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Financial Performance of Non-Oil Manufacturing Companies Listed on the Libyan Stock Market (LSM): Case Study of Ahlia Cement Company (ACC)

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The result of selling and general administrativeexpenses ratio was satisfactory for the company during the study period, because this result was less than 20 %.

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Strictly as per the compliance and regulations of:

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The result of selling and general administrative expenses ratio was satisfactory for the company during the study period, because this result was less than 20 %. From financial ratio analysis, the result of return on assets ratio (ROA) was not good of the company, because the values of (ROA) are less than acceptable ratio range (10 %).The researcher recommended that the manager of financial management of the company should strive to increase the financial performance by adopting effective policies for improving the efficiency of management of working capital investment, financing policies and the trade-off between liquidity and profitability.

Keywords: financial performance, financial ratio analysis, non-oil manufacturing sector, ahlia cement company (ACC).

I. Introduction

a) *Background of Research*

The main target of this research isto study the financial performance of Ahlia Cement Company, for answer the following question: Is the Ahlia Cement Company listed on the Libyan stock market (LSM) able to contribute effectively to the growth of the Libyan national economy, through this market?"The financial performance assess has received significant attention from scholars in the various areas of business and strategic management, because the financial performance is one of the important performance measures for economic units. The best financial performance of any economic unit plays the main role in increasing the added value of that specific economic unit, coupled with the role of leading towards the growth of the whole industry sector, which ultimately leads to the overall success of the national economy.

Financial performance measurements aim to determine the level of balance between the components of the financial position as at economic unit, namely assets, liabilities, equity and operating activities; (Mohmood & Talal, 2009). The financial performance measurement addresses issues related to the financial structure of economic unity, and the extent of their ability to meet their financial obligations to short-term and long-term. In order to explain the financial situation in the economic unit, the financial performance measures uses accounting information extracted from the income statement and the balance sheet; (Hamana, 2007).

Financial performance assessment refers to the suitable and scientific measurement for economic units operating effectiveness and operators' performance by using financial ratios; (Wei, 2012).Financial Ratio analysis method is necessary to establish the relationship between two accounting figures to highlight the significant information for the managers or users who can analyze the financial situation of economic unit and to monitor their performance in a meaningful way; (Periasamy, 2005).

Financial ratio analysis method calculates and compares the ratios which are derived the information from financial statements in the economic unity; (Katsiaryna, 2004).It is also used to identify the strengths and weaknesses monitoring device to ensure that objectives are compatible with its resources; and as an effective tool in planning to achieve the objectives of economic unity; (Mohd, et al., 2011). The financial ratio analysis method has an efficient use of assets through the evaluation of a set of financial ratios observations of trends in those ratios, and has the ability to compare the average values for other companies in the industry.

It is also provides a very quick and effective way of obtaining an insight into the economic units operations and performance; (Francis, et al., 1996).This method helps the management of the economic units for effectively discharge its functions such as planning,

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organizing, controlling, directing and forecasting. The non-oil manufacturing sector plays significant role in the process of economic development in any state, and this sector also occupies an increasing importance in the development plans in developing countries, which seeks to break the cycle of industrial underdevelopment in order to achieve economic development, miscellaneous contribution to increase national income.

As well as this sector remains one of the most economy powerful engines at the local and global level. Cement industry is a highly important segment of non-oil manufacturing sector that plays a vital role in the local economy development, as well as this industry is one of the benchmark materials industries which manufacture basic raw materials for civil engineering and construction structures. Al-Ahlia Cement Company is one of the largest companies of non-oil manufacturing sector in Libya, it has enjoyed financial backup and facilities provided by Libyan governments since established. This company established in January 1965 as a public organization under the name "Cement and Construction Materials Company". It is located in Alkhoms city, 150 km East of Tripoli city. In 1988 it was renamed the Arabian Cement Company. In 2005 it moved from the public sector to the private sector as a share holding company under the name 'Ahlia Cement Company (ACC).

The main activities of the company are to manage the plants of cement and lime, to put the necessary plans to expand and establish new factories and production lines and to provide operational requirements and spare parts to factories. Ahlia Cement Company has six plants: El-Mergeb (in Alkhoms); Suk Elkamis (in Suk Elkamis); Lebda (in Lebda); Zliten (in Zliten); a bags plant (inAlkhoms) and Alklata (in Tripoli). All of these are located in eastern Libya. The number of employees in this company is approximately 3071 workers.

b) Research Problem

The major objective of this paper is to assess the financial performance of Ahlia Cement Company. In order to answer the question is "Is the Ahlia Cement Company listed on the Libyan stock market (LSM) able to contribute effectively to the growth of the Libyan national economy, through the Libyan Stock Market?", the researcher used financial ratio analysis method to measure liquidity performance, operational efficiency performance, selling and general administrative expenses performance and profitability performance of this company.

c) Study Objectives

1. To assess the liquidity performance of Ahlia Cement company during the period of study.
2. To assess the operational efficiency performance of Ahlia Cement company during the period of study
3. To assess the selling and general administrative expenses performance of Ahlia Cement company during the period of study.
4. To assess the profitability of Ahlia Cement company during the period of study.

II. Review of the Previous Studies

This part will present a set of researches which are believed to be close and useful to the subject of the study. These researches focused on assess the financial performance in the economic units, whether these studies are productive or service which used the financial ratios as tool for studied the topic of financial performance from different views and different angles in different environments are as follows:

Khalifa, (2005) the researcher used financial ratio analysis technique to measure the financial performance of Sebha fodder factory in Libya from 1991 to 2000. He used financial ratios of profitability, liquidity, activity and leverage and he concluded that the financial performance of Sebha fodder factory's liquidity is in a good position, while the financial performance of activity, debt and profitability is not in good position.

Tofael & Mohammed (2011) conducted a research to assess the financial performance of nine pharmaceutical companies in Bangladesh from 2005 to 2008. The data of the study have been analyzed and interpreted by using financial ratio analysis and multivariate discriminate analysis. They found that the profitability, liquidity and solvency of the selected pharmaceuticals companies are not in a sound position and they found that most of the selected pharmaceuticals have a lower level position of bankruptcy.

Asif, in (2012), examined the financial performance position of Square Pharmaceuticals Ltd Company from 2006 to 2011. The data of the study have been analyzed by using financial ratio analysis. From the analyzed data he found that the Square Pharmaceuticals Ltd Company performs better activity, debt, profitability and market value except the liquidity position that was not good. He recommended that the company should increase its liquidity position slightly to make it equal to the industry average

Abdel- Rahman (2013) used methods of financial analysis (Horizontal Analysis, vertical analysis and financial ratios analysis) to evaluate the financial performance of National chlorine industry in Jordan during a period from 2003 to 2008. He found that the financial performance of liquidity and debt was in a good position, while the financial performance of activity, profitability and market was in a bad position. He recommended that it is necessary for the National chlorine industry to pay attention to increase its profits through increasing its sales, and to establish an independent management accounting department to evaluate the performance of the company through deviation analysis in order to treat these deviations at the moment they occurred and to overcome them.

III. Study Methodology

The main objective of this paper is to assess the level of financial performance of Ahlia Cement Company, during the period from 1999 to 2008. The main reason behind the selection of this period is the availability of information about statistical data and all financial data that are required in the analysis. The present study mainly based on secondary data, the secondary data for this study was collected from the financial statements published by the financial management of Ahlia Cement Company, such as the balance sheet and income statement. In this study the researcher used method of financial ratio analysis. This method can be a productive starting point for assessing financial strengths and weaknesses, creditworthiness, and other attributes of a firm based on past performance.

a) *Conceptual Framework of the Study*

Financial ratio analysis method will be used to achieve the sub objectives including identifying companies' strengths and weaknesses, examining the financial position of each company and which company does have more feasible financial position than the others. Financial performance will be measured by list of following ratios:

i. *Liquidity Ratios*

Liquidity is a stone basic for the economic operation of any economic unit to go on, and it is necessary to examine the degree of liquidity of the economic unit to ascertain its ability in meeting their financial obligations; (Deepa, 2008). Liquidity ratios indicate the ability of the economic unit to meet recurring financial obligations as they fall due in short-term, through cash and assets that can be converted into cash in a short period without affecting the value of the asset; (Noor, et al., 2009).The failure to meet obligations on due time may result in bad credit image in another way it means loss of creditors confidence, and even in legal proceedings against the economic unit. On the other hand, very high degree of liquidity is also not desirable since it would imply that funds are idle and earn nothing. So therefore it is necessary to strike a proper balance between current assets and current obligations.

ii. *Current Ratio (CR)*

The main target of this ratio is to assess the ability of the company to meet its short term liability, from current assets, which can be converted into cash in the short term. It examines the relationship between current assets and current liabilities; (Spitholt & Oude, 2006).This ratio also is to reveal the level of ability and efficiency of operating cycle in economic unit to turn its product into cash; (Hobarth, 2006). As long as this ratio is higher means that economic unit has higher ability to pay its obligations; (Michael & Romuaid, 2006). According to some experts of financial analysis, the acceptable range for this ratio is 1: 2 times; (Misiunas, 2010).This ratio is also establishes the basis of the relationship between current assets and current liabilities which is calculated by dividing current assets by current liabilities.

iii. *Quick Ratio (QR)*

Some financial analysts believe that the current ratio is not the best one to estimate the current assets available in the economic unity to meet current obligations traded. For this reason they prefer to use the quick ratio because it takes into account only the cash and assets that can be easily converted into cash in less time; (Spitholt & oude, 1996). It is also known as liquid ratio, acid test ratio or near money ratio. Quick ratio is a liquidity test that it is more stringent than the current ratio and net working capital; (Noor, et al., 2009). According to some experts of financial analysis, the acceptable range for this ratio is 1: 2 times, the best indicator for this ratio should be 1:1 or higher; (Darja, 2006). Quick ratio is calculated by current assets-(inventory+ prepayments) over current liabilities.

iv. *Net Working Capital (NWC)*

Net working capital is an important financial component to assess the financial performance of economic units because it directly effects on liquidity and profitability; (Abdul Raheman & Mohamed, 2007).This ratio is also useful in financial decisions making, because it is a part of the investment in assets which requires appropriate investment finance; (Zariyawati et al., 2006).

The increase of the value of working capital indicates the ability of economic unity to settle its short-term debts from the surplus funds of the daily operational activities; (Noor et al., 2009). Net working capital is calculated by current assets minus current liabilities.

v. *Activity Turnover Ratios*

Activity ratios show the effectiveness of asset management in economic units in the use of its assets to generate sales and their success in promptness of payment to suppliers and controlling its expenses (Muhammad, 2008).These ratios also measure the ability of economic unit to turn over its assets, equity, inventories, cash, account receivables or payable; (Alexandros & George, 2005). These ratio indicates that, if the values of this investment are very high, this may be due to the funds tied up in assets that could be used more productively; (David, 2000).In the long run, low ratio means that there is not enough sales generated and it means also that the manager is not taking into consideration the loss of assets that are obsolete; (Alic et al., 2009).

vi. *Inventory Turnover Ratio (ITR)*

Inventory turnover ratio is one of the main parts for all business operations because there is a direct relationship between level of inventory and sales. The inventory turnover ratio is also an important tool in determining the profitability of the company, because the percentage of inventory constitutes from about 20 per cent to 60 per cent of company's current assets. it is the critical performance to assess the effectiveness of inventory management in the economic unit and also because it measures the number of times, which was converted from inventory to sales during the year; (Madhusudhana & Prahlada, 2009). As long as this ratio is higher, it is better because it refers to the ability of the economic unity on the sale of its inventory and reduces the chances of obsolete inventory, and uses available resources in an efficient and effective way; (Noor et al., 2009). Inventory turnover ratio is calculated by net sales over average inventory.

vii. *Account Receivable Turnover Ratio (ARTR)*

According to Misiunas; (2010) the receivable turnover ratio indicates that there is a relationship between incomes from sales and the amounts receivable within one year. This ratio explains the ability of the company to collect its debts from its customers in the short time and converted to cash during the financial year. High value of this ratio indicates the effectiveness of the credit policy in the economic unity; (Krishna, et al., 1984). It also could refer to a decline in bad debts and the ability to use the funds for the next investments; (Noor et al., 2009).It is calculated by dividing net sales by the account receivables.

viii. *Selling and General Administrative Expenses Ratio (SGAER)*

Selling and general administrative expense ratio is an important tool in determining the profitability of the company, because the percentage of this factor constitutes about 25 per cent to 27 per cent of the company's total assets. According to(Rich, 1999)this ratio assess the expenditures a firm incurs to sell and support its product lines and of how such expenditures relate to trends in sales and profit indicators. It is important for us to know how managers manage these expenses because the ratio of selling and general administrative expenses is closely monitored by investors and analysts; (Anderson, et al., 2006).Because the selling and general administrative expenses tend to have an asymmetric expenses behavior, and capture most of the overhead expenses incurred in the firm's offices. This ratio calculated by Selling and general administrative expenses over net sales X 100.

ix. *Profitability Ratios*

Profitability is a key element for the best financial performance because it reflects the effects of the performance liquidity, asset management and debt on operating results; they are of crucial significance for investors. It is also reflects the strength of economic unit in generating profits, and the effective use of total assets in economic unity that are recorded on the balance sheet; (Wingard & Vorster, 2001). Profitability ratios used as evidence to determine the efficiency and effectiveness of economic units in order to reach its profit objective; (Noor, et al., 2009).

x. *Return on Assets Ratio (ROA)*

This ratio is one of the most widely used ratio to measure the financial performance of the economic unit because it measures how well the effectiveness of the economic unit in the use of its assets and resources available to generate profits; (Mahdi & Kumars, 2009). It is a useful indicator of how profitable the economic unit is relative to its total assets; (Michael & Romuaid, 2006).

High value of this ratio refers to the efficient management of the economic unit in the use of its assets to generate profits; (Noor, et al., 2009).A low value of this ratio shows that the economic unit owns a large amount of assets which, however, are used inefficiently, and vary the value of the ratio from sector to sector because different kinds of activity require different assets; (Misiunas, 2010). This ratio is calculated by dividing the Profit after tax with total assets. The conceptual framework of the study is drawn in the Figure 3.1

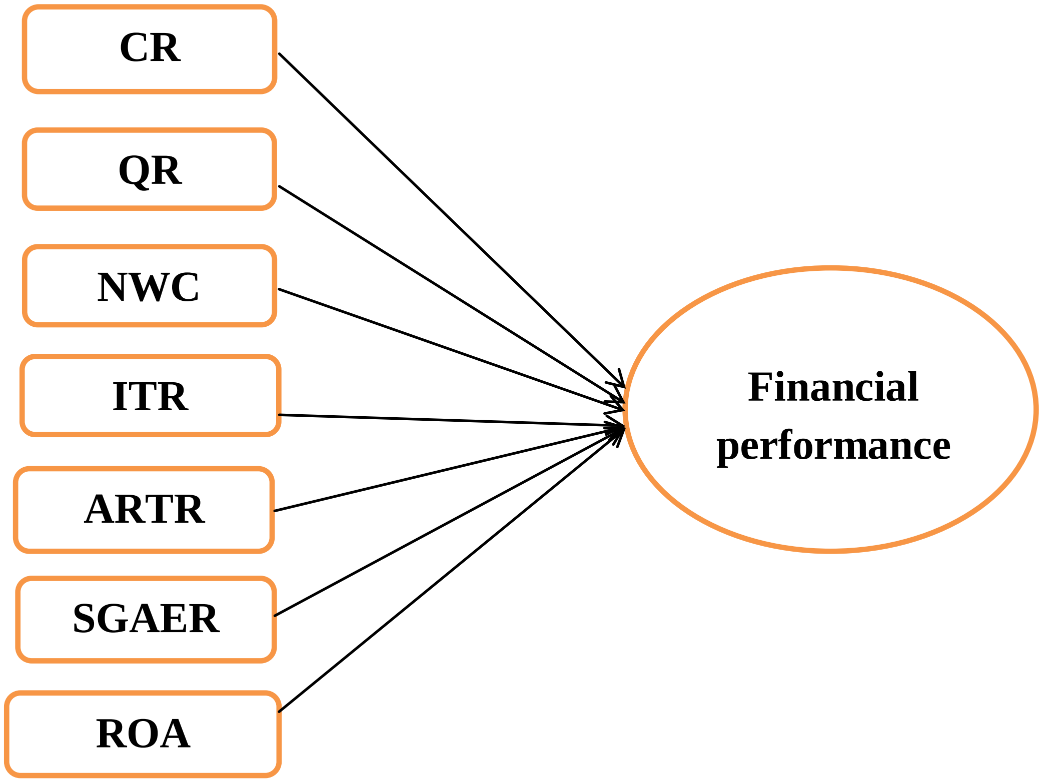

Figure 3.1: Conceptual framework of the study

IV. Data Analysis and Study Findings

This section presents the empirical test results based on the method of financial ratio is analyzed by using some indicators that have been selected to evaluate the financial performance. These indicators are: Current ratio, quick ratio, net working capital, inventory turnover ratio, account receivable turnover ratio, selling and general administrative expense ratio and return on assets ratio. These results of indicators show that from the Table 4.1 and Figure 4.1.

Table 4.1: Results of financial ratios

Financial year	CR	QR	NWC	ITR	ARTR	SGEAR	ROA
1999	1.4	1.0	7.5	0.9	4.0	17.3	8.3
2000	1.1	0.6	7.2	0.9	4.0	17.4	8.4
2001	1.4	1.0	7.6	1.0	2.1	18.7	8.4
2002	1.4	1.0	7.6	1.0	2.6	13.7	8.4
2003	1.3	1.0	7.5	1.1	3.0	11.3	8.4
2004	1.1	0.6	7.0	1.2	3.4	9.1	8.5
2005	1.6	1.3	8.1	1.4	5.0	9.0	8.9
2006	2.0	1.5	8.3	1.3	7.2	8.0	8.9
2007	2.0	1.6	8.5	1.3	10	10.0	9.0
2008	1.4	1.1	8.1	1.4	10	10.0	9.0
Annual average	1.5:1	1.1:1	7.7	1.2	5.1	12.5 %	8.6 %
Acceptable ratio	2:1	1:1	0.0	8.0	8.0	20.0%	10%

Source: Researcher Design

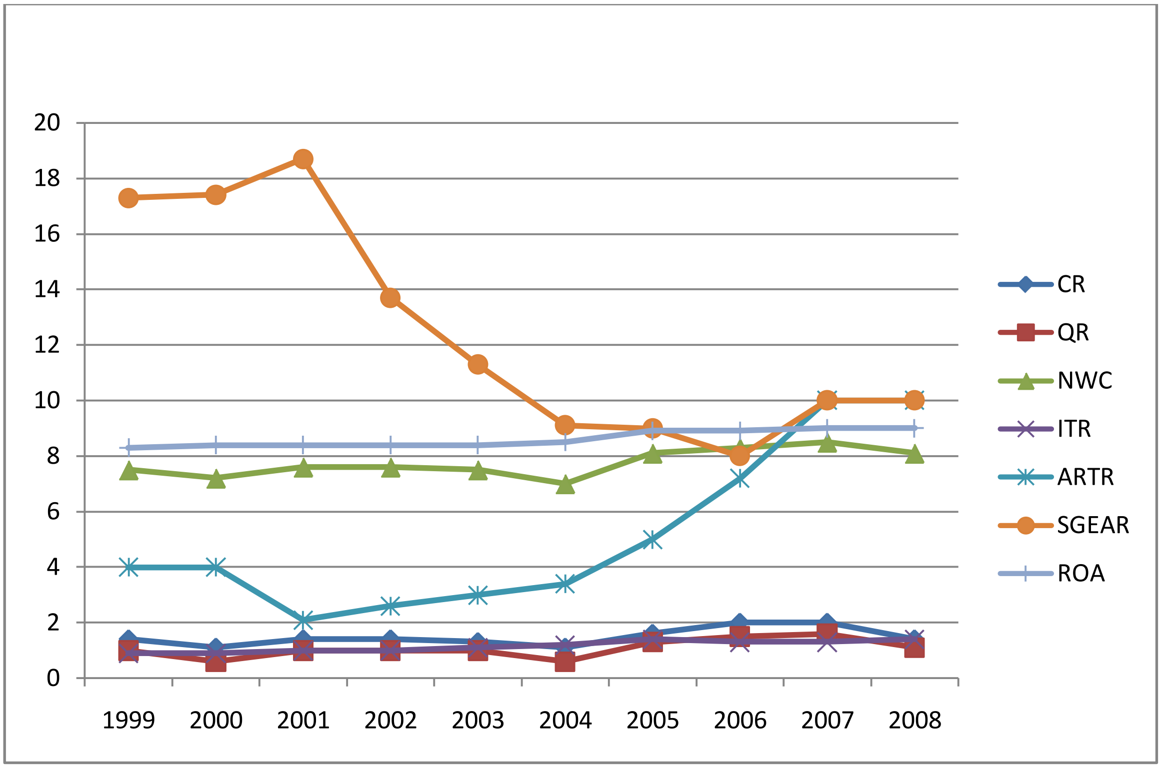

Figure 4.1: Results of financial ratios

a) *Liquidity Ratios*

The liquidity ratios was divided into three ratios; current ratio, quick ratio, net working capital. From Table 4.1 and Figure 4.1, results show that the liquidity in terms of current ratio has been good in all years of the study, because the values of current ratio are within the acceptable ratio range. This upward trend of current ratio of Ahlia Cement Company indicates the efficient of liquidity management in the company. This means that this company has the ability to meet their obligations immediately during the study period.

For quick ratio the results indicates the values of quick ratio are more than the acceptable ratio range. Therefore, it can be said that the liquidity in term of quick ratio had been most satisfactory in all years of studying the company. This result means that this company has been able to meet their matured current obligations during the study period. Table 4.1 and Figure 4.1also showed that the liquidity in terms of net working capital had been most good in all years of study. This means that the company used the available cash to meet the current liabilities in an efficient way.

The results of the liquidity ratios show that the liquidity financial performance of company is higher than the acceptable ratios range of liquidity. This result means that these company are able to meet their financial obligations in the short-term due dates, but at the same time this higher value may negatively affect the profitability and return on the assets of these companies. This result means that the Ahlia Cement company are able to meet their financial obligations in the short-term due dates, but at the same time this higher value may negatively affect the profitability and return on the assets of this company.

b) *Activity Ratios*

Table 4.1 and Figure 4.1, shows that the operational activity in terms of inventory turnover ratio is not satisfactory in all years of the study , because the annual average inventory turnover ratio for the company, is lower than the acceptable ratio range (8 times), which implies excessive inventory levels and a slow movement or obsolete inventories. This indicates that the sales management of the selected company can't be efficient in selling their product and are unable to convert inventory into sales.

This will adversely affect the working capital and liquidity position of the companies in the future, while the results of the account receivable turnover ratio are not good in all years of the study, because the annual average of account receivable turnover ratio for company is less than the acceptable ratio range (8 times). This means that the company does not have the ability to collect debts from its customers during the study period. So, this result implies that there is a decline in the performance of operational activity. This decline has led to the inability of this firm to convert their inventories into sales and has led the inability to collect debts from its customers; this decline may have an effect on the profitability and return on assets of this company during the study period.

c) Selling and General Administrative Expense Ratio

Table 4.1 and Figure 4.1, shows that the annual average values of selling and general administrative expense ratio of the study is less than 20 %.This result indicates a decrease in this ratio of company, this result implies that this ratio has a large impact on the return on assets of the company.

d) Profitability Ratios

Table 4.1 and Figure 4.1, shows that the profitability, in terms of return on assets ratio, is not highly good, in all years of the study, because the values of return on assets ratios are less than the acceptable ratio range (10 %). Hence, the profitability and the performance level of the Ahlia cement company in terms of return on assets ratio cannot be considered as good and desirable during the study period; this result indicates the assets were not being utilized properly during the period, but one may say it is reasonably good. The results of the financial ratio analysis method can be summarized in Figure 4.2.

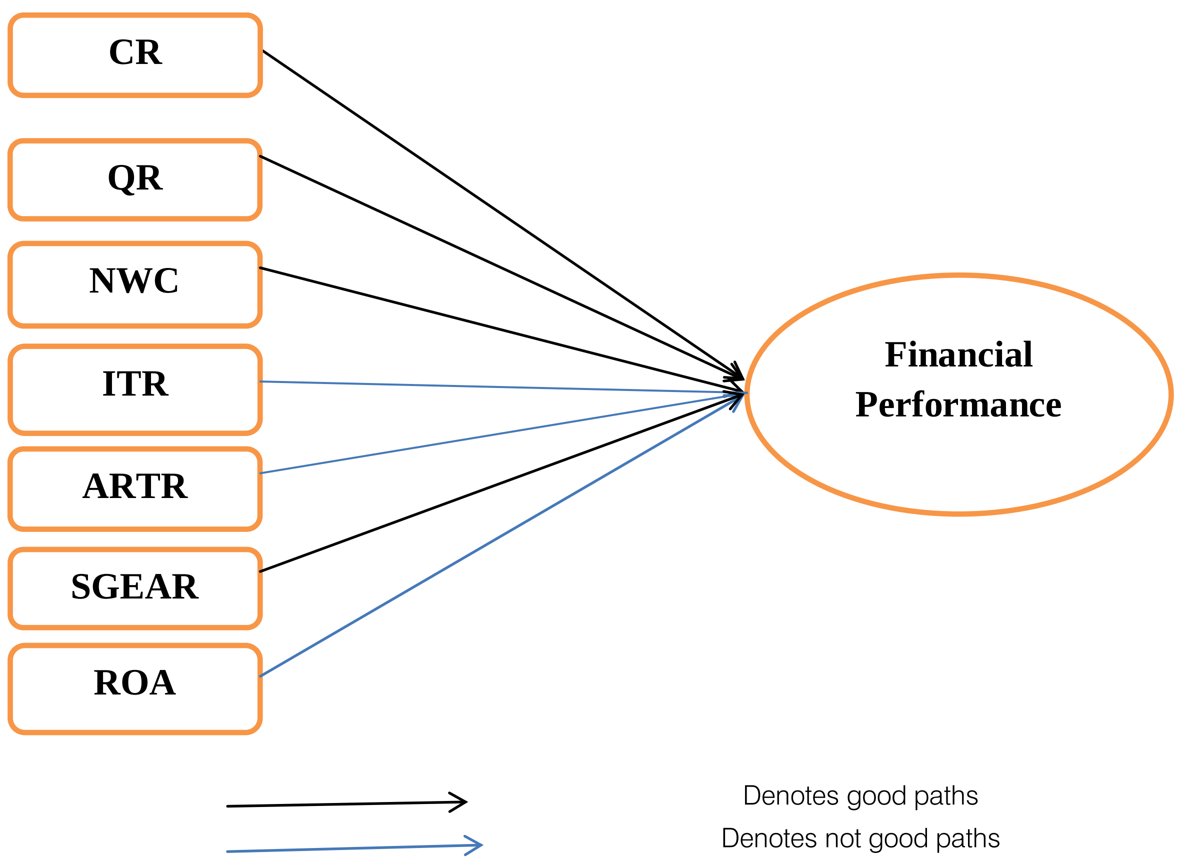

Figure 4.2: Summary the results of the financial ratios

V. Conclusion of the Study

The main objective of this paper is to assess the level of financial performance of Ahlia Cement Company, during the period from 1999 to 2008. In this study the researcher used method of financial ratio analysis. From the data analysis that has been made in section four, the results were as the following:

The result of the liquidity Position of the company is very satisfactory, because the results of current ratio (CR), quick ratio (QR) and net working capital (NWC) always remained within the acceptable ratios range during the period study. This result means that the financial performance of liquidity of Ahalia Cement Company has the ability to meet its obligations immediately and even leave 50 per cent of the current assets, but at the same time this higher value may have an effect on the profitability and on return on assets of this company.

While the result of the operational activity position of the company was not good, because the results of inventory turnover ratio (ITR) and account receivable turnover ratio (ARTR) was lower than the acceptable ratio range (8 times) during the period of study, because the result of (ITR) indicates that the sales management of the company, can't be efficient to sell its product, and unable to convert inventory into sales and this will adversely affect the working capital and liquidity position of the companies in the future.

Similarly, the result of (ARTR) indicates that the company does not have the ability to collect debts from its customers during of study period. The result of selling and general administrative expenses ratio was satisfactory for the company during the study period, because this result was less than 20 %. From financial ratio analysis, the result of return on assets ratio (ROA) was not good of the company, because the values of (ROA) are less than acceptable ratio range (10 %). This result indicates that the assets were not being utilized properly during the study period. From the above conclusion the researcher concluded that the financial performance of Ahlia cement company during the study period from 1999 to 2008, were not satisfactory.

VI. Recommendations of the Study

1. The management of the company must, reconsider the listed decision on the Libyan stock market; even when their financial performance is good.
2. There is weakness in the financial performance level of the operational activity of the company during the study period. This weakness as a result of lower inventory turnover ratio and account receivable turnover ratio less than the acceptable ratio range (8 times), This decline has led to the inability of this company to convert their inventories into sales and inability to collect debts from its customers, this decline is effect on the profitability and return on assets, this means the working capital management has not been effective and efficient enough in this company during the study period.
   So, the Ahlia cement company should focus on working capital management, in order to increase their profitability by speeding the inventory turnover rate, by implicating inventory control system, and by improving their sales management, so that they can reduce the inventory holding period to its optimum point so that they can reduce the inventory holding period to its optimum point because the inventory is important part of working capital management to have better financial performance in the company.
3. If the company wants to increase profitability and return on assets, they must collect the funds due from customers faster and reduce the credit period granted to their customers, because there is a relationship between the speed of collection of accounts receivable and high profitability.
4. Financial management manager in the company should assess the level of selling and general administrative expenditures and also should determine the disadvantages to take appropriate action to improve efficiencies.
5. The Ahlia cement company should pursue sound monetary and fiscal policies that can stimulate economic growth and development as company perform well in a sound and stable economic environment.
6. The financial management in the company should establish an office to assess the financial performance in order to avoid financial problems in the early period and to develop solutions to these problems on a periodic basis.
7. At last, the manager of financial management of the company should strive to increase the financial performance by adopting effective policies for improving the efficiency of management of working capital investment, financing policies and the trade-off between liquidity and profitability.

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