Analysis of XOX Berhad's Financial Statement Based on Experimental Analysis

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Abstract— Financial statements can fully reflect the financial status, operating results, and cash flow of the company. The purpose of financial statement analysis is to judge the financial status of enterprises and examine the gains and losses of enterprise operation and management. The thesis demonstrates a thorough comprehension of XOX Berhad financial reporting with the method of ratio, equity, and cash flow analysis. From the company's financial report, XOX's financial situation is currently in a less optimistic situation, but the company's prospects should not be excessively underestimated. Through this article, it can better solve the existing problems and plan the future development direction of the company.

Keywords-component; formatting; financial statement analysis; ratio analysis; equity; cash flow; XOX Berhad

1 INTRODUCTION

Financial statement analysis is the processing, analysis, comparison, evaluation, and interpretation of the data provided by the enterprise financial statements. However, purely or directly from the data on the financial statements, the financial condition of the enterprises cannot be fully explained, in particular, the stand or fall of the operating conditions of the enterprise and the operating results of both high and low, only the financial indicators of the enterprise compared to the related data to explain the financial position of the enterprise must be carried on. At the same time, it also benefits to figure out the crux of the business management of the enterprise and put forward solutions to the problem. The main issue addressed in this paper is to analyze the Financial Statement of XOX Berhad and provide a prediction of company prospect.

2 LITERATURE REVIEW

Financial statements analysis has functions in many fields. Variation of the stakeholders' future potentials is one of the information that can be abstracted from it. Revealing the strengths and weaknesses of a business by features and highlighting vital indicators statements commercial results demonstrations, can better understand and identify the future vision of a business. (Nuhu,

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2014) [4]. There are many tools including comparative, common size, trend and ratio, and other technical analysis to interpret the financial statements. Ratios are the most powerful tool to evaluate the company among these four common techniques. (Bhavani, 2018) [2].

One of the most serious issues that may happen in the financial statements are fraud, including Financial Statements Misrepresentation, Corruption, and Asset Misappropriation, which need to be detected and prevented by boards of directors, audit committees that work in unison. (Amoa-gyarteng, 2014) [1]. Tight internal controls as well as oversight in place, will discourage the potential engagement of financial statements fraud. For helping the detection of manipulation in earning and other subjects, financial statement analysis can give a brief detection that may prevent the full extent of manipulations in the financial statements. (Bhavani, Amponsah, & Mehta, 2018) [3].

3 RESEARCH METHODOLOGY

This paper mainly measures the profitability and performance of XOX Bhd. from the various financial characteristics reflected in the accounting ratio. The ratio analysis method can compare and analyze the data of known companies to obtain a series of ratios, so as to find the required ratio from the ratios reflecting different information. The conclusion of the ratio analysis should be combined with the actual situation. At the same time, the essay investigates the financial significant changes of the selected company by analyzing equity and cash flow to remedy the limitation of Dupont analysis.

3.1 Ratio Analysis

3.1.1 Liquidity

Table 1 Liquidity Ratio

Liquidity		
Ratio	2019	2018
Current ratio	1.09	1.48
Acid-test ratio	1.00	1.26
Days to sell inventory (DIO)	14.35	32.54
Days payable outstanding (DPO)	126.53	137.63
Days sales outstanding (DSO)	87.73	117.04
Cash conversion cycle (CCC)	-24.45	11.94

The current ratio of XOX Bhd. company dropped from 1.48 to 1.09 during the one year. From the financial statement of 2018 and 2018, the decreasing inventories and cash are significantly reduced the current assets. This is evidenced by the -22.23% decline in inventories and the percentage of 97.7 of cash in 2019. For current liabilities, there was a 92.82% rise in financial lease payables and other payables and accruals with the growth of 70.78%. the acid-test ratio of 2019 is lower than that in 2018 due to the amount added in current liabilities. In other words, the liquidity position of XOX is weak with fewer liquid assets to cover its liabilities compared with 2018. There was negative cash conversion in 2019 which relieved the lower liquidity position. The 166% growth of revenue could be a suitable reason.

3.1.2 Profitability

Table 2 Profitability ratio

Profitability		
Ratio	2019	2018
Return on asset (ROA)	-12.31%	-7.31%
Return on equity (ROE)	-20.90%	-10.93%
Gross profit margin	41.16%	44.61%
Operating profit margin	-6.70%	-6.14%
Net profit margin	-6.80%	-6.35%
Cash turnover	57.88	19.30
Inventory turnover	-22.26	-12.33
Working capital turnover	18.01	6.36
Asset turnover	1.78	1.92
PPE turnover	6.10	3.70
Intangible asset turnover	9.00	7.31

There was the 5% reduction of Return on Asset and 10% diminution of Return on Equity in 2019. The gross profit margin fell from 44.61% to 41.16%. The possible reason is that the cost input to the acquired subsidiary or the research cost of the new product. The operating profit margin also dropped 0.56% due to the expansion of administrative expenses and selling and distribution expenses. The improvement of operating expenses and financial costs led to the cutback in net profit margin in 2019. The cash turnover strengthened by 38.52 times which means XOX company was in a cash-flow period. A fixed deposit is committed by a subsidiary of a regulated bank for a bank guarantee given to a third party. Inventory turnover was negative with the reduction of 9.93 times. The higher working capital turnover ratio indicated effective company management in exploiting the short-term assets and liabilities of a business to sustain revenue. The intangible asset turnover increased by 1.69 times resulted from the cessation of one of the ongoing mobile application development with a RM 900,000 loss.

3.1.3 Solvency

Table 3 Profitability ratio

Solvency		
Ratio	2019	2018
Debt to equity ratio	90.51%	51.68%
Debt to asset ratio	47.51%	34.07%

The debt-to-equity ratio increased by 38.83% and the growth of debt to asset ratio was the percentage of 13.44 in 2019. What’s more, the debt-to-equity ratio is almost close to 1 as a warning sign. Both debt to assets and debt to equity ratios interpreted XOX financed more external funds than internal funds. The increase in ratio was due to due to the vendors for the purchase, enhancement of telecommunication network equipment and software and the cost of recharge usage. In addition, on 10 October 2018, the XOX group acquired 40% equity interest in PT. Nusantara Mobile Telecommunication. The increase in the ratio indicated XOX Bhd. company had the high leverage and risky financing and may result in volatile earnings.

3.1.4 Valuation analysis

Table 4 Valuation ratio

Valuation			
	2019	2018	2017
Net assets per share(sen)	8.53	11.05	12.46
Earnings per share(sen)	-1.98	-1.27	-0.14

Both net assets per share and earnings per diminished over the three-year period. The net assets per share fell by 3.93 sen in the period. With negative earnings per share, XOX Group showed deteriorated valuation ratio due to the loss of net income and the impairment loss of Indonesian equipment and investment of RM12.35 million. The company also issued 99,300,000 new ordinary shares to raise working capital in the private placement.

3.1.5 Dupont analysis

Table 5 Dupont Analysis Ratio

Dupont Analysis				
	2019	2018	2017	2016
Net profit margin	-6.91%	-6.32%	-0.63%	-5.84%
Total asset turnover	1.78	1.16	1.33	1.69
Return on asset (ROA)	-12.31%	-7.31%	-0.83%	-9.85%
Equity multiplier	1.70	1.50	1.46	1.95
Return on equity (ROE)	-20.90%	-10.93%	-1.21%	-19.22%

From the above table, the net profit margin of XOX Bhd. Increased 5.21% between 2016 and 2017. In the next three-year period, the net profit margin displayed a downward trend with the percentage of 6.28. During the period of 2016 to 2018, total asset turnover declined by 0.53 points, but grew by 0.52 points in 2019. As a result, Return on Asset revealed a fluctuation situation. ROA revealed 2.46% with a tendency to decrease over the four years. However, the ratio rose by 9.02% in 2017 and rapidly diminish by 11.48% in 2019. There was a 0.45-point sharp decrease during the first year and a continuous rising movement from 2017 to 2019. Consequently, return on equity was attributed to rising the financial leverage in the four years.

In conclusion, XOX improved the portion of debt financing in its capital structure. Its profit margin had the opposite change with asset efficiency. Hence the profit margin is the key factor to influence return on asset. The leverage of financing generally developed and the financing risk was also enhanced. With the descending profit margin, the operating risk of the company was enhanced.

3.2 Equity and Cash Flow Analysis

3.2.1 Equity Analysis

Shareholders' equity declined to RM93.19 million at the end of the period from RM109.74 million on 30 June 2018. In general, the decrease in shareholders' equity is mainly due to the loss of the company shown in the statement. The decrease in shareholders' equity indicates that the debt leverage of the company is on the rise. In other words, the company will have more liabilities under the same asset size. And because the company's asset size is certain, the company's profitability will not have a great change, so the company's income before interest and tax will not change greatly. If the company's debt becomes higher, it means that the company will bear greater pressure to pay interest and principal. Therefore, to a certain extent, the reduction of shareholders' equity is a signal of the weakening of the company's solvency.

3.2.2 Cash Flow Health Check

When we look at the major source of XOX's cash, we find that the major cash flow came from the operation which is good for the company in generating cash from its day-by-day operations, but we can see the issuance of shares take place a large amount of the generation of cash flow which is not good for the future developing and the stock price of XOX. The variety of the source of cash flow is scarce, there are only three major cash flow sources, so, the cash flows are weak for permanent development. The investment of this company is the subscription of shares in a subsidiary by non-controlling interests, so, this company actually needs to more focus on its operation than the share issues affair.

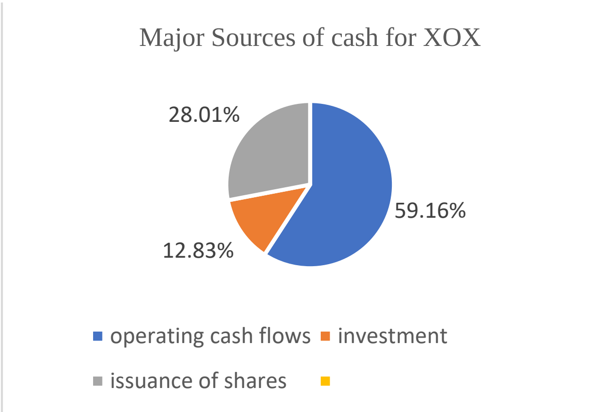

Figure 1 Major source of cash for XOX

There has a good sign of this company that the cash flow did not depend on borrowing, as we trend analysis the current liabilities before, the company had the stable status of current as well as long-term borrowing, but XOX depend too much in issuing shares and the Purchase of plant and equipment account for a large amount of cash flow spending without a significant increase in revenues. The table shows the cash flow of financial activities in 2018 and 2019, we find that though the company spent a lot to repay the finance payable as the major spending in financing activities, XOX depended two much on the issuance of shares without dividend that the company had negative profit resulted from purchasing of plant and equipment and intangible assets.

4 EMERGING PROBLEMS AND STRENGTHS

4.1 Authors and Affiliations

One of our Group's key strengths is our Group's innovative products and services such as convergence of both prepaid and postpaid mobile plans into one (1) single subscription. An attractive alternative to the traditional prepaid and postpaid plans, the convergence plan allows subscribers the flexibility of a prepaid plan, with attractive rates of a postpaid plan. We believe our subscribers will be able to appreciate our simple value proposition and service that is easy to understand, evaluate, buy and use. Compared with other competitors in the same field, our innovative business has never been possessed by other competitors. As a new entrant to the mobile communication industry, we are not limited by the legacy system in technology. At present, we are using various new telecommunication systems, such as our integrated billing system and SOA system. For example, an XOX prepaid user who wants to change the postpaid plan can complete the change in minutes by calling the service center of XOX without replacing a new SIM card. This will enable us to customize our products and services to attract our target users. Our humanized service mode is also the reason why we stand out among domestic enterprises.

4.2 Problems

The Year 2020 has ushered in unexpected risk from health and safety aspects due to the COVID-19 pandemic, the evolving COVID-19 situation and its adverse impact on the economic outlook and uncertain pace of market recovery. The Group is closely monitoring and assessing the impact of COVID-19 and taking necessary action to ensure the continuity of business activity and the safety and health of the workforce. Due to the uncertainty related to the severity of the COVID-19 pandemic, the business activities are expected to be challenging with gradual recovery when economic activities resume. The Board remains confident to continue evolving the business and capture the digital transformation opportunities ahead. [7]

Novel coronavirus pneumonia outbreak and operation control order were launched this year, and the 1GB data provided to users and the turnover of last year's sales were included in the XOX company's sales decline this year, including the 7 million 700 thousand rebates of the consumption tax. The decline in turnover also led to a sharp decline in the company's net profit this year, turning into a net loss.

Nevertheless, XOX also has emerging strengths. Compared with last year, the company's liquidity has improved this year. Cash and short-term deposits increased significantly in the fourth quarter of this year, increasing by 1,935.91% from RM8.953 million last year to RM182.275 million.

5 CHANGES IN BUSINESS STRATEGIES

The XOX group has recently adopted MFRS 16 to replace MFRS 17 leases and related interpretations. MFRS 16 cancels the rule that a lessee divides a lease into a financial lease and an operating lease. MFRS 16 requires lessees to recognize in the statement of financial position the right to use the underlying assets and the lease liabilities reflecting future lease payments for most leases. In the income statement, the expense of operating lease rent previously included in EBITDA is replaced by interest expense on lease liabilities and amortization of right of use assets. In the cash flow statement, the rental outflow from operating leases previously recorded in net cash flow from operating activities is reclassified as net cash flow for financing activities, which is used to repay the principal and interest of lease liabilities.

This year, XOX also has a brilliant new strategy on display for the public. In addition to introducing preferential network communication facilities, we also constantly explore new business opportunities to enhance the company's competitiveness, such as e-wallet, artificial intelligence vending machine, blockchain solutions, etc.

In April this year, XOX signed a memorandum of understanding with DGB Asia on the development of artificial intelligence vending machines. It plans to cooperate to deploy a new generation of artificial intelligence vending machines across the country to sell small bottles of disinfectant, masks, candy, drinks and other consumer goods.

6 RECOMMENDATIONS & CONCLUSION

As the only virtual network service provider in Malaysia, XOX Berhad's strength cannot be underestimated. So far, 250 million consumers across the country have chosen XOX service How can XOX seize the development opportunity under the competition among the four giants in the communication industry (TM, Celcom, Maxis and Digi) and the attack of COVID-19 epidemic? It proposes to stabilize the core business while developing new business opportunities.

During this period, Malaysian states have repeatedly issued Movement Control Orders. Under the prerequisite of self-maintenance at home, the telecommunications industry is generally facing tremendous pressure. On the other hand, it is necessary to conform to the user's network usage habits, benchmark the Internet industry, and actively construct and introduce network content that better meets the needs of the people's network to meet the needs of users to enrich their home entertainment life. (Yan & Zhang, 2020)

This epidemic has stimulated the outbreak of applications such as telemedicine, online education, and telecommuting, and has accelerated the integration of 5G and various fields. (Wang, Zhou, Liu, & Zhang, 2020) [6]. However, more companies said that the COVID-19 epidemic helped them identify new application scenarios or accelerated their demand for 5G. (OMDIA, 2020) [5]. XOX also keenly captured the new business opportunity of 5G technology. XOX plans to enter the regional mobile virtual Network Operator (MVNO) arena by deploying the ONE e-SIM, aiming to occupy the regional 5G mobile network market.

In conclusion, XOX should improve the quality of its main business, try to find new business opportunities in online activities, and stably develop new businesses such as blockchain, virtual wallet, and 5G. Whether XOX can cope with the COVID-19 epidemic and seize the opportunity will be the key to reversing the performance decline. [8]

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