

My First Task as Credit Analyst

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Prologue:

Amir smiled as he looked at his status that he had uploaded to his Instagram (Ig) account early this morning.

“Wish me good luck!!!! My first day at Maju Bank Berhad.”

It received 150 likes and 120 comments from his friends - the most number of likes and comments from his *Instagram* friends.

Amir graduated from Faculty Economics and Muamalat (FEM), Universiti Sains Islam Malaysia (USIM) in November 2016. Three months before his graduation, he completed his industrial attachment with Maju Bank Berhad at the Head Quarters. He served at the Business Banking unit where his main job scope was processing business financing applications. He felt so lucky doing the attachment at Maju Bank Berhad and, based on his performance, he was offered a job as a credit analyst at Business Banking department of Maju Bank located in Seremban (Seremban Business Center). He was so eager and excited to begin his journey as a credit analyst.

Suddenly he heard his colleague saying, “Amir, Mr. Leong (Manager of Business Banking Department-Seremban Business Centre) wants to see you.”

Amir felt so nervous. He knew it might be the first task for him as a credit analyst. He took a deep breath and walked to Mr. Leong’s office.

“Good luck.” said his colleague.

“Yes Amir, please have a sit,” said Mr. Leong. “First of all, I would like to congratulate you on the appointment as a credit analyst. We had great expectation on you as our previous staff, Senior Credit Analyst En. Azizan was the main anchor to our business banking department before he was promoted as business manager and transferred to Cheras Business Centre of Maju Bank Berhad. Therefore, I see your appointment as crucial and very important to our branch.”

“Yes, Mr. Leong, I really appreciate this appointment from Maju Bank Berhad. I will try my best”, Amir replied.

“Here Amir, we have one financing application from Lateh Sdn. Bhd. This company has a long relationship with our bank. It was a very good customer and good conduct of the account. I want you to do a careful evaluation on its financing application. Tuan Haji Azhar

(the owner of Lateh Sdn. Bhd.) told me that he was also approached by another bank. Please have a look at the customer's file and submit the credit evaluation report to me within one week."

"Ok, Sir. I will try my best."

Basic Information Report

Branch: Maju Bank, Business Banking Department, Seremban Branch

Date: 09-09-2015

Client: Lateh Sdn. Bhd. (Formerly known as Lateh Enterprise)

Company Registration No: 7782-7273X

Date of Registration: 1 January 1994

Address: No 17 Jalan BBN1/2A, Bandar Baru Nilai, 71800 Nilai

Business: Stationery Supply

Lateh Sdn. Bhd.'s main business is supplying stationeries, books and office equipment to private and government agencies. The ratio of the business is 40% for government supply, 30% for private companies and another 30% for retail markets. It owns a shop lot at the above address where the first floor is used as an office for the business, and the ground floor is used for retail shop and storage. Lateh Sdn. Bhd. has been in the market for almost 21 years. It has developed a strong and respectable reputation among public and private agencies in Nilai, Seremban and Bangi. The rapid developments in these three areas have boosted its business prospect.

Ownership:

Director's Name	Age	Share
Tuan Haji Azhar Bin Lateh	51 years	60%
Puan Hajjah Sofia Binti Ibrahim	48 years	40%

Directors and Management

The business is mainly managed by Tuan Haji Azhar and Puan Hajjah Sofia who are husband and wife. They are also the major shareholders of the business. Tuan Haji Azhar, who is the CEO of the business, manages mainly the operation, marketing and sales of the business. He has developed a good relationship with public and private agencies in Nilai, Seremban and Bangi. He is very passionate on Lateh Sdn. Bhd. and plans to expand the business growth.

He plans to participate in and leverage on the rapid development in Nilai, Seremban and Bangi. He graduated in Chemical Engineering from Southampton University in 1989. He has several years of experience working with Shell Bhd., British Petroleum, and Petronas Bhd. as an engineer before venturing into the business in 1992.

Puan Hajjah Sofia focuses on the financial and administrative aspects of the business. She handles matters on accounting, employees, delivery and a retail shop. She graduated from *Universiti Malaya* in Bachelor of Economics. She used to be an economics teacher in a secondary school for almost eight years before resigning and began focusing on the business in 2000. The combination between Tuan Haji Azhar and Puan Hajjah Sofia is the main factor contributing to the success of the business.

For the daily operation of the business, Lateh Sdn. Bhd. hired 5 employees. Two of them are in charge for delivery. One deals with record keeping and the other works as an account clerk. Another two serve as general workers while the fifth works as support staff for retail services.

History:

Lateh Sdn. Bhd. was initially established as Partnership Company between Haji Lateh and Hajjah Rogayah who are also parents of Tuan Haji Azhar. During that time, the business was mainly for the public sector. The business was taken over by Tuan Haji Azhar after the retirement of Tuan Haji Lateh and was converted into a private limited company in 1994 soon after Haji Lateh passed away.

The company has developed a strong reputation among private and public agencies in Nilai, Seremban and Bangi. They provided and delivered reliable and excellent services. The history of the relationship between Lateh Sdn. Bhd. and Maju Bank began with the inception of Lateh Enterprise in the business. Tuan Haji Azhar, who took over the business from his late father, continued the relationship until today.

Financial Relationship with Maju Bank Sdn. Bhd.

The company is one of the customers for Maju Bank Berhad. Maju Bank Berhad has been a principal banker until today. Currently, the main facility of the company comprises two shop houses financed with Maju Bank Berhad for 25 years since 1995. The facility will be settled

in less than one year. Based on previous track record, Lateh Sdn. Bhd. has demonstrated a good conduct of the facility. No due payment has been recorded for the past 24 years. The current value of the shop house is RM1,500,000. Besides that, Lateh Sdn. Bhd. is also enjoying overdraft facility of RM50,000 for working capital requirement. Lateh Sdn. Bhd. has been maintaining a current account with Maju Bank Berhad since its inception. The conduct of the account is very active and within the limit. No excess fund and cheque returned have been recorded.

The account was supervised by En. Azizan Zainal (Senior Credit analyst at Seremban Business Centre) for the past ten years. En. Azizan was promoted as business manager and transferred to Cheras Business Centre of Maju Bank Berhad. Amir still remembered the last conversation between him and En. Azizan on his last day at Seremban Business Centre.

“Amir, most likely you as the new analyst will take over all my portfolio of customers. I want you to remember this. In my portfolio, they are a number of good customers. One of them is Lateh Sdn. Bhd.”.

New Venture of Lateh Sdn. Bhd.

“Amir, I just want you to be aware of Lateh Sdn. Bhd. It is facing some complications.”

“Is there a problem with the company?”

“No, it is not a problem, but we have to evaluate carefully. For me, Tuan Haji Azhar is a very dedicated businessman. I see how he manages Lateh Sdn. Bhd. from a small business to become as one of the prominent players in Bangi and Seremban. He is very visionary and committed to expand the business” replied En. Azizan.

“Oh, if that is the case, I do not see it is complicated for Lateh Sdn. Bhd.” replied Amir.

En. Azizan added, “The problem started three years earlier (since 2014) when Tuan Haji Azhar decided to venture into oil and gas business. En. Azizan’s background is chemical engineering, and he had many contacts and friends in this area. He also had experience

working with an oil and gas company. He resigned in order to concentrate on the family business”.

Amir replied, “En. Azizan, for me that is an opportunity for Lateh Sdn. Bhd. to venture into a new field. Oil and Gas was a good move as Tn. Haji Azhar had formal education in chemical engineering. He should take advantage of good contacts and relationship in that area”.

“Yes, Amir, I agree with you. For the past two years, Lateh Sdn. Bhd. has developed a good relationship and track record with major oil and gas companies. Lateh Sdn. Bhd. made a great use of its location in which many workers were from Port Dickson, Melaka and Port Klang”.

“I agree with you En. Azizan. I read in the report from 2015 until now Lateh Sdn. Bhd. has successfully undertaken about thirty (30) projects with Petronas, Shell, Petron, Exxon Mobile and Sapura Kenchana worth RM3, 000,000. It was a great achievement of new players such as Lateh Sdn. Bhd.”.

Challenges Ahead for Lateh Sdn. Bhd.

2017 is a great year for Lateh Sdn. Bhd. in which in April 2017 the company received a major contract worth RM4.8 million from Petronas Cari Gali Sdn Bhd. The details of the contract are presented below.

The Project	:	Detailed Engineering Design Services of Sump and Drain Modification for Port Dickson Operation (PDO) Pipeline Replacement and Facilities Rejuvenation
Project Detail	:	The PDO Pipeline Rejuvenation project involves major pipeline asset replacements and upgrades to existing pipeline facilities to enable proper mitigation/monitoring for internal corrosion arising predominantly from Microbial Influenced Corrosion (MIC) with the objective of safeguarding short term and long term oil and gas production as well as reduce the risk of the pipeline. PDO currently operates a total of 172 pipelines with estimated

	total length of 1477 Km. Most of the PDO pipelines are offshore pipelines except for the terminal pipelines with onshore sections.
Location	: Port Dickson, Malaysia
Project Duration	: 3 years/36 months
Bank Guarantee Requirement	: 10% of the RM4,800,000.00
Term of Payment	: RM400, 000.00 quarterly payment based on the progress of the project whereby 12 payments cover all of the cost of contracts. Payment 12 will settle all the outstanding payment.
Expenses/Outflow	<ul style="list-style-type: none"> • Monthly salary: RM60,000 • Monthly Raw material expenses: RM43,333.33 • Initial Machinery expenses: RM1,000,000.00 • Monthly bank charges: RM1667 • Monthly charges for Bank Guarantee: RM1667 • Monthly term financing assumes RM30,000 monthly starting on the second quarter and the final pay amount at last quarter of cash flow. • Consultant fee: RM5000 monthly • Owner willing to put initial capital of RM200,000.00

Report on Oil and Gas Prospect

Oil price review. Brent crude oil prices in 2016 were volatile, trading between the low of USD27.88pb in January to a high of USD55pb in December. The year average is at USD45pb, in-line with our forecasts made in early 2016. Moving forward, we are expecting prices to remain volatile, averaging higher at approximately USD50pb in 2017.

CAPEX expectations from oil majors. In 2016, capital expenditure (CAPEX) for major global oil and gas producers including independent exploration and production companies declined by close to -30%. In 2017 however, the outlook remains rosier as CAPEX is expected to pick up the pace by a humble +2.8%.

Target niche service providers. All is not doom and gloom in the oil and gas sector as opportunities still exist, especially for asset light and niche service providers. We are bullish on two such companies: Deleum Berhad (TP: RM1.25) and Gas Malaysia Berhad (TP: 3.07). We like Deleum for its niche business in the supply of gas turbines and the after sales maintenance, repair and overhaul (MRO) services in addition to the slick line business. As for Gas Malaysia, we continue to favour the incentive based regulation (IBR) regime as it provides earnings stability and also the company's ability to increase its customer base and subsequently the volume sold.

The Requirement

“Assalamualikum, Sir. I am supposed to have a meeting with Mr. Leong but he has an unscheduled meeting at the headquarters office, and he asked me to see Mr. Amir” said Tuan Haji Azhar.

“Waalaikumussalam, you are Tuan Haji Azhar, right? I am Amir, a new officer here. I am the officer that will be in charge of Lateh Sdn. Bhd. I am taking over the account from En. Azizan”.

“Alhamdulillah I met you here Mr. Amir. I hope you understand my business situation. I really need financing from Maju Bank for this time. This is such a golden opportunity for my business. I feel so desperate to finance. That is why I also asked the facility from other banks. Since I have been with Maju Bank for almost 20 years, so I hope I can get some advice from you and I do not have to go to other banks”.

“Yes, Tuan Haji, I had looked at your file and had a discussion with En. Azizan before he left. We really appreciate your loyalty with Maju Bank and Insha’Allah I will try my best to help your business. Before that, may I know what the financing requirement of your business is?”

“Ok Mr. Amir, basically it’s like this. As you know, in order to accept the work I have to prepare a bank guarantee of RM480, 000. In order to start the new project I have to import plant and machinery worth RM1, 000, 000. Even the machine is quite expensive, but this is considered as a good investment for me as the same machine can be used for future projects. I believe if I can complete this project successfully there should be no problem for me to get

another contract. Other than that, I also need some advance money especially for the first 3 months before I receive the first payment. The advance is important for salary, wages and cost of raw material”.

“Oh! Ok, Tuan Haji, I understand now, but where do you get the raw materials?

“Oh! The majority of the raw material will be imported from Japan, Korea and Germany. But don’t worry. I already have a good relationship with the supplier as I have been in the business for two to three years. Some of them were my classmates during my undergraduate years at Southampton University”

Epilogue

Amir really appreciated the opportunity when he was offered the credit analyst job at Maju Bank Berhad. The first task he received from Mr. Leong regarding Lateh Sdn. Bhd. business financing application extremely challenged his credit management skills. Even though he was only a junior credit analyst, he must show that he was very competent and knowledgeable. Additionally, he was attached to the same department (business banking) where he used to serve during his three months industrial attachment.

Amir looked at his desk top. It was Thursday - the last day he had. Tomorrow he must submit the report to Mr. Leong regarding Lateh Sdn. Bhd. business financing. As it was his first task as a credit analyst, it was important that he produce a high-quality report. Everything plays in his mind. Should Amir recommend for approval? Should he reject the application? If he recommends for approval, how much should the financing be? If he rejects the application, what will happen to the relationship between Maju Bank and Lateh Sdn. Bhd?

Appendix 1: Financial Statement for Lateh Sdn. Bhd.

Lateh Sdn. Bhd.
 7782-7273X
 Profit and Loss Account
 As at 31/12/2016

	RM	RM
Sales		5,000,000.00
Opening Stock	1,109.00	
Purchase	3,000,091.00	
Closing Stock	200,000.00	
		<u>2,801,200.00</u>
Gross Profit		<u>2,198,800.00</u>
Expenses		
Salary/Wages	600,000.00	
Rent	0.00	
Licence and permit	350.00	
Utility bill	10,000.00	
Maintenance	50,000.00	
Business Registration	120.00	
Petrol and Travel	20,000.00	
Telephone	7,305.00	
Audit fee	400.00	
Stationary	9,925.00	
Deprecation	5410.00	
Total expenses		<u>703,510.00</u>
Net profit		<u>1,495,290.00</u>

Lateh Sdn. Bhd.
 7782-7273X
 Balance Sheet
 As at 31/12/2016

Fixed Asset	Cost	Current Depreciation	Accumulated depreciation	Net value
Electrical	12,040.00	1,204.00	3,612.00	8,428.00
Others	6,190.00	619.00	4,952.00	1,238.00
Furniture	7,790.00	779.00	6,232.00	1,558.00
Building	280,800.00	2,808.00	11,232.00	269,568.00
	306,820.00	5,410.00	26,028.00	280,792.00
 Current Asset				
Deposit			0.00	
Stock			200,000.00	
Debtors			950,571.00	
Cash at Bank			8,877.00	
Total Current Asset				1,159,394.00
Total Asset				1,440,186.00
 Current Liabilities				
Creditors			230,000.00	
Term Financing			131,124.00	
Total Liability				361,124.00
				<u>1,079,062.00</u>
 Financed by				
Capital			400,000.00	
Retained Profit			679,062.00	
				<u>1,079,062.00</u>

Lateh Sdn. Bhd.
 7782-7273X
 Profit and Loss Account
 As at 31/12/2015

	RM	RM
Sales		1,642,437.00
Opening Stock	9,910.00	
Purchase	964,991.00	
	974,901.00	
Closing Stock	1,109.00	
		<u>973,792.00</u>
Gross Profit		668,645.00
Expenses		
Salary/Wages	198,330.00	
Rent	0.00	
License and permit	350.00	
Utility bill	8,274.00	
Maintenance	4,285.00	
Business Registration	120.00	
Petrol and Travel	9,935.00	
Telephone	3,957.00	
Audit fee	400.00	
Stationary	3,092.00	
Deprecation	5,410.00	
		234,153.00
Net profit		<u>434,492.00</u>

Lateh Sdn. Bhd.
 7782-7273X
 Balance Sheet
 As at 31/12/2015

Fixed Asset	Cost	Current Depreciation	Accumulated Depreciation	Net value
Electrical	12,040.00	1,204.00	2,408.00	9,632.00
Others	6,190.00	619.00	4,333.00	1,857.00
Furniture	7,790.00	779.00	5,453.00	2,337.00
Building	280,800.00	2,808.00	8,424.00	272,376.00
	306,820.00	5,410.00	20,618.00	286,202.00
Current Asset				
Deposit			0.00	
Stock			1,109.00	
Debtors			279,774.00	
Cash			8,847.00	
Bank			91.00	
Total Current Asset				289,821.00
Total Asset				576,023.00
Current Liabilities				
Creditors			0.00	
Term Financing			172,124.00	
Total Liability				172,124.00
				<hr/>
			403,899.00	
Financed by				
Capital			93,194.00	
Retained Profit			434,492.00	
Withdrawal			123,787.00	
				<hr/>
			403,899.00	

Lateh Sdn. Bhd.
 7782-7273X
 Profit and Loss Account
 As at 31/12/2014

	RM	RM
Sales		621734.00
Opening Stock	30,112.00	
Purchase	302,880.00	
	332,992.00	
Closing Stock	<u>9,910.00</u>	
		<u>323,082.00</u>
Gross Profit		298,652.00
Expenses		
Salary/Wages	76,500	
Rent	0.00	
License and permit	350.00	
Utility bill	5,268.00	
Maintenance	982.00	
Business Registration	120.00	
Petrol and Travel	3,117.00	
Telephone	1,825.00	
Audit fee	400.00	
Stationary	1,120.00	
Deprecation	5,410.00	
		95,092.00
Net profit		<u>203,560.00</u>

Lateh Sdn. Bhd.
 7782-7273X
 Balance Sheet
 As at 31/12/2014

Fixed Asset	Cost	Current Depreciation	Accumulated depreciation	Net value
Electrical	12,040.00	1,204.00	1,204.00	10,836.00
Others	6,190.00	619.00	3,714.00	2,476.00
Furniture	7,790.00	779.00	4,674.00	3,116.00
Building	280,800.00	2,808.00	5,616.00	275,184.00
	306,820.00	5,410.00	15,208.00	291,612.00
Current Asset				
Deposit			0.00	
Stock			9,910.00	
Debtors			0.00	
Cash			5,281.00	
Bank			515.00	
Total Current Asset				15,706.00
Total Asset				307,318.00
Current Liabilities				
Creditors			0.00	
Term Financing			214,124.00	
Total Liability				214,124.00
				<u>93,194.00</u>
Financed by				
Capital			70,885.00	
Retained Profit			203,560.00	
Withdrawal			181,251.00	
				<u>93,194.00</u>