



Bond Characteristics and Financial Performance Among Top 100 Listed Companies in Malaysia

Nurul Suhada Binti Sufian, Aliana Shazma Amir, & Siti Nor Junita Mohd Radzi

Faculty of Applied and Human Sciences, Universiti Malaysia Perlis, 02600 Arau, Perlis

Corresponding Email: s191240291@studentmail.unimap.edu.my

Abstract

This study examines the relationship between bond characteristics and financial performance by top 100 Malaysian public listed companies. The study uses 100 firm-year observations drawn from the population of non-financial companies in 2021. To achieve the objectives of this study, quantitative method of analysis is employed. Using multiple regression analysis, the results reveal that bond issuance and bond ratings have a positive significant impact on financial performance. The findings imply that the fact that the advantage of keeping bonds over stocks for investors is that bonds have a positive rate of return with fixed income. The performance of bonds further surpasses risk adjustment levels. Besides, the higher rated bond or known as investment grade bond the safer and stable investment by the bondholders which may enhance financial performance. The present study is unique as it helps the researcher and others to explore the practice and prospect of bond market in Malaysia. Exploring the practice of bonds in Malaysia, it will help to readers to understand the importance of invest in bond as it can lower the risk of the company's portfolio.

Keywords: Financial Performance, Bond Issuance, Bond ratings

How to Cite: Sufian, N. S. Amir, A .S. Radzi, S. N. J. (2022). Bond Characteristics and Financial Performance Among Top 100 Listed Companies in Malaysia. *Jurnal Ilmiah Akuntansi, Keuangan dan Bisnis (JIKABI), 1(2) 2022: 232-238,*

INTRODUCTION

Bonds are loans that firms take out. Rather of borrowing money from a bank, the firm will get funds from investors who purchase its bonds. The corporation pays interest at pre-determined periods (typically yearly or semi-annually) and returns the principal at the loan's maturity date. A financial contract in which an organization promises to pay the amount of principal and interest (in the form of coupons) to the bondholder after a certain date, also known as the maturity date, is nothing more than a financial contract in which the organization has promised to pay the amount of principal and interest in the form of coupons to the bondholder after a certain date, also known as the maturity date. Bonds are a type of debt in which investors pay a specified amount to the issuer over a given period (Chatrath et al., 2012).

The capital market is a long-term market in which the accumulation of various capital market instruments is exchanged. As a result, investments in the form of shares and bonds are made to fund the company's activities. Bonds are classified into two categories: government bonds and business bonds. Bonds issued by SOEs and private enterprises are known as corporate bonds. The corporate bond market is growing and scope, having nearly quadrupled in size since 2000, reaching \$ 49 trillion in 2013. A deeper market indicates a greater dependence on the corporate bond market to supply an economy's financial needs. It has also been expanded to cover corporate bond financing, bank financing, and stock market financing as part of global total business finance. Bonds on the foreign market have been increased in size. Specialized local periodicals, such as those dealing with Islamic concerns, are also making inroads into worldwide markets (Jamillah, 2012).

LITERATURE REVIEW

Firm performance is the process of evaluating a company's financial strengths and weaknesses by effectively establishing the link between balance sheet items and income statements, according to financial management. The first step in performing a performance analysis is to choose information from the financial statements that is relevant to the outcomes under review. In addition, (Pandey, 2007) recommends structuring information in a way that highlights relevant links, as well as producing interpretations, inferences, and conclusions.

Aside from that, performance bonds are offered by one party to a contract to the other as a guarantee against the issuing party's failure to satisfy the contract's obligations or deliver at the agreed-upon level of performance. The party supplying the agreed-upon services will be responsible for the bond. In businesses like construction and real estate development, performance bonds are prevalent. In that instance, the performance bond ensures that the commodity being sold is indeed accessible and will be supplied if the customer truly desires delivery.

2.1 Bond Issuance and Financial Performance

The agency model is one of the first concepts in management and economics literature. The separation of owners and managers in firms causes issues, which agency theory examines and attempts to solve. This theory supports the application of several governance strategies to control "agents'" behavior in organizations. Agency theory investigates the problems and potential solutions associated with the delegation of responsibilities to agents by principals in the context of conflicting interests between the parties (Stefan Linder, 2015).

When there is a conflict of interest, particularly between the company's management and shareholders, the agency theory is one of the theories that is widely employed in the accounting industry to address issues and problems. The notion is especially significant in

situations involving two parties, with one acting as the principle and the other as the agent, where the principal refers to the owners of the corporation or business (Brahmadev Panda, 2017).

A bond is a long-term contract in which the borrower commits to make principal and interest payments to the bondholder on a certain date. From that, the company may utilise the bond issuance to fund its operations without having to take out a bank loan or issue additional stock (Fabozzi and Modigliani, 2009). The advantage of keeping bonds over stocks for investors is that bonds have a positive rate of return with fixed income, but stock volatility is higher than bonds, making stocks less appealing to investors. Large bond yields are more sensitive to macroeconomic news than proportionate bonds (Chatrath et al., 2012). Long-term markets allow investors to develop and manage a variety of capital market instruments over time in order to meet their expectations. Therefore, investments in the form of bonds may be made to fund all the company's activities. The actual financial performance study may be comprehended using certain ideal criteria derived from data gathered from the company's empirical reality. The performance of corporate bonds vs government bonds surpasses risk adjustment levels (Corner, 2011). Thus, it is hypothesised that:

H1: There is a positive relationship between Bond Issuance and Financial Performance.

2.2 Bond Ratings and Financial Performance

Alchian and Demsetz (1972) and Jensen and Meckling (1973) introduced the agency theory of corporate governance (1973). They suggested that, in contrast to how businesses are seen in conventional economics, which sees them as entities with a single product and a single goal of maximizing profit, corporations can be seen as a center for a collection of contractual relationships between people. According to Learmount (2004), businesses may be seen of as contracts that are regularly negotiated by a variety of parties, all of whom want to maximize their own profits.

The agency theory heavily relies on agreements between different stakeholders to describe how a firm function. Instead of the business owners, those who invest money in the operations of the firm are perceived as taking risks. Investors that have faith in a manager's ability to use funds wisely and successfully for the firm will give them money. The contracts that the managers sign specify the obligations they must uphold as well as the format for profit sharing. The contracts that managers sign is difficult to put into practice since it is difficult to specify and foresee forthcoming issues (Andrei Shleifer, 1997).

Jamillah (2012) mentions that investors in the bond market face the risk that the issuing company will be unable to repay the bonds' capital in order to pay the coupon as planned. Default risk is the name for this type of risk. Investors are also highly interested in investing in the bond market since it provides a stable income. Bond investment is more time consuming than stock investing. Since a result, progress stagnated as current bond market conditions were not maximized by market players, and the general public's understanding of bond instruments remained restricted. Shifts in the company's financial performance, which may be discovered from the shift in cash flow and the company's capacity to pay its commitments to financial solvency ratio performance analysis, have been used to examine the possible credit risk of bonds. Furthermore, macroeconomic factors have an impact on investment performance and company health, which in turn has an impact on the returns to be obtained. The financial performance fluctuates based on growth and the macroeconomic influence on bond returns. Thus, it is hypothesised that:

H2: There is a positive relationship between Bond Ratings and Financial Performance.

METHODOLOGY

The population covers top 100 listed companies in Bursa Malaysia in year 2021. Data are gathered from annual report as and Thompson Reuters DataStream, Bloomberg DataStream. Consistent to previous studies, this study also excludes the information from financial and banking institutions. This is mainly because the terms of ownership and the fiscal policies are more closely monitored and partially due to the various accounting methodologies used in the financial statement.

The research is carried out for the cause of empirical analysis and classified according to the purpose (Robson, 2002). This study uses descriptive tests to clarify the connections between variables and to explore them. In an explanatory analysis specific data is clarified and considered (Gray, 2009). Thus, the measurement of variables for this study can be divided into three part such as dependent, independent and control variables which are similar variables used in prior studies. In previous studies, these variables were tested and assumed to be consistent when performing the test because they can influence ROA. The measurement on each variable used is as follows:

Acronyms	Variable Name	Measurement
ROA	Return on Assets (Performance) (DV)	Net Income / Total Asset
BDI	Bond Issuance (IV)	Bond is a dummy variable that equals “1” if firm issued Bond or disclose related information and “0” with no issuance.
BDR	Bond Ratings (IV)	Dummy variable that equals “0” with no ratings or no issuance bond, “1” is for AAA rating bond, “2” is for AA rating bond, “3” is for A rating bond, “4” is for BBB rating bond, “5” is for BB rating bond, “6” is for the B rating bond and “7” otherwise.
AQ	Audit Quality (CV)	Equals “1” if firm is audited by a Big 4 firm and “0” otherwise.

Regression model:

$$ROA = \alpha_{it} + \beta_1 BDI_{it} + \beta_2 BDR_{it} + \beta_3 RC_{it} + \beta_4 AQ_{it} + \mu_i$$

4.0 Findings and Analysis

This section presents the results of the empirical tests based on the research process outlined in section 2 and section 3. Basically, this chapter presents and discusses the result of the model that estimates the bond characteristics and financial performance among top 100 listed companies in Malaysia.

Table 4.1: Descriptive statistics of dependent variable and independent variables

Variable	Mean	Median	Std. Dev.	Min	Max
ROA	2.21	1.23	1.37	1.05	4.28
BDI	0.67	1	0.47	0	1
BDR	1.23	0	0.98	0	3
AQ	0.38	1	0.49	0	1

Note: n=100. ROA is return on assets; BDI is bond issuance; BDR is bond ratings; AQ is audit quality.

Table 4.1 shows the descriptive statistics of the independent variables of BDI, BDR, AQ and ROA as the dependent variable. The mean for ROA is 2.21. It explains that return on assets reported RM2.21 million on the average. As for the BDI, the mean is 0.67. It shows that among top 100 companies, 0.67 or approximately 70 companies issue bonds on the average. The mean for BDR is 1.23 which explains the most ratings for top 100 companies is AAA which is the highly rated bonds. AQ as the control variable outlines the average of 0.38 or approximately 40 companies on the average are being audited by big 4 audit companies in Malaysia. Besides, the minimum value for ROA is RM1.05 million and the highest value is RM4.28 million. As for the BDI and AQ, the minimum level is 0 and the maximum level is 1 respectively. This shows that, there are companies with bonds issuance and audited by big 4 companies and otherwise. BDR illustrates the minimum value is 0 and the highest value is 3 which means that there companies with AAA, AA and A rated bonds and non-rated bonds due to non issuance bond companies.

Table 4.2: Pearson Correlation Matrix of the Research Variables

	ROA	BDI	BDR	AQ
ROA	1.00			
BDI	0.58***	1.00		
BDR	0.57***	0.77**	1.00	
AQ	0.40***	0.24	0.20	1.00

Note: n=100. ROA is return on assets; BDI is bond issuance; BDR is bond ratings; AQ is audit quality.

Table 4.2 presents the Pearson correlation matrix for the research variables included in the financial performance (ROA) model. Based on the Pearson correlation matrix, ROA correlates with BDI, BDR and AQ according to the estimate statistical significance levels of 1% respectively. ROA is positively correlated with the BDI, BDR and AQ ($r = 0.58, 0.57$ and 0.40 respectively at $p < 0.01$) at 1% significance level. BDI is correlated to BDR at ($r = 0.77$ at $p < 0.05$). Overall, based on the Pearson correlation matrix, the indicated significantly correlation values are considered small when all r values are lower than the range of ± 0.30 to ± 0.7 . Hence, there is no evidence of multicollinearity problem among variables in the model as suggested by Pallant (2007).

Table 4.3: Regression Analysis of Bond Characteristics and Financial Performance.

ROA	Expected Sign	Coefficient	Std. Error	P-value
BDI	+	0.74	0.35	0.039**
BDR	+	0.46	0.17	0.007***
AQ	+	0.79	0.22	0.001***
Adj. R ²	44.83			

Note: n=100. ROA is return on assets; BDI is bond issuance; BDR is bond ratings; AQ is audit quality. * p<0.10; ** p<0.05; *** p<0.01

It can be seen in Table 4.3, the adjusted R² value shows that the regression model which consists of BDI, BDR and AQ could explain 44.83 percent variations in ROA. With regards to significant p-value, all variables presented are significant on ROA at their own p-value. BDI is reported to be significantly associated with PERF at 5% (p < 0.05), BDR and AQ are significant at 1% (p < 0.01).

Apart from p-value, the (+/-) sign shows the direction of the relationship between the independent variables and dependent variable. All variables are found to meet the expected sign or can be best described to support the constructed hypotheses in section 2: literature review. BDI, BDR and AQ have positive relationship with ROA. It means that, Bonds Issuance, Bond Ratings and Audit Quality play important roles in enhancing the Return on Assets among top 100 companies in Malaysia.

Table 4.3 illustrates that BDI or bond issuance is positively associated to ROA. Consistent with the hypothesis of this study, the p-value is less than 0.05 percent and the sign is positive. Therefore, it means that the bonds issuance can be the benchmark for the profitability measured by return on assets. Agency theory supports the application of several governance strategies to control "agents" behaviour in organizations (Stefan Linder, 2015). Thus, bond has given rise to several concerns. companies often issue bonds to raise money to fund new projects and finance operations in growing the business. It is also an alternative way for companies to raise money other than getting a bank loan or issuing new shares. Businesses are beginning to change their corporate governance and focus on socially responsible concerns that are different from the notion of shareholder preference and when actions are largely focused on maximizing shareholder interests (Rodriguez-Fernandez, 2016). Aside from that, there is evidence that investors are ready to pay a large premium for shares of companies with a robust corporate governance framework (Clarke, 2007). This demonstrates why corporate governance procedures are important to a business's financial performance.

Next, BDR or bond ratings is positively associated to ROA. Consistent with the hypothesis of this study, the p-value is 0.007 and the sign is positive. Thus, bond ratings portrays better firm performance by an alternative way for companies to raise money other than getting a bank loan or issuing new shares. Shifts in the company's financial performance, which may be discovered from the shift in cash flow and the company's capacity to pay its commitments to financial solvency ratio performance analysis, have been used to examine the possible credit risk of bonds. Furthermore, macroeconomic factors have an impact on investment performance and company health, which in turn has an impact on the returns to be obtained. According to Jamillah (2012), financial performance fluctuates based on growth and the macroeconomic influence on bond returns.

CONCLUSION

This study is unique as it considers bond characteristic and financial performance among top 100 listed companies in Malaysia. This research can help us to understand the existence issue and ratings of bonds in Malaysian companies. This research further explains the impact of bond characteristics on return on assets as the benchmarks for companies' performance. Besides, this research will also help the researcher and others to explore the practice and prospect of bonds market in Malaysia. Exploring the traditional instrument of bonds in Malaysia, it will further boost the importance of investing in bonds. One of the advantages is it can lower the risk of the company's portfolio which will enhance companies' performance in Malaysia.

Nevertheless, several constraints are encountered by the researcher during this research. One of the study's key weaknesses is this study focuses on financial year 2021 only among only top 100 companies in Malaysia. Limited observations are available in one year. Next, there is very limited study pertaining to bond issuance and ratings only. Other characteristics such as yield to maturity or coupon rate can be considered in order to see the level of performance in Malaysian companies. Therefore, it is suggested that further studies need to be done in order to fully understand other characteristics of bond that can contribute more knowledge to this area.

REFERENCES

- Abdullah, S. K. (2013). Announcements Effect of Corporate Bond Issuance and Its Determinants. 7(1), 5-18.
- Achieng, B. O., Muturi, W., & Wanjare, J. (2018). Effect of Equity Financing Options on Financial Performance of Non-Financial Firms Listed at the Nairobi Securities Exchange, Kenya. *Applied Economics and Finance*, 5(4), 160.
- Andrei Shleifer, R. W. (1997). A Survey of Corporate Governance . *The Journal of Finance* , 737-774.
- Astuti.S. (2003). Effects of Financial Statements Against Debt Rating (Bond Rating). *Empirical Study At Company in Jakarta Stock Exchange*. Jakarta: Wahanas.
- Ausloos, M. K. (2021). *Corporate Governance and firm financial performance in United kingdom*. Wiley, 1871-1885.
- Brahmadev Panda, N. L. (2017). Agency theory: Review of Theory and Evidence on Problems and Perspectives. *Indian Journal of Corporate Governance*.
- Dewi Kusumaningrum, L. A. (2019). The Effect Of Bond Characteristics, Financial Performance and Macro Variables On Return Of Corporate Bond In The Agribusiness Sector. *Jurnal Manajemen & Agribisnis*, 16(3).
- Fadah. (2020). *Analysis of financial and non-financial factors affecting bond ratings*. IOP Publishing.
- Mary M. Nzau, J. N. (2019). Effect Of Bond Issuance On Financial Performance Of Firms Listed On Nairobi Securities Exchange. *International Journal of Business and Management Review*, 7(8), 16-25.
- Novotná, M. (2015). The Effect of Industry and Corporates Characteristics on Bond Rating . *Journal of Applied Economics sciences*(2).
- Omondi, M. (2013). Factors affecting the financial performance of listed companies at the Nairobi Securities Exchange in Kenya. *Journal of Finance and Accounting*, 4(15), 99-104.
- Rahmi A. (2016). Analysis of the influence of bond characteristics, characteristics of the company and macroeconomic factors to the return of corporate bonds on the infrastructure sector, utilities and transport.
- Sin Huei Ng, B. H. (2016). The Relationship Between Board Characteristics and Firm Financial Performance In Malaysia. *Corporate Ownership & Control* , 14(1).
- Stefan Linder, N. J. (2015). *International Encyclopedia of the Social & Behavioral Sciences*. Amsterdam: Elsevier.