Privatization and Corporatization Board

Quarter one 2018

Summary of Quarterly Review

09/09/2018

Summary of Quarterly review

Q1 2018

Introduction

The main purpose of this paper is to assist the PCB in making efficient decisions and taking appropriate actions regarding the performance improvement of SOEs. Also, this paper will assist stakeholders in understanding their businesses more effectively.

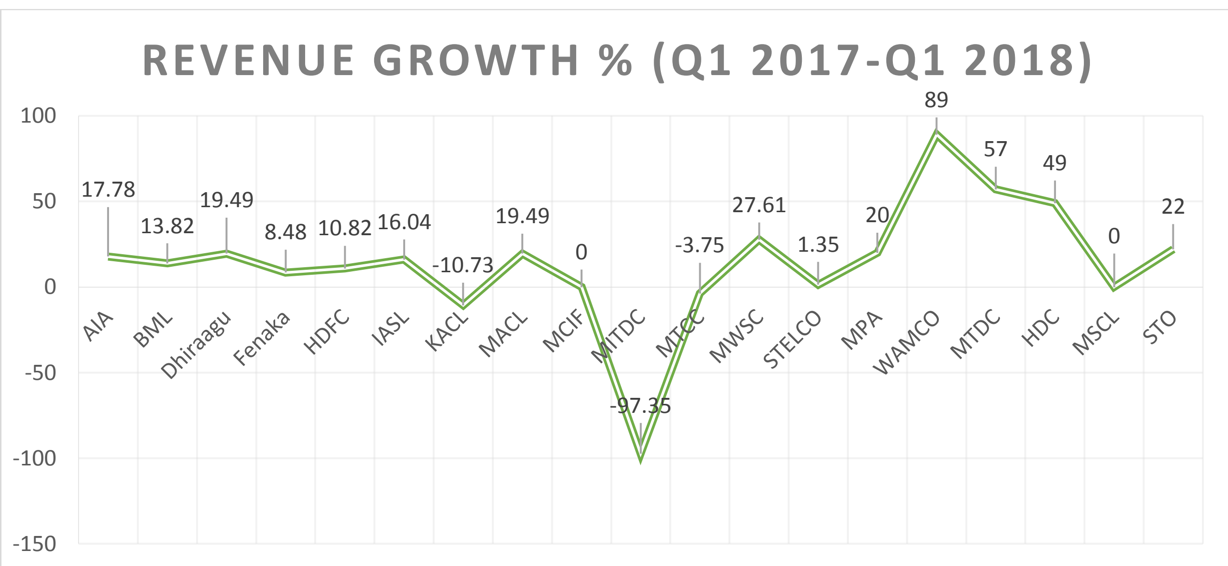
This quarterly Review is a summary of Quarterly Analysis prepared after analyzing the performance of the companies through the quarterly reports. Thus, individual analysis is prepared for each SOE separately. The analysis is done based on the comparison of quarter one of 2018 with the quarter one of 2017.

In this paper, the revenue, gross profit and the net profit are analyzed between the quarters. The liquidity position is being analyzed through current and quick ratio. Also, fixed assets and the important investments made by the companies are highlighted.

In that context, this report consists of quarterly review of 19 different SOEs operating in the Maldivian market impacting a greater portion to the economy. Due to the limitation of the information available, we were unable to prepare the reviews of all the SOEs. For example MMPRC, Asandha and Hajju Corporation limited has not sent their quarterly reports.

However, in the preceding quarters we are looking forward for a more comprehensive review as we await for the quarterly reports in the new format forwarded in the circular 454/CIR/2018/10 circulated on 05th August 2018.

Revenue

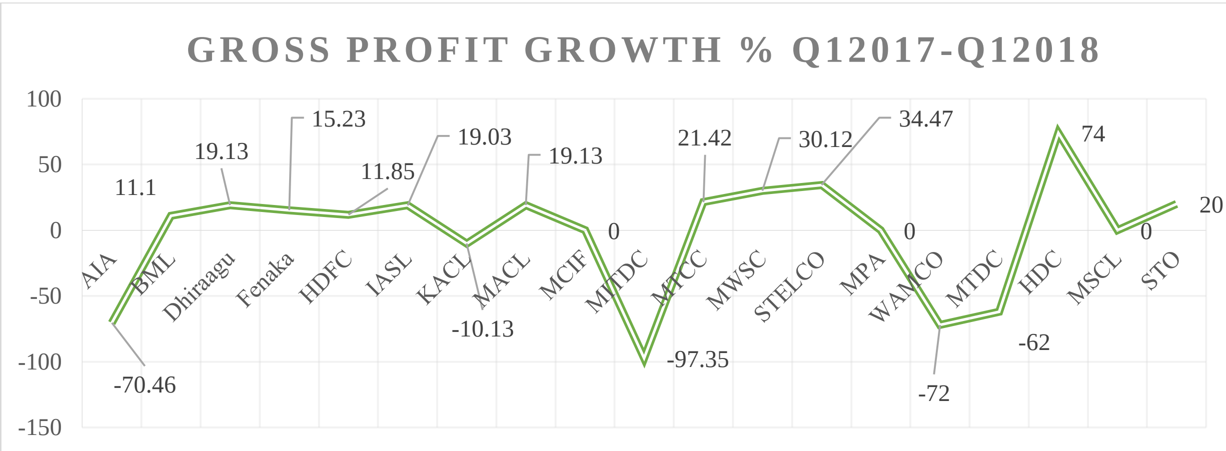


	Company Name	Q1/2017	Q1/2018	Growth %
1	AIA	11,960,334	14,087,460	17.78
2	BML	540,992,000	615,734,000	13.82
3	Dhiraagu	643,884,000	704,883,000	19.49
4	Fenaka	248,047,413	269,072,908	8.48
5	HDFC	46,910,541	51,986,744	10.82
6	IASL	459,833,296	533,607,369	16.04
7	KACL	3,672,197	3,278,286	-10.73
8	MACL	1,118,947,698	1,337,037,035	19.49
9	MCIF	0	113,756	-
10	MITDC	223,018	5,910	-97.35
11	MTCC	306,899,294	295,414,903	-3.749
12	MWSC	170,210,000	217,207,000	27.61
13	STELCO	402,297,426	407,709,584	1.35
14	MPA	151,951,591.	182,407,434	20
15	WAMCO	20,069,812.	38,010,885	89
16	MTDC	40,098,399.	17,071,590	-57
17	HDC	455,537,519.	231,199,782	-49
18	MSCL	-	261,479	-
19	STO	1,822,336,544	2,224,652,636	22
Total		**3,369,400,585.30**	**3,613,935,293.06**	

Total revenue to the economy by the SOEs increased in the first quarter this year when compared to the same quarter of the previous year. STO, MACL, and IASL contributed the majority of the revenue among the SOEs during the quarter. BML, Dhiraagu, STELCO and MTCC are also among the top ranks. Revenue of MTCC and KACL fell 10.73% and 3.75% respectively. MTCC's revenue fell mainly from construction which is a 30% reduction and KACL's revenue deteriorated due to decrease in flight movements. It should be highlighted that MITDC had a drastic fall in revenue of 97.35% when comparing both the quarters due to the lower bid income received. It is also important to note that MSCL had no revenue in the first quarter of 2017, whereas they generated a petite income in Q1 2018. (Detailed quarterly analysis of individual companies are included in the quarterly review report of individual companies)

Profitability

Gross Profit

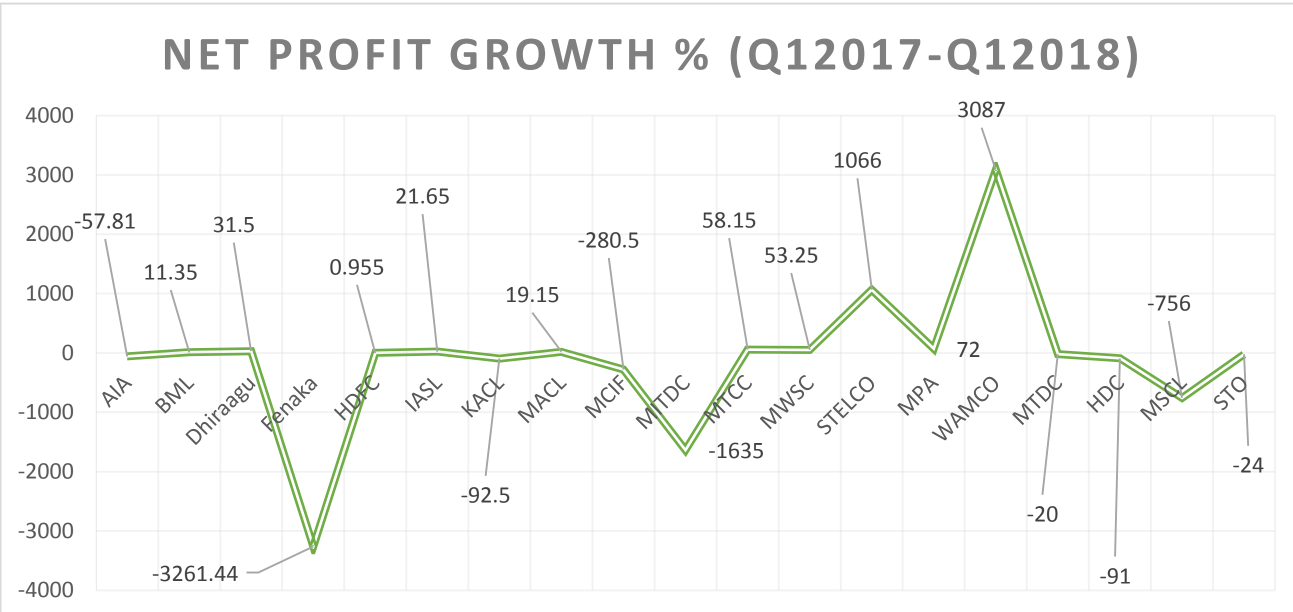


	Company Name	Q1/2017	Q1/2018	Growth %
1	AIA	-4,713,482	-8,034,669	- 70.46
2	BML	306,677,000	340,703,000	11.10
3	Dhiraagu	286,053,000	299,297,000	19.13
4	Fenaka	95,774,131	110,361,491	15.23
5	HDFC	27,542,972	30,806,574	11.85
6	IASL	166,748,726	198,476,304	19.03
7	KACL	3,473,935	3,121,918	-10.13
8	MACL	646,006,269	769,574,998	19.13
9	MCIF	-	69,179	-
10	MITDC	223,018	5,910	-97.35
11	MTCC	51,029,503	61,962,193	21.42
12	MWSC	117,973,000	217,207,000	30.12
13	STELCO	63,344,916	85,179,781	34.47
14	MPA	-	-	-
15	WAMCO	20,022,030	5,537,456	-72
16	MTDC	25,511,002	9,736,620	-62
17	HDC	411,518,896	107,892,244	-74
18	MSCL	-	261,479	-
19	STO	224,303,427	269,083,451	20
Total		**913,702,774.20**	**756,860,223.63**	

**MPA does not have a gross profit as it is service based*

When looking into the gross profit, a huge growth in loss of 70.46% can be seen in the Addu International Airport (AIA) due to Cost of sales increasing at much higher level compare with revenue. MITDC's gross profit deteriorated from 97.35% between the quarters due to the loss in revenue. KACL, MTDC and HDC also showed a decreasing gross profits between the quarters, also due to reduction in revenue. WAMCO also had a weakened gross profit by 72% due to high cost of sales in Q1 2018 (due to inclusion of rental of equipment and vessels in cost of sales in Q1 2018 which was expensed in Q1 2017). However, MACL, BML, Dhiraagu, STO, IASL are among the top rankers when comparing gross profit. STELCO had the greatest percentage increment in gross profit resulting from the high sale of electricity when two quarters are compared and which illustrates efficiency in managing their direct cost.

Net Profit

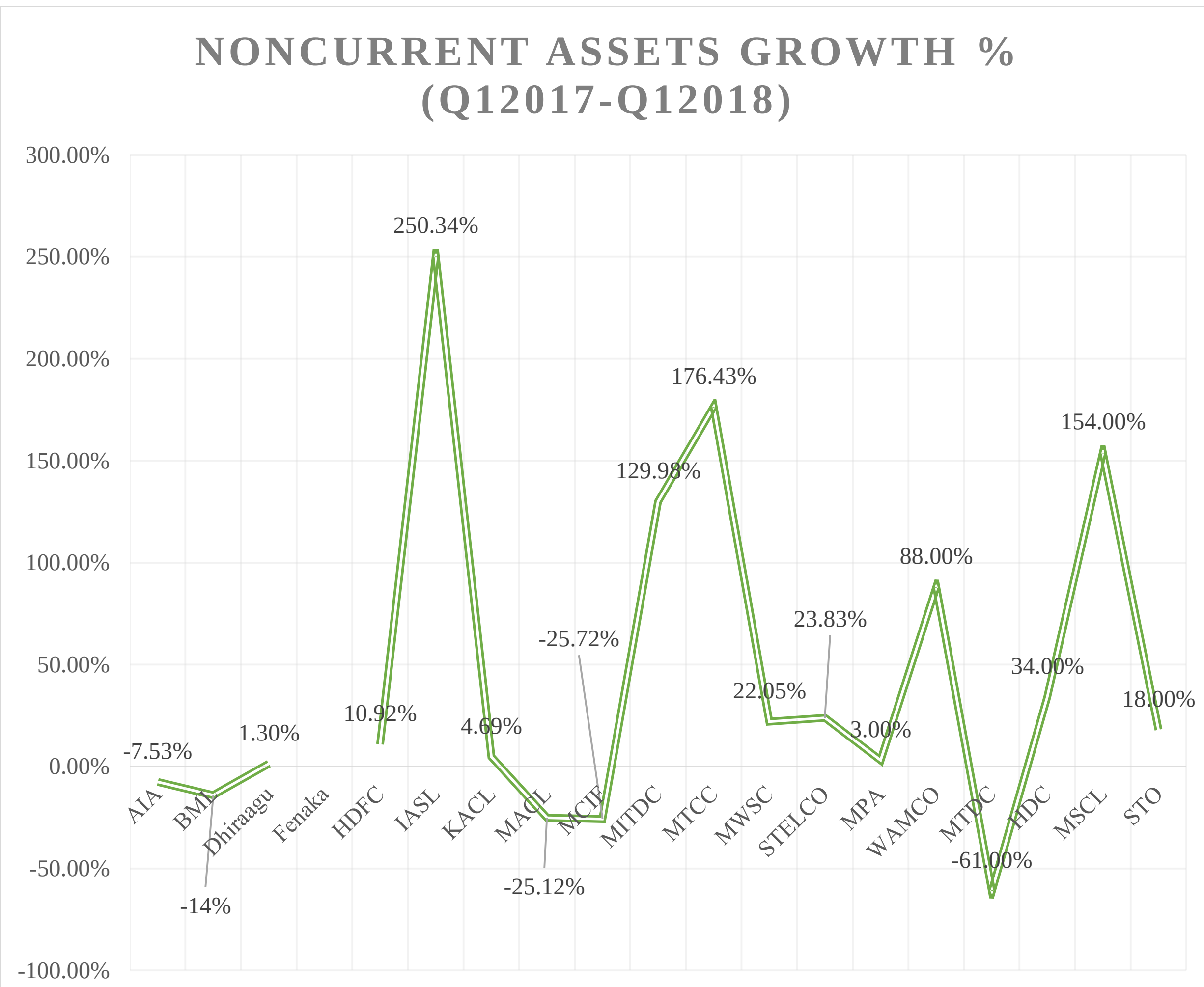


	Company Name	Q1/2017	Q1/2018	Growth %
1	AIA	-9,678,198	-15,273,430	-57.81
2	BML	259,912,000	259,960,000	11.34
3	Dhiraagu	243,809,000	254,177,000	31.50
4	Fenaka	22,989	-726,771	-3261.44
5	HDFC	26,820,513	27,075,064	0.95
6	IASL	43,023,440	52,350,010	21.68
7	KACL	-4,976,231	-9,566,980	-92.25
8	MACL	302,016,882	397,156,074	19.13
9	MCIF	-1,789,620	-1,739,353	-280.88
10	MITDC	-2,263,079	-5,954,781	-163.13
11	MTCC	6,858,225	10,844,004	58.12
12	MWSC	46,174,000	70,764,000	53.26
13	STELCO	2,840,722	33,124,165	1066.05
14	MPA	36,795,099.00	63,410,819	72
15	WAMCO	962,248	30,665,943	3087
16	MTDC	6,546,499	5,204,974	-20

17	HDC	316,565,514	26,993,535	-91
18	MSCL	-163,147	-1,395,900	-756
19	STO	61,365,467	46,617,213	-24
Total		**477,944,627.32**	**1,258,959,017.16**	

The above companies contribute a total of MVR 1,258,959,017.16 to the economy in the first quarter of 2018. This is an enormous increase compared to the same quarter of the previous year. Net profit of Dhiraagu, IASL, MTCC, WAMCO and MWSC increased significantly compared to the first quarter of 2017. However, there is a huge reduction in the net profit of Fenaka; previously making a profit when comparing with the first quarter 2017, mainly because of the inability to manage and controlling the overheads. MITDC continued making loss in this quarter with a net loss of MVR -5,954,781; which is an increase of 163.13% when compared to the quarter one of 2017. Their loss is mainly due to increase in the operating expenses by 140%. MSCL also continued increasing their loss due to high administrative expenses. HDC's fall in revenue resulted in a fall in net profit growth by 91% subsequently expense of the company remain relatively high.

Non-Current Assets

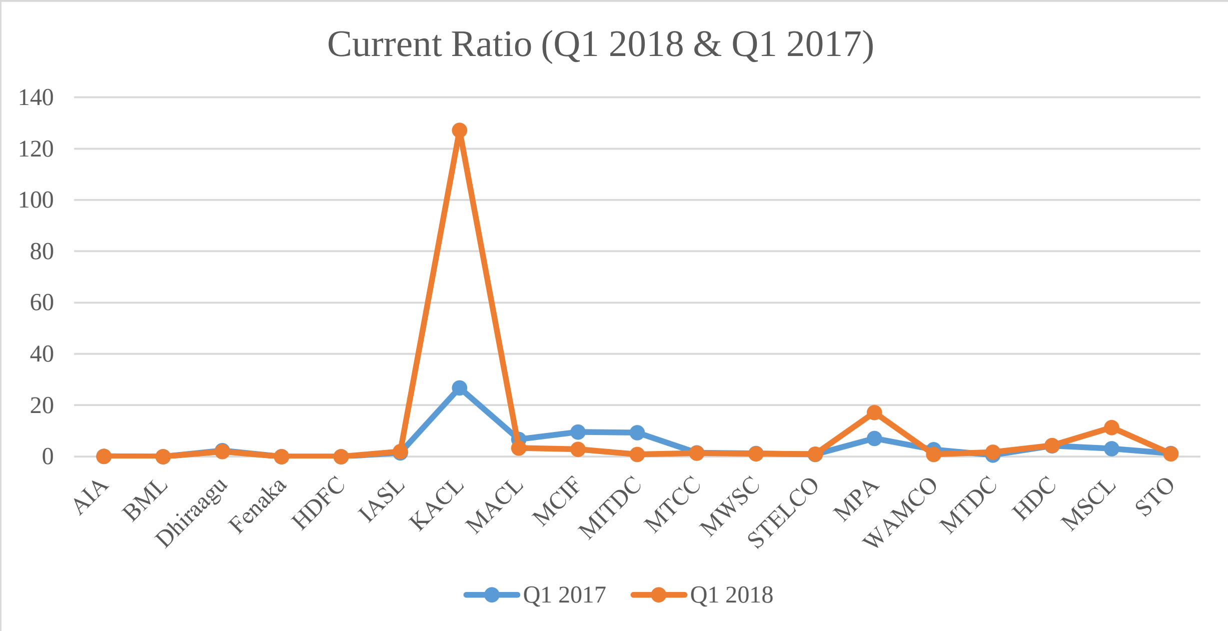


	Company Name	Q1/2017	Q1/2018	Growth %
1	AIA	636,900,515	592,294,421	- 7.53%
2	BML	17,408,848,000	14,971,984,000	-14.00%
3	Dhiraagu	2,050,513,000	2,077,069,000	1.30%
4	Fenaka	NR	NR	
5	HDFC	1,368,600,236	1,518,067,158	10.92%
6	IASL	1,140,646,778	3,996,178,005	250.34%
7	KACL	55,403,336	57,999,635	4.69%
8	MACL	7,719,726,174	5,780,562,274	-25.12%
9	MCIF	889,884	660,984	-25.72%
10	MITDC	23,472,270	53,982,024	129.98%
11	MTCC	388,192,445	1,073,071,703	176.43%
12	MWSC	1,150,432,000	896,743,000	-22.05%
13	STELCO	1,882,745,672	2,331,424,220	23.83%
14	MPA	738,893,665.09	759,243,261	3.00%
15	WAMCO	81,777,954.09	153,993,656.28	88.00%
16	MTDC	62,035,322	24,207,464	-61.00%
17	HDC	4,633,663,096	6,225,271,364	34.00%
18	MSCL	562,339	1,428,291	154.00%
19	STO	2,042,838,071	2,408,112,602	17.88%
Total		**6,888,211,760.00**	**27,520,558,418.00**	**299.53%**

Noncurrent assets shows a total of MVR 27,520,558,418 which is an increase of 299.53% when compared to the figures of the same quarter of the previous year. All the companies had increase in the Noncurrent assets apart from MACL, MCIF, MWSC, AIA and BML which is 25.12%, 25.72%, 22.05%, 7.53% and 14% respectively. MTDC had a fall in their noncurrent assets mainly due to reduction in lease rent equalization. Though noncurrent assets value fell in the first quarter of 2018, BML has the highest value of non-current assets recorded in the financial statements when comparing with of the SOEs discussed in this paper. The higher value of noncurrent assets are due to financial investments and investment in subsidiaries included in the non-current assets apart from their PPE. IASL, MITDC and MTCC has a huge increase in noncurrent assets between the quarters.

Liquidity

Current Ratio



	Company Name	Q1/2017	Q1/2018
1	AIA	0.12	0.10
2	BML	NA	NA
3	Dhiraagu	2.3	2.0
4	Fenaka	NR	NR
5	HDFC	NA	NA
6	IASL	1.43	1.91
7	KACL	26.79	127.17
8	MACL	6.72	3.38
9	MCIF	9.59	2.79
10	MITDC	9.36	0.82
11	MTCC	1.41	1.38
12	MWSC	1.27	1.14
13	STELCO	0.82	0.92
14	MPA	7.01	17.16
15	WAMCO	2.75	0.88
16	MTDC	0.56	1.66
17	HDC	4.19	4.36
18	MSCL	3.12	11.27
19	STO	1.15	1.1

When talking about the current ratio of the companies it is to be highlighted that KACL has a huge current ratio when compared with the other companies. It can be indicated that KACL is not using available resources effectively. KACL has cash balance over MVR 17million and their operational expense are approximately 6 million. Thus, KACL will be able to setting their operational expenses for 2-3 consecutive quarters without any further capital injection. MSCL has a high liquidity ratio because of the capital injection from the government which reflected in their current assets.

However, AIA, STELCO, WAMCO and MITDC have current ratios too low not allowing them to pay off the short term liabilities with the short term assets available. Thus they have to obtain capital injection from the shareholder to meet the liabilities.

Current Ratio of BML and HDFC could not be calculated as they do not have the break downs of their liabilities shown in the balance sheet.

Current Ratio of Fenaka could not be calculated as we do not receive their balance sheet figures in the quarters.

Quick Ratio

	Company Name	Q1/2017	Q1/2018
1	AIA	0.10	0.08
2	BML	NA	NA
3	Dhiraagu	2.3	1.8
4	Fenaka	NR	NR
5	HDFC	NA	NA
6	IASL	1.33	1.71
7	KACL	26.33	124.37
8	MACL	5.91	3.03
9	MCIF	9.59	2.78
10	MITDC	9.36	0.82
11	MTCC	1.41	1.38
12	MWSC	0.29	0.34
13	STELCO	0.64	0.72
14	MPA	6.26	14.90
15	WAMCO	2.75	0.88
16	MTDC	0.56	1.66
17	HDC	2.52	3.18
18	MSCL	3.12	11.27
19	STO	0.95	0.94

When talking about the quick ratio, KACL has ratio higher than the ideal meaning that their assets are sitting idle even after considering the inventory.

AIA has a lower quick ratio as the decrease in current assets are comparatively higher than the reduction in inventory.

STO, WAMCO, STELCO, MWSC, MITDC has too low liquidity after accounting inventory. These companies are not in a position to pay back the current liabilities with the short term assets available. STO's liquidity is weak due to increase in borrowings in the quarter Q12018. WAMCO has a poor liquidity as they have a huge sum as accounts payable like GST payable, Payroll clearing and output tax payable. STELCO's low quick ratio is also merely due to payables. MWSC has a deprived quick ratio as they have an increased value of inventory. Current liabilities of MITDC increased enormously as a result liquidity position worsened.

Major projects

Most of the companies invested in the Hiya Project initiated by the government in the first quarter of this year, to accommodate the housing needs of the employees in the public companies and to generate revenue in the future.

AIA invested in CWIP (Capital Work in Capital) project costing over 3 million.

BML invested in refurbishing branches, instalment of new ATMs, launching of lifestyle loan and innovation of certain online applications. BML invested over a million in investing activities and has borrowings totaling over MVR 840million.

Dhiraagu also invested in expanding mobile money service, S9 and S9+ phone launching, upgrade of 4G Sims, enhancement of postpaid plans and launching of Dhiraagu TV service in additional islands. Dhiraagu invested cash over 108million in different activities.

During the quarter, HDFC invested in end user finance project with Apollo Towers and in exclusive project with Batch Construction. In the quarter Q12018 they have a net cash outflow of MVR 62,673 and they have a borrowings totaling over MVR 827 million.

IASL invested in giving a boost to the existing seaplane operation. They also invested in construction of a regional Airport in the island of R.Fainu. They have borrowings of over MVR539 million in the first quarter of 2018.

KACL invested in Airport infrastructure and Halaveli renovation. They spent MVR 185,430 in halaveli renovation and MVR 516,568 in Airport and island infrastructure in the quarter.

MACL invests in franchising complex at departure Jetty, CCR building, Ramp Office, Shelter for Gen set at Power house and CCTV camera Network. MACL has borrowings over 2 billion and has a cash outflow of over MVR 960 million in the quarter used in investing activities.

MITDC invests in integrated Tourism Development project on Kaashidhoo. The on-going projects include L.Baresdhoo Project, Project Palm, Addu integrated Tourism project, Kaashidhoo Project, Fuvamulah Project and Kelaa project. MITDC spent a total of MVR 49,720,040 (over 49million) in these projects over the quarter.

MTCC has over 50 on-going projects including harbor project, road construction and reclamation projects. MTCC used net cash outflow of MVR 68,365,075 in investing activities. They also had a borrowing of MVR 378,490,787 in the quarter.

MWSC scheduled to have numerous number of projects in 2018. In the first quarter they invested MVR 213,926,000 in upgrading PLC system & SCADA system. Additionally, they have invested MVR 707,334,000 and MVR 598,524,000 in 3T Forklift Battery and 3T Forklift Diesel respectively. Also, MWSC invested MVR 547,596,000 in providing total utility solutions to L.Baresdhoo in the quarter.

STELCO has a total borrowings of MVR 1,423,952,246 in terms of foreign loan in the first quarter of 2018. The amount includes ADB loan for Multi project, Power Sys Dev project, Second Power Sys Project and Third Power Sys Project. It also includes FEC & DDB loan for MV Generator Set, NDF loan for Third power Sys Project, UNI Bank loan for Third Power Sys Project, UNI Bank Grant for Third Power Sys Project, ADB loan, MIB and Exim Bank loan.

MWSC scheduled to have numerous number of projects in 2018. In the first quarter they invested MVR 213,926,000 in upgrading PLC system & SCADA system. Additionally, they have invested MVR 707,334,000 and MVR 598,524,000 in 3T Forklift Battery and 3T Forklift Diesel respectively. Also, MWSC invested MVR 547,596,000 in providing total utility solutions to L.Baresdhoo in the quarter.

MPA invested over MVR57 million in purchase and expansions of PPE. They also have forecasted over MVR 10 million for capital work in progress project each month for the first quarter of 2018.

The on-going projects by HDC includes luxury residential, Central park sectors, Tree top hospital and Youth Park. HDC has invested MVR 3,406,926 in investing activities in the quarter 1 2018 compare with Q1/2017.

STO re-opened its electronics showroom at City Square on this quarter. This outlet offers leading brands of electronics items including Dell Laptops, Dell desktops, SJcam action camera, Vstarcam IP camera, JBL sound, Edifier speakers, Huawei mobile phones and other electronic accessories. The outlet offers a modern design with a friendly ambience, further enhancing the consumer experience. STO invested over MVR40 million in investing activities in the quarter. They also have borrowings valuing over MVR 455 million.

Conclusion

The overall performance of AIA is poor in this quarter. In the first quarter alone 15 million capital was injected as they have a lower liquidity position. They have a poor liquidity position and they are not in a position to repay the loans. This may distress the on-going operation of the company.

BML has a stronger profitability base and their liquidity is also favorable. They have the strongest longest asset base when compared with the other companies.

Dhiraagu shows a progress in revenue and profitability. Also liquidity position is satisfactory indicating lower risk. However it is important to note that performance in terms of profitably and liquidity is weak compare with Q1/2017.

It was not expected to generate a higher return from Fenaka. Since they have constraints in formulating their own tariff for the services. However government provides grants to compensate for financial losses they incur through these restrictions. In addition Fenaka has difficulties in collecting their receivables and making payment before due dates.

In terms of profitability HDFC is at a better position in quarter one of 2018 than the same quarter of the previous year. It should be noted that HDFC is making more profit from their Islamic Wing Amna than the conventional transactions.

There is an improvement in financial performance of IASL since IASL was able to generate higher revenue at better rates. This is a fairly reasonable progress and IASL can further improve their performance if they could manage their cost and expenses more effectively.

Overall performance of KACL has declined in Q1/2018, as a result of decreasing revenue and profitability of the company. Thus total accumulated loss of the company has increased over this period. KACL has difficulty in managing their receivables. Thus receivable at the end of Q1/2018 is almost 6.5 times higher than revenue for the period.

In overall, MACL shows a progress in revenue and profitability and further they have capacity to maintain this progress. Furthermore liquidity level of the company is relatively satisfactory.

MCIFL does not have suitable and self-sustaining business model to operate this business entity. At present there is no viable revenue generating sources.

Revenue of MITDC has declined by almost 97.35% however their operating expenses increased by 140%. As a result of this accumulated loss of the company has increased. In addition it is important that based on the nature of business, it may take time to generate a decent return from the investment. Further it requires a higher capital investment at early stage of business operation to establish a worthy business setup.

In terms of profitability, MTCC has a weakened performance when compared to the last quarter of the previous year. However, this performance is better when compared with the profitability of the first quarter of the last year. When looking into the liquidity, MTCC has a sound liquidity when compared to both Q1 2017 and Q4 2017.

The profitability of MWSC has shown improvements in the last quarters than the present quarters of the financial year. When looking into the liquidity, the ratios show that MWSC's ability to pay off the short term obligations with the available assets are comparatively lower over the quarters.

The financial Performance of STELCO has been improved in the first quarter in 2018 than the first quarter of the previous year. However, when comparing the financial performance of Q1 with that of the performance in the last quarter of 2017, the Financial Performance has declined drastically. STELCO has shown improved performance in the last quarters of financial years than the commencing quarters.

For a sustainable growth WAMCO should take necessary measures to pay back their liabilities and make their asset base strong. WAMCO also should take steps to increase revenue while minimizing cost.

MPA's higher revenue indicates that they are in a good financial position when the quarters are compared. They have a strong liquidity position. However, MPA has to make the efficient use of the idle resources to make more profitable business operation and improve efficiency.

Though revenue fell drastically in the quarter, the strong liquidity position implies that HDC is at a position to pay back the debts and improve their operations.

MSCL started their operations very recently. The company does not generate high revenue and thus is very weak financially. Though the figures show that they have favorable liquidity, the ratio is a representation of capital injection from the government. Therefore MSCL must take enough measures to increase improve profitability and liquidity.

Overall profitability of STO is reasonable though net profit and operating margin are low compared with Q1 of previous year. In Q1/2018 working capital of STO is low since current liability of the company has increased compare with previous periods.

Recommendation

- Fenaka have difficulties in collecting their receivables and making payment before due dates. Therefore they have to improve their performance in the area of converting revenue into cash. This improvement could support them in improving their cash flow position and assist in making payments to suppliers promptly.
- IASL can further improve their performance if they could manage their cost and expenses more effectively. Thus IASL can focus more on minimizing expenses mainly finance and administrative expenses and utilization of resources effectively.
- KACL has to form and implement proper policy and mechanism to manage their receivables. If KACL can manage their receivable appropriately than there they could finance their operation without any help from shareholders. In addition KACL has sufficient cash balance to finance their operation hence government does not have to inject capital.
- MCIFL has to come up come with a virtuous strategic plan which could direct them to reach corporate objectives and mandate of the company. Since MCIFL could not cover any of the operational expenses with the revenue, they run with full support from shareholder.
- In order to minimize the financial risks MITDC has to manage their working capital at a sufficient level and build capacity in meeting short term obligations.

- It is vital for the businesses to improve revenue to see a brighter vision in the future as revenue is a key factor when assessing growth. For a sustainable growth, it is important to implement strategies to increase revenue quarterly and annually. Higher revenue will act an advantage for companies to qualify for loans and favorable interest rates.
- In line with revenue improvement it is important to reduce the cost for businesses. Cost reduction will create a competitive advantage for companies over the competitors.
- Businesses should make the best use of the available resources. When the resources are utilized efficiently, businesses can achieve cost reduction.
- Businesses should conduct feasibility tests and Invest in financially feasible projects; this includes the costs associated with the project, estimating the cash flows received from the project, calculation of payback period and data analysis.
- Businesses should understand their Working capital management & liquidity by routinely examining the relationship between the short term assets and liabilities. The businesses should have control over their firm’s cash, inventories and accounts receivable/payables.