result above, it show that all the independent variables which are operating revenue, amount issues and GDP have a positive relationship at 0.009, 0.655, 0.987 and 0.856 towards the performance of sukuk issuer (ROA). There is no inverse relationship among all the variables. Based on the hypothesis, it shows that hypothesis 3, which is H alternate are accepted where there is a significant relationship between ROA and operating revenue (OR). The correlations table show the number of pearson correlation are not more than 0.8. The highest number of pearson correlation is 0.702 and the lowest is -0.107.

Table 2: Regression Analysis

Coefficients			
Independent Variables	ROA		
(Constant)		1.129	.267
Amount Issues	-.805	-4.569	**.000**
Operating Revenue	.994	5.571	**.000**
Size of Firm	-.033	-.257	.798
GDP	-.022	-.166	.869
R-square	0.513		
F-statistic	8.152***		
D-W	1.965		

Table 3: Correlations Analysis

Correlations						
		ROA	Operating Revenue	Amount Issues	GDP	Size of Firm
ROA	Pearson Correlation	1	.428**	.068	.002	.028
	Sig. (2-tailed)		.009	.655	.987	.856
Operating Revenue	Pearson Correlation	.428**	1	.233	-.107	.702**
	Sig. (2-tailed)	.009		.172	.533	.000
Amount Issues	Pearson Correlation	.068	.233	1	-.005	.159
	Sig. (2-tailed)	.655	.172		.974	.293
GDP	Pearson Correlation	.002	-.107	-.005	1	.037
	Sig. (2-tailed)	.987	.533	.974		.808
Size of Firm	Pearson Correlation	.028	.702**	.159	.037	1
	Sig. (2-tailed)	.856	.000	.293	.808	

**. Correlation is significant at the 0.01 level (2-tailed).

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CONCLUSION

It can be concluded that, higher amount of sukuk issued reduced the level of firm's profitability. Mohd Saad, Haniff, (2013) stated that the majority of the issuances is sukuk. This finding was proven by Muhammad and Adrian from Bank Negara Malaysia in their paper on corporate bond market in Malaysia (BIS papers No.26) p.126, Islamic capital market products have garnered universal acceptance as viable alternatives to conventional products where 49.4 percent of funds raised in the private debt securities (PDS) market in 2004 were through Islamic products.

Based on the finding, there are many firms that issues conventional bonds compare to sukuk. Thus, the issuer firm should find the way to overcome the problem. So, there are a few recommendations for investor, country and future researcher to attract more confident in investment of sukuk. Investor should invest in the firm that have higher income to be secure in sukuk investment. Means that, the Next investor need to invest in the firm that have large firm size means it will secure the performance of sukuk. Then the borrower who have low return expectations will have an enticement towards sukuk. For country, Malaysia need to have deeper research and development to increase and develop product that might able have larger acceptance variables in Islamic bonds. This way can increase the number of researcher that have good knowledge in this area. Lastly for future researcher, they might be compared the sukuk performance with conventional bonds or studied in ASEAN emerging market company. The comparison should be covered based on sukuk yield and conventional yield which mean the period of investor or issuer issues Islamic bonds and conventional bond.

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