Conference Paper

Financial Performance in Thai Food Industry

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Abstract

This paper aims to rank priority on companies' performance improvement for Thai medium- and large-sized food industry: cost-efficiency seeking and value-added creation. Listed (large-sized) companies of Thai food industry show better performance than non-listed (medium-sized) companies in every measurement dimension, for examples, larger company sizes, higher profitability and lower costs of capitals. In short run, Thai non-listed food companies should aim for seeking cost-efficiency from production and financial cost reduction including foreign exchange risk due to their main sales volumes relying on export market. To enhance companies' value for Thai listed food companies, companies' economic value-added increases by fixed asset turnover, profit margin, sales growth, and time interest earned. On the other hand, Average costs of capitals (WACC) are negatively related to economic value-added. The food companies with high EVA will have lower costs of capitals. The listed companies achieve their value enhancing target quite satisfied, while non-listed companies should set this value-enhancing target for their long-run goal.

Keywords: Economic Value-Added; Cost Efficiency; Thai Food Industry

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INTRODUCTION

Recently, food security topic has been widely discussed around the globe. Moreover, a lot of global phenomena affecting food security concern, for examples, floods, bird flu, etc. cause food crisis in 37 countries around the world [6]. To secure world food demand is Thailand's target as being the kitchen of the word. To achieve this target, many efforts have been push into agro-industry development, especially in food industry. Thai food industry has a major role for Thailand's export for long time ago. To improve Thai food industry efficiency means definitely boosting up Thailand's economic simultaneously.

In order to reach the kitchen of the world target, it is essential to explore Thailand food industry members' financial performance. Firm performance evaluation in financial dimension would reflect financial strength including returns on capitals. Sesil and Kroumova [10] suggest return on assets (ROA) to evaluate firm performance. Irala [5] recommends that return on equities (ROE) may not show managers' effectiveness, while the economic value-added (EVA) is the better predictor of market value comparing to other accounting measures.

Our research explores financial strength of both listed and non-listed firms in food industry in order to develop Thailand as a World's food producing leader. Financial statements of Thai non-listed and listed food industrial enterprises were explored in order to evaluate their financial performance. Our finding will shed light for policy makers to design an appropriate supporting policy for both Thai non-listed and listed food industrial enterprises' financial strength. To achieve the kitchen of the World target, both Thai non-listed and listed food industrial enterprises have to understand their own weakness and strength. Overall, we find that Thai non-listed food industrial enterprises need to achieve their short-term goal for cost efficiency due to their very thin profit margins, while Thai listed food industrial enterprises are quite successful on enterprise-value enhancing observed by the economic value-added (EVA) measure.

LITERATURE REVIEW

Deeswat [4] found that net profit margin, return on assets, and return on equities are relating to company's stock price significantly, and through this stock price investors can observe how effective the company is. Nowadays, modern financial indicators of company performance evaluation follow value-based management goals such as economic value added (EVA) technique.

Principal of EVA is gaining more profits than costs of capitals computed by net earnings after tax minus capital costs, so EVA is different from net profit margin. EVA concerns opportunity costs of all stake-holders as concluded by Boonvorachote [2] in Equation 1:

$$\text{"EVA = NOPAT-WACC * OC"} \quad (1)$$

where EVA refers to economic value added

NOPAT means net operating profit after tax or earnings before interests and taxes (EBIT) multiplied by 1 minus tax rate

WACC represents weighted avera ge cost of capitals

OC means operating capitals m easured by summation between net fixed assets and net current assets.

Lehn and Makhija [8] report that EVA and MVA are significantly positively correlated to stock price performance. Their findings support EVA effectiveness as performance measures. Moreover, they also suggest that EVA and MVA contain information about the quality of strategic decisions and serve as signals of strategic change. Lokanandha [9] suggests that one of the major problems that companies face is a conflict of interest between managers and owners generally known as 'the agency problem'. It is very essential to align the interests of the mangers and shareholders or at least to reduce difference in conflict of interests between these two parties. In this regard, economic value added (EVA) has been accepted as better alternative to traditional performance (accounting) measures such as profit margins, earning per share (EPS), return on capital employed (ROCE), and return on equities (ROE). Boonvorachote [2] found that not only EVA can show firm profitability, but high EVA firms also have lower costs of capital (WACC) and higher stock value (Price by book value: P/BV). However, larger firms show lower increasing EVA. Thai regulators can promote EVA announcement for Thai listed companies for value-enhancing purpose. Public firms can gain benefits of lower fund-raising costs and enhancing of their stock values. Moreover, high-EVA firms will pay dividends at higher yields. These stocks are beneficial for investors who prefer dividend payments.

Chen and Dodd [3] also confirm that EVA measures provide relatively more information than the traditional measures of accounting profit in terms of the strength of their associations with stock return. However, Biddle et. al. [1] show opposite results of EVA on stock value. They report that traditional earnings generally outperform EVA. Lahtinen, & Toppinen [7] use fixed-effect model (FEM) panel data analysis to study the consequences of cost- and value-added components on the firm-level financial performance of 27 large- and medium-sized Finnish sawmills during 2000–2004. Their results show that cost-efficiency indicators explain shorter-term financial performance better for Finnish sawmills, than value-added creation does, which affects longer-term financial performance and future turnover growth. Hence, from the managerial point of view, in the short run for Finnish sawmills, the cost efficiency is a prerequisite for the business while in the long run the value-added creation is needed as well to support the economic sustainability of the business.

Overall, EVA can be used by managerial purpose for value-enhancing purposes. Many literatures confirm that EVA outperforms traditional accounting measures for company performance evaluation. However, company performance measures can be

divided to short- and long-term parts, companies with different sizes should have different priority for their performance improvement. This is our main research questions whether different company sizes in Thai food industry might need different targets for their business improvement.

RESEARCH METHODOLOGY

The data are based on official financial statements of non-listed food industrial enterprises in Thailand from department of business development (Ministry of commerce) and listed food industrial enterprises in the Stock Exchange of Thailand (SET). The fiscal periods studied are 2008-2011, which comprise a panel of 50 listed and non-listed company observations. The sample covers the majority of the large- and medium-sized food enterprises in Thailand. By this sampling, the financial information from collected accounting data represents the actual decision-making views in Thai food industry.

The financial statements of the sample are analyzed for industry's financial performance by computing financial ratios among 50 listed and non-listed company observations. Companies' values are calculated by EVA measure according to Equation (1).

EMPIRICAL RESULTS

The key figures of the 50 listed and non-listed companies' financial data show the whole financial performance picture of Thai food industry in 2008-2011. According to the results, Figure 1 shows that Thai listed food companies are much larger in size comparing to non-listed food companies. Listed companies' average total assets (TA) reached 10.53 billion Baht in 2011, while non-listed companies' average total assets (TA) were only 1.50 billion Baht. Listed companies' average sales (SALES) were 9 billion Baht comparing to 2.68 billion Baht of non-listed companies' sales. The picture of average operating capitals (OC) of both groups is as same as their total assets and sales. We can conclude that sizes of listed food companies are approximately five times bigger than those of non-listed companies.

Figure 2 presents profitability in billion Baht of listed companies (LC) and non-listed companies (NLC). Listed companies can earn much higher profits than non-listed ones can do about 10-20 times. For examples, listed companies can earn net income at 1.05 billion Baht, while non-listed companies can earn net income at only 0.05 billion Baht. For gross profits and earnings before interests and taxes (EBIT) comparison, similar

results are found as well. Moreover, profitability growth of listed companies grows at faster rate when comparing to non-listed companies' profitability growth rate. When profitability is compared in percentage, Figure 3 also confirms that listed companies can earn much higher profits in percent than non-listed ones can do. Listed companies can earn net income at 9.26%, while non-listed companies can earn net income at only 0.65%. For gross profits and earnings before interests and taxes (EBIT) comparison in percent, similar results are found again. Figure 4 shows comparison between return on investment of listed companies and non-listed companies. Similar results are found as well for return on invested capital (ROIC), return on assets (ROA), and return on equties (ROE). Overall, listed companies can earn much higher profits than non-listed ones can do, and listed companies' sizes are much bigger than non-listed ones are.

Figure 5 illustrates comparison between listed companies' and non-listed companies' costs of capitals. Not surprisingly, listed companies show lower costs of capitals than non-listed ones have. For examples, listed companies have lower weighted average costs of capital (WACC) about 6%, while comparing to 6.6% of non- listed companies. Listed companies have lower costs of equities about 8%, while comparing to 11% of non- listed companies. Lastly, listed companies have lower costs of debts about 8%, while comparing to 11% of non- listed companies. Results of comparing costs of debts show same results that listed companies have lower costs of debts. In sum, listed companies have lower costs of capital about 1%-3% when comparing to non-listed companies'.

We can see that listed companies in Thai food industry show better performance than non-listed companies in every measurement dimension, for examples, larger companies' sizes, higher profitability and lower costs of capitals. Because main customers of non-listed companies are export market, non-listed companies face big challenge of improving their profitability in first priority. Figure 6 shows foreign currency depreciation (appreciation) on Thai Baht. Thai Baht appreciation cause Thai food exporting companies lose by average 4% in 2011. Very thin net income at 0.65% in 2011 of non-listed companies reflects high losses from baht appreciation of Thai non-listed food exporters. Hence, in short run Thai non-listed food companies have to aim for cost efficiency from production and financial cost reduction. To enhance companies' values should not be the first priority for Thai non-listed food companies. They should focus on cost efficiency seeking urgently.

Enhancing company values

Although the short-run priority of non-listed companies is seeking for cost efficiency, it is worth considering value-creating determinants of Thai food industry companies. Table 1 shows regression analysis for testing the determinants of economic value-added (EVA) of the Thai food industry companies. The dependent variable (EVAOC) is economic value-added (EVA) standardized by operating capital (OC). T-statistics are in parentheses. Panel data regression analysis is used to investigate explanation power of financial ratios of the sample as independent variables.

From the panel data regression analysis, fixed asset turnover, profit margin, sales growth, and time interest earned are positively significant with the dependent variable (EVAOC). It can be interpreted that food industry companies can enhance their values by improving their financial performance as mentioned. On the other hand, WACC is negatively related to EVAOC. The food companies with high EVA will have lower costs of capitals.

The dummy variable, STOCK MARKET, is used for determining a listed company in the sample. The coefficient of the STOCK MARKET variable is positively significant. It confirms that listed companies in the Stock Exchange of Thailand (SET) have higher EVA than non-listed companies. The listed companies achieve their value enhancing target quite well, while non-listed companies should set the value-enhancing target as their long-run goal.

CONCLUSION

Listed companies in Thai food industry show better performance than non-listed companies in every measurement dimension, for examples, larger companies' sizes, higher profitability and lower costs of capitals. In short run, Thai non-listed food companies should aim for cost efficiency from production and financial cost reduction. To enhance companies' values should not be their first priority for Thai non-listed food companies. Because main customers of non-listed companies are export market, non-listed companies face big challenge of improving their profitability against foreign exchange risk.

To enhance companies' value for Thai listed food companies, companies' economic value-added increases with fixed asset turnover, profit margin, sales growth, and time interest earned. On the other hand, WACC is negatively related to EVAOC. The food companies with high EVA will have lower costs of capitals. The listed companies

achieve their value enhancing target quite satisfied, while non-listed companies should set this value-enhancing target for their long-run goal.

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