



Determinants of Profitability on Listed Telecommunications Service Providers Companies: Evidence in Bursa Malaysia

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ABSTRACT: The determinants of companies' profitability in various industries are very important in all aspect. However, few studies did focus on analysing the profitability in telecommunication sectors, specifically in Malaysian market. Therefore, this paper aims to explore the factors of selected variables may give impact to the profitability, focusing on listed telecommunication companies in Bursa Malaysia. Using secondary method, financial data of five out of twelve telecommunication companies for ten years (2009 to 2018) was derived from DataStream Professional and being analysed using Stata10. Firm size (SIZE), liquidity (CR), working capital (WC) and leverage (DR) has been selected as independent variables while profitability as dependent variable. The results confirmed that leverage is positive significant while liquidity resulted in positive insignificant relationship effect to return on assets. Conversely, firm size and working capital are negative significant effect to return on assets. That said, this paper makes a significant contribution to the theoretical literature, the industry, and policymakers, so that the performance of telecommunication industry can be improved.

KEYWORDS: Profitability, Telecommunication service providers companies, Bursa Malaysia.

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I. INTRODUCTION

Profit making is one of the major purposes to build a business. A good profit making by a company reflects the company to offer a good salary, conducive working place, high remuneration package for the employees, as well as a fruitful dividend to shareholders. Maintaining a reputable revenue will bring to great benefits to company such as business sustainability, attraction impression to investor and preserved the survival of a firm in future (Jadah, Alghanimi, Al-Dahaan, & Al-Husainy, 2020). However, if the company had shown slightly losses or negative return, it could give bad impact to the organization and to potential and existing investors. According to a newsletter by Sale, Wood, and Rebbeck (2020) correspond with a year-on-year decline in telecoms revenue of 3.4% in 2020 across developed markets during this COVID-19 year. This is in contrast to the pre-COVID-19 forecast of an increase of 0.7%. Telecoms is a relatively strong sector and will perform ahead of general GDP trends. The impact on telecoms markets will vary by country, as will affect the scale of the health and economic crisis. Consistent with a report by Kok (2018), the profit of Telekom Malaysia Berhad was dropped by RM175.6 million from RM101.9 in third quarter of 2018. This is due to several challenges in operating activities in which the company has cut down its dividend payment due to the new strategies adopted by the company for long term growth. Technological advancement and impairment of fixed and wireless network assets are some challenges face by this industry. Technology is the most significant device for human beings to communicate each other. Thus, the rapid changes in technological advancement makes the people communicate through the world without boarder. This situation makes the potential business to build their own companies with their innovative product. For that matter, this study is expected to investigate the determinants of profitability on listed telecommunication companies by focusing on internet service provider companies in Malaysia. Specifically, it is to examine the relationship between firm size, liquidity, working capital and leverage towards profitability as well as to observe the most significant factors that determines the profitability.

II. LITERATURE REVIEW

Profitability refers to the capacity of the company to produce income as a return on its invested money, hence it represents the success or failure of the organization (Durrah, Abdul Rahman, Jamil, & Ghafeer, 2016). Many previous researches has examined the profitability by using return on assets (ROA hereafter), while others using gross profit margin, operating profit margin, net profit margin and operating cash flow margin. Robinson, Henry, Pirie and Broihahn (2015) defines return on asset as a relation between net profit and assets; the increase in the ratio means to an effectiveness of the company's assets. Soeharjoto, Tribudhi, Hariyanti and Tajib (2020) also suggest that to use ROA to determine the ability of such companies to obtain profitability.

Firm size is always considered to be included in most studies to measure the profitability. In a study done by Jadah et al. (2020) based on the panel data method been used, the results show that size, the equity to total assets and total loans to total assets ratios, gross domestic product (GDP hereafter) growth, and government effectiveness have a significant and positive impact on the profitability of Iraqi banks. Meanwhile, credit risk, inflation, interest rate, unemployment, and political instability have a significant negative influence on banks' profitability. Others research also displayed the same positive and significant results between return on assets (Alarussi & Alhaderi, 2018; Pouraghajan, Malekian, Emamgholipour, Lotfollahpour, & Bagheri, 2012; Sivathaasan, Tharanika, Sinthuja, & Hanitha, 2013; Tailab, 2014). However, there are also less empirical findings discovered that size is negatively related to ROA as stated by (Glancey (1998) and Goddard, Tavakoli and Wilson (2005). The results provide evidence of a negative relationship between size, gearing ratio and profitability. This study examines the association between firm size and profitability.

In most previous studies done, liquidity shows positive significant impact with profitability (Ramlan & Nodin, 2018; Tailab, 2014). As recent research done by Soeharjoto et al. (2020) also gain positive significant results for liquidity towards banks' profitability and suggest that the banks need to improve their internal performance by increasing profitability with maintaining liquidity, as well as making efficiency and innovation by utilizing digital technology. Current ratio also represents liquidity measurement and has shown significant effect to company's profitability as analysed by Nurlaela, Mursito, Kustiyah, Istiqomah, and Hartono (2019). However, there are also opposite results done by other studies. Alarussi and Alhaderi (2018) and Irom, Joshua, Ahmed, and Emmanuel (2018) mentioned that liquidity has negative relationship and insignificant effect to return on assets in listed manufacturing companies in Nigeria.

Working capital management plays a significant role in better performance in all business organization. Working capital is the difference between a company's current assets (such as cash in hand, inventories of raw materials and finished goods) and its current liabilities (such as accounts payable). It is an operating liquidity available to a business, organization, or other entity, including governmental entities. Along with fixed assets such as plant and equipment, working capital is considered as a part of operating capital. Many previous research also recorded positive significant of working capital towards company's financial profitability as reviewed by Sivathaasan et al. (2013), Alarussi & Alhaderi, 2018; Al-Slehat & Al-Sharif, 2019; and Ahmad (2016). Most of the empirical studies support the conventional working capital and profitability that reducing working capital investment would positively affect the profitability of firm (aggressive policy) by reducing proportion of current assets in total assets Raheman, Afza, Qayyum, and Bodla (2010). However, Toan, Nhan, Anh, and Man (2017) found a negative relationship between WC management and profitability for firms listed on the Vietnam Stock Market. Since the results are not consistent in developing countries, this study examines the association between working capital and profitability in Malaysian listed companies. In other research done by Fernández-López, Rodeiro-Pazos, and Rey-Ares (2020), they revealed a negative effect of days inventory outstanding and the cash conversion cycle (elements in working capital management) on firms' profitability, suggesting the need to reduce the level of inventory of cheese- manufacturing companies.

Looking at the leverage effect towards profitability, Irom et al. (2018) discover negative relationship between both variables in a case study in Nigeria. This result is supported by Lazār (2016) and Tailab (2014) which are found negative relationship but significant to return on assets (profitability). However, Ramlan and Nodin (2018) argued that leverage gave sign on positive and significant effect on profitability. As stated by Chaleeda, Islam, Tunku Ahmad, and Ghazalat (2019), short term debt to total assets and long-term debt to total assets proxies showed a significant and positive relationship towards firm value, which gives support to the free cash flow theory. On the other hand, total debt to total assets and total debt to total equity showed a negative association with firm value, supporting the trade-off order theory. This shows that while debt advantages exist, the expense of debt must also be considered. The cost of debt financing emerges from the increase in the risk of bankruptcy when a company is subject to fixed periodic interest and principal payments for debt financing. Whilst total debt to total equity is shown to be strongly and negatively linked to Tobin's Q, meaning that debt maturity does not directly affect firm value.

III. METHODOLOGY

3.1 Research Design

The sample population of this study is five telecommunications service providers companies out of 12 companies listed in Bursa Malaysia for 10 years during 2009 to 2028. The selected companies are Telekom Malaysia Berhad, Celcom Axiata Berhad, Maxis Berhad, Digi.Com Berhad and Time dotCom Berhad. This secondary data was collected from annual financial report from Bank Negara Malaysia (BNM) and Thomson Reuters Eikon database and has been analysed using Static Panel Data analysis by employing Pooled Ordinary Least Square Regression (POLS), Random Effect Model, and Fixed Effect Model. The proxies use for the dependent variables and explanatory variables are displayed in Table 1.

Table 1: Proxies for dependent and independent variables

Dependent variable	Proxies
Profitability (return on assets)	Net profit / Total assets
Independent variables	Proxies
Firm size	Total assets
Liquidity	Current assets / Current liabilities
Working capital	Current assets - Current liabilities
Leverage	Total liabilities / Total asset

The function equation model below has been constructed. It is used to examine the relationship between total debt and the selected independent variables:

$$ROA = f(\text{SIZE}, \text{CR}, \text{WC}, \text{DR})$$

The estimated equation model can be formulated as follows:

$$ROA_{i,t} = \alpha + \beta_1 \text{SIZE}_{i,t} + \beta_2 \text{CR}_{i,t} + \beta_3 \text{WC}_{i,t} + \beta_4 \text{DR}_{i,t} + \Sigma_{i,t} \tag{1}$$

The equation descriptions are as follows:

- ROA : Return on asset/Profitability (percentage)
- α : Constant
- SIZE : Size of firm (percentage)
- CR : Current ration/Liquidity (percentage)
- WC : Working capital (percentage)
- DR : Debt ratio/Leverage (percentage)
- ϵ : Error Term
- i : Sample unit of panel
- t : Time of period

3.2 Research Framework

Figure 1 below illustrate the research framework for this study.

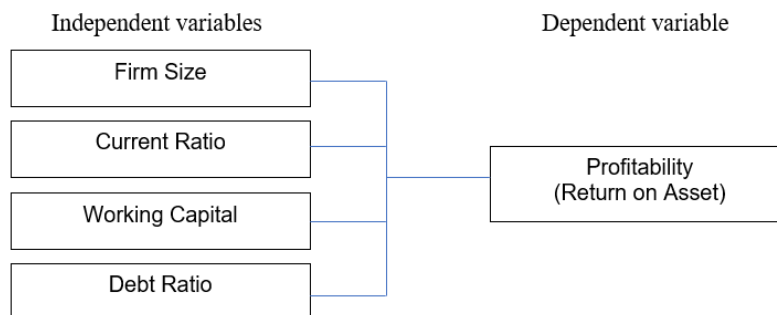


Figure 1: Research framework

3.3 Hypothesis Development

Based on the theoretical framework, the following hypotheses were generated:

2.3.1 Profitability and Firm size

H₀: There is an insignificant relationship between profitability and firm size of the listed telecommunications service providers companies in Bursa Malaysia.

H₁: There is a significant relationship between profitability and firm size of the listed telecommunications service providers companies in Bursa Malaysia.

2.3.2 Profitability and Current ratio

H₀: There is an insignificant relationship between profitability and current ratio of the listed telecommunications service providers companies in Bursa Malaysia.

H₁: There is a significant relationship between profitability and current ratio of the listed telecommunications service providers companies in Bursa Malaysia.

2.3.3 Profitability and Working capital

H₀: There is an insignificant relationship between profitability and working capital of the listed telecommunications service providers companies in Bursa Malaysia.

H₁: There is a significant relationship between profitability and working capital of the listed telecommunications service providers companies in Bursa Malaysia.

2.3.4 Profitability and Debt ratio

H₀: There is an insignificant relationship between profitability and debt ratio of the listed telecommunications service providers companies in Bursa Malaysia.

H₁: There is a significant relationship between profitability and debt ratio of the listed telecommunications service providers companies in Bursa Malaysia.

IV. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

Table 2: Descriptive Statistics

Stats	ROA	SIZE	CR	WC	DR
Minimum	-7.85	1219.50	0.38	-9779.00	9.90
Maximum	47.20	70753.00	2.34	7844.00	93.49
Mean	11.81	199927.04	1.03	509.40	57.77
Std. Dev.	11.57	18510.69	5.30	4031.71	23.52
C. Variation	0.98	0.93	0.51	7.91	0.41
Obs	154				

Table 2 shows the summary of the descriptive statistics that comprises the measures of central tendency. The highest standard deviation is recorded by firm size, which indicates that it has the highest variability of the data. A lower profitability of current ratio (as in the mean) can lead to less liquidity towards assets. This is because lower profitability means that the companies' performance may lead to unhealthy financial condition. Moreover, firm size also has the highest mean and standard deviation, suggesting that a bigger size of the firm will lead to higher profitability.

4.2 Pearson Correlation Analysis

Based on the correlation results presented in the Table 3 below, it is found that there are no serious multicollinearity problems existing since the numerical data of the correlation coefficient between the two independent variables for all the independent variables are lesser than 0.8. Meanwhile, firm size and liquidity (current ratio) has a negative relationship with profitability, giving a direction that big companies are less liquid towards their assets. In the interim, working capital and leverage (debt ratio) display a positive relationship with firms' profitability, indicating that the assets in the companies can be a strong factor on generating profitability. Likewise, leverage also demonstrates a positive relationship with profitability, which is similar to the result generated by Ramlan and Nodin (2018) and Chaleeda et al. (2019). In order to confirm that there is no presence of the multicollinearity problems, the variance inflation factor (VIF) test has been carried out.

Table 3: Pearson's Correlation

	ROA	SIZE	CR	WC	DR
ROA	1.000				
SIZE	-0.555	1.000			
CR	-0.307	-0.274	1.000		
WC	0.231	-0.216	0.425	1.000	
DR	0.339	0.214	-0.776	-0.012	1.000

4.3 Variation Inflation Factor (VIF)

Multicollinearity can exist when variables reflect similar factors. This can be traced when the mean value of the variance inflation factor (VIF) is more than 5. From the result shown in Table 4, the mean VIF was 2.75 which was lower than 5.00. This means that no multicollinearity problem exists in this study.

Table 4: Variation Inflation Factor (VIF)

Variables	VIF	1/VIF
SIZE	4.44	0.2253
CR	3.65	0.2739
WC	1.80	0.5555
DR	1.10	0.9072
Mean VIF	2.75	

4.4 Pooled Ordinary Least Square (POLS) Regression Analysis

Table 5 below shows the regression results from static panel data: Pooled Ordinary Least Square (POLS). In the table below, overall R-squared is 0.6730 which revealed that 67.3% of the variation in dependent variable (return on asset) can be explained by all independent variables (firm size, liquidity, working capital and leverage) and another 32.7% cannot be explained by those variables.

Table 5: Pooled Ordinary Least Square (POLS)

Variables	Coefficient	Std error	t	P > t
SIZE	-0.0004623	0.000056	-8.26	0.000***
CR	3.371423	3.919575	0.86	0.394
WC	-0.001288	0.0003283	-3.92	0.000***
DR	0.3004395	0.080139	3.75	0.001***
cons	0.8500191	8.334461	0.10	0.919

Notes: The dependent variable is return on asset on listed telecommunication companies in Bursa Malaysia (ROA). Meanwhile, independent variables are firm size (SIZE), current ratio (CR), total asset turnover (TATO), working capital (WC) and debt ratio (DR).

The value of coefficient for firm size (SIZE) is show the negative relation with ROA. This condition reflected that if 1% increase in firm size, the profitability ROA will be decreased by 0.0004%. On the other hand, the coefficient value for liquidity (CR) is show the positive relation with profitability, meaning that it will increase by 3.37% associates with 1% increase in liquidity. For working capital (WC), it shows negative relation to with profitability where one 1% increase in working capital will decrease by 0.0013%. Last of all, the value of coefficient for debt ratio (DR) indicates positive relationship with ROA whereby one percent increase in DR will increase the profitability by 0.30%. On the other hand, the probability which is denoted by p-value show that three variables are significant for this study which are firm size, working capital and leverage. However, the p-value for liquidity is 0.394 which above the value of significant level indicate that this variable is not significant at the level of 1%.

4.5 Breusch and Pagan Multiplier Test

Breusch and Pagan Multiplier Test signify that the Prob > chi2 is 0.0163 which is below 0.05, therefore the alternate hypothesis (Random Effect Model) is accepted while the null hypothesis (Pooled OLS Model) is rejected.

4.6 Random Effect Model

Table 6: Random Effect Results

PROF	Coefficient	Std error	Z	P> z	95% Conf	Interval
SIZE	-0.00046	0.00001	-8.26	0.000*	-0.00057	-0.00035
CR	3.37142	3.91958	0.86	0.390	-4.31080	11.05365
WC	-0.00129	0.00032	-3.92	0.000*	-0.00193	-0.00064
DR	0.30044	0.08014	3.75	0.000*	0.14337	0.45751
_Cons	0.85002	8.33446	0.10	0.919	-15.48522	17.18526
No of obs						

Prob (F-stats)	50 0.0000
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Note: The dependent variable is financial distress (DEBT), while the independent variables are profitability (PROF), size of firm (SIZE), sale of growth (GROWTH), liquidity (LIQ), and leverage (LEV).

From Table 6 above, firm size and working capital present a negatively significant result due to its value of probability at 0.000 at the 5% level of significance. This is in line with previous study done by Glancey (1998), Toan et al. (2017) and Fernández-López et al. (2020). Therefore, the alternate hypothesis (H_1) from the proposed sign of profitability is accepted and the null hypothesis (H_0) is rejected. On the other hand, a positively significant association for leverage is parallel with the result generated by the majority of the previous researchers, such as Irom et al. (2018), Lazăr (2016) and Tailab (2014). While liquidity illustrate a positive relationship as in line with previous and recent studies by Tailab (2014), Ramlan and Nodin (2018), Nurlaela et al. (2019) and Soeharjoto et al. (2020), but insignificant as similar with previous study done by Alarussi and Alhaderi (2018), and Irom et al (2018), relationship towards profitability, but not significant at significance level. This condition happens because most the telecommunication companies in Malaysia are well-established company and these companies are fully utilizing their asset and liabilities. Meaning that, these companies are used and utilized the total asset and total liabilities in overall of company balance sheet which are the total asset are the sum of the current asset and fixed asset while the total liabilities are the current liabilities and non-current liabilities. The positive result evidenced that the companies need to expand their internal performance by improving profitability with sustaining liquidity, as well as achieving productivity by utilizing digital technology.

Looking at the working capital, a negative and significant relationship has been verified for this study. This is in line with Toan et al. (2017) and Fernández-López et al. (2020) as it is suggested to those companies to reduce their inventory level to lessen the burden of costs of improving the internet speed as well as to compete with other providers. According to the coefficient value, it is positive and significant relationship between leverage and profitability at significance level. The findings are consistent with previous study done by Ramlan and Nodin (2018) and Chaleeda et al. (2019). It is proven that the telecommunication companies have fully utilized their debt ratio to generate more return. The company has used their total debt to increase their assets to generate the high profits in future. In addition, those telecommunication companies have used their fund to invest more on the next year project planning by Government in which the implementation of upgrading the internet services by providing high speed of internet services with lowest price offer to the consumers. Preparing for this situation, the telecommunication companies are spent more on impairment cost of fixed and wireless network assets.

4.7 Final Estimation Model

$$ROA_{i,t} = 0.8500_{i,t} - 0.0004SIZE_{i,t} + 3.3714CR_{i,t} - 0.0013WC_{i,t} + 0.3004LEV_{i,t} + \epsilon_{i,t}$$

The regression model above illustrates the regression model of return on asset (ROA) as profitability in telecommunication companies (internet service providers) listed in Bursa Malaysia with firm size (SIZE), current ratio (CR) represents liquidity, working capital (WC) and debt ratio (DR) represents leverage as the independent variables. Based on the model, on the condition that another variable is remained constant, the return on asset will increase by 0.85%. Conversely, the independent variable is created from the coefficient value based on the POLS model. The value of firm size validates the negative relation with profitability means that if 1% increase in firm size, the profitability will decrease by 0.0004%. Contrary, the coefficient value for liquidity is show the positive relation with profitability if one percent increase in liquidity, the profitability will increase by 3.37%. Next, the coefficient value for working capital is negative relation to with profitability where 1% increase in working capital will decrease the profitability by 0.0013%. Lastly, the debt ratio (DR) shows a positive relationship means that if 1% increase in debt ratio will increase the profitability by 0.30%.

4.8 Result Summary

Table 7: Summary of Analysis

Independent Variables	Findings	Supported by	Hypothesis Accepted or Rejected
Firm size (PROF)	Negative and significant	Fernández-López et al. (2020); Glancey (1998); Toan et al. (2017)	H ₁ Accepted

Current ratio/Liquidity (CR)	Positive and insignificant	Nurlaela et al. (2019); Ramlan & Nodin (2018); Soeharjoto et al. (2020); Tailab (2014)	H ₁ Rejected
Working capital (GROWTH)	Negative and significant	Toan et al. (2017); Fernández-López et al. (2020)	H ₁ Accepted
Debt ratio/Leverage (LIQ)	Positive and significant	Chaleeda et al. (2019); Ramlan & Nodin (2018)	H ₁ Accepted

V. CONCLUSION AND RECOMMENDATIONS

As a conclusion, this research was conducted to find out the relationships between profitability (ROA) as dependent variable while the independent variable is firm size (SIZE), liquidity (CR), working capital (WC) and leverage (DR). This variable is used to find the determinants of profitability in five listed telecommunications service providers companies in Bursa Malaysia. This study suggested for the future researcher to combine internal and external factors to find the most appropriate result of profitability. The study also recommends the future researchers to study the profitability of Malaysian industry.

Return on asset is very important for a firm as this financial ratio was reflecting the overall efficiency of the company in managing their asset. While the increase in debt will increase the return on assets. Usually, most of the investors will focus looking on the level of debt in company. Moreover, this study also will give benefits to future researcher as this study can be adopted as the reference for the future researcher. On the other hand, it will give new experiences to future researchers in getting wider knowledge about the profitability especially for managers and bankers.

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