

***The Profitability Analysis of Factoring Companies
in Malaysia***

By :

***Mohd Ridhuan Bin Hj Harun
(92753126)***

***Advanced Diploma in Business Studies (Finance)
School of Business and Management
MARARA Institute of Technology
Shah Alam***

***A project paper submitted to MARARA Institute of Technology
in partial fulfillment of requirement for
ADBS (Finance)***

November 1994

Abstract

This research analyzes the impact of the chosen factors namely Gross Domestic Product, Manufacturing Index and Demand for Account Receivables on the profitability of factoring companies and to determine the factors that most effect the profitability of factoring companies.

Companies that are selected for this study are those which offer only factoring facilities and exclude those which provide other financing facilities besides factoring. A total of seven factoring companies which have been in operation for the past seven years were selected. This study will cover the periods from 1987 to 1993.

The results of the study indicate that Gross Domestic Product plays the vital role in determining the performance and profitability of the factoring companies. The results of this study was obtained by using various statistical analysis.

Acknowledgements

Although this project has been written by a single author towards the end of the semester, it would not have been possible for me to complete the task without the support and guidance for many people. I owe a debt of gratitude to my supervisor Puan Noraini Ismail who has given me her guidance and assistance during the development, analysis and completion of the project paper.

I would like to express my deepest gratitude to Dr. Rokiah Hassan, my kindness course tutor, on her concern about the research.

I am thankful to En. Khalid Albasrawy, Business Development Manager of Mayban Factoring, for his co-operation and willingness in providing the valuable information for this study.

My appreciation and gratitude also goes to my dearest classmates especially Alok, Chik, Kamal, Abok and Eda, for their support, assistance and also encouragement in completion of this study.

Table of contents

Acknowledgement	i
Abstract	ii
Abbreviations	iii
List of Tables	iv
List of Figures	v

Chapter

1.	Introduction	1
	1.1 Background of Study	3
	1.2 Objectives of the Study	5
	1.3 Scope of the Study	6
	1.4 Limitation of the Study	7
2.	Literature Review	
	2.1 What is Factoring	8
	2.2 Functions of factoring companies	9
	2.3 Mechanics of Factoring	11
	2.4 Types of Factoring	13
	2.5 Cost of Factoring	18
	2.6 Factoring versus other services	21
3.	Factoring in Reality	
	3.1 Choosing the clients	24
	3.2 How the Factoring companies get their clients	26
	3.3 Who and targeted Factoring clients	28
	3.4 Reasons to consider Factoring	29
	3.5 Benefits of Factoring	29
4.	Research Methodology	
	4.1 Primary Data	33
	4.2 Secondary Data	33
	4.3 Dependent Variables	34
	4.4 Independent Variables	35

5.	Hypothesis and Hypothesis Testing	
	5.1 Introduction	37
	5.2 Hypothesis of the study	37
	5.3 Methodology of Testing	39
	5.4 Hypothesis Testing	41
	5.5 Financial Ratios	49
6.	Results and Interpretation	
	6.1 Relationship between Profitability Ratios and Independent variables	52
	6.2 Relationship between Profitability of Factoring companies and Independent variables	58
	6.3 Conclusion of Results	61
7.	Trend Analysis	
	7.1 Profitability Ratios	62
	7.2 Profitability Growth	66
8.	The Empirical Finding	
	8.1 Finding 1	74
	8.2 Finding 2	76
9.	Problems and Difficulties faced by Factoring Industry	78
	9.1 Misconcept of Factoring	80
10.	Recommendations	83
11.	Conclusions and Recommendations for future research	86
	Bibliography	89
	Tables and Appendices	91