Financial Sustainability the Case of Tabung Haji Malaysia and Badan Pengelola Keuangan Haji Indonesia

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Abstract

Understanding the pivotal role of a robust financial model in fostering sustained growth for a business entity is paramount. This investigation focuses on the financial frameworks of Tabung Haji Malaysia (TH) and Badan Pengelola Keuangan Haji Indonesia (BPKH), with a particular emphasis on TH's financial model and the contribution of its subsidiary, Tabung Haji Plantations Berhad (THPB), to TH's dividend disbursements spanning the past 27 years since 1994. While the study scrutinizes TH's financial model, it excludes an evaluation of BPKH's financial model due to its recent establishment in July 2017, primarily tasked with safeguarding collections from Indonesian hajj pilgrim depositors. Furthermore, the study endeavours to explore the intricate relationship between crude palm oil prices (CPO) and TH's dividend yields (DY) within the theoretical frameworks of residual dividend theory and dividend expectation theory. Utilizing the Engle-Granger cointegration test (1987) on annual secondary data from 1994 to 2020, the empirical findings reveal a significant equilibrium relationship between fluctuations in CPO prices and TH's declared dividends. However, the study fails to establish short-term causality between these variables. Notably, a negligible positive correlation between TH dividends and the percentage change in CPO prices is observed, indicating that TH's plantation business, facilitated by its subsidiary, does not predominantly drive overall group income in the short term. This suggests the existence of other business segments

within TH that may substantially contribute to sustaining annual dividend pay-outs. Consequently, TH is advised to reassess its entire revenue streams within the current financial model to adequately reward depositors and ensure long-term income growth.

Keywords: Tabung Haji (TH), Badan Pengelola Keuangan Haji (BPKH), Crude Palm Oil Prices, Dividends and Engle-Granger Cointegration Test.

Introduction

Established on September 30, 1963, Lembaga Urusan Tabung Haji (LUTH) initially operated under the governance of the Tabung Haji Act 1995, as noted by Tahir and Abidin (2017). LUTH was originally entrusted with three primary functions: managing hajj pilgrims and related logistics, providing depository services for its clients, and overseeing fixed assets and long-term investments. In 1995, LUTH underwent a name change to Lembaga Tabung Haji (TH) with a revised mission aimed at enhancing hajj pilgrimage operations and fostering greater financial viability within TH's business segments. Today, TH stands as a notable success in governmental business endeavours, offering global employment opportunities while also bolstering Malaysia's Islamic banking system. Notably, TH currently holds a substantial 53% stake in Bank Islam Malaysia Berhad (BIMB), a banking segment that has consistently provided a lucrative income stream. Given TH's impressive financial sustainability over the past 27 years, it is pertinent to delve into the additional contributing factors beyond its stake in BIMB.

Since its inception in 1963, TH, as a governmental institution, has actively pursued viable business models to ensure sustained financial performance, with Islamic banking emerging as a prominent endeavour. It is noteworthy that TH presently holds a significant controlling stake in BIMB, underscoring its commitment to this sector.

In line with TH's strategic diversification efforts, the institution expanded into the plantation segment, formally establishing its plantation business unit in 1972. The primary objective was to cultivate income streams for TH through plantation activities on a global scale. Subsequently, on May 26, 2005, the plantation unit evolved into TH Plantations Berhad (THPB), subsequently listing on Bursa Malaysia in April 2006. Notably, THPB's plantation operations are predominantly situated in Borneo, particularly in Sarawak and Kalimantan, Indonesia, as highlighted in the TH Plantations Berhad (2020).

The robust demand for crude palm oil (CPO) from major markets such as China and India underscore its significance as a crucial export commodity for Malaysia.

Established on July 26, 2017, Badan Pengelola Keuangan Haji (BPKH) shares a similar mission with TH, focusing on facilitating the management of hajj funds for Indonesian

Muslims to enhance their pilgrimage experiences. While both entities share this overarching objective, their business and financial frameworks diverge significantly.

Historically, the Indonesian Ministry of Religious Affairs held the responsibility for collecting down-payments for hajj pilgrimage costs from pilgrim depositors, enjoying a degree of monopolistic control since the 1970s, as outlined by Bianchi (2004). However, concerns regarding operational efficiency prompted the enactment of Law No. 34/2014 in 2014, aimed at instigating substantial reforms in hajj fund management both operationally and financially. This legislation paved the way for the establishment of BPKH, specifically tasked with hajj fund management, as highlighted by Onishi (2010). Notably, it wasn't until 2018 that BPKH commenced effective business operations. Presently, BPKH has evolved beyond its initial role of safeguarding hajj pilgrimage deposits, now diversifying its investment portfolio into higher-yielding ventures.

Figure 1 illustrates the price movements of both THPB and CPO from 2006 to 2020. Upon visual inspection of the two-line charts, a synchronous movement is evident, suggesting a positive correlation between them. This anticipated positive relationship aligns with THPB's core business focus on managing oil palm plantations, encompassing the cultivation of oil palm fresh fruit bunches (FFB) alongside the development of strategic marketing strategies for both crude palm oil (CPO) and oil palm kernel (PK).
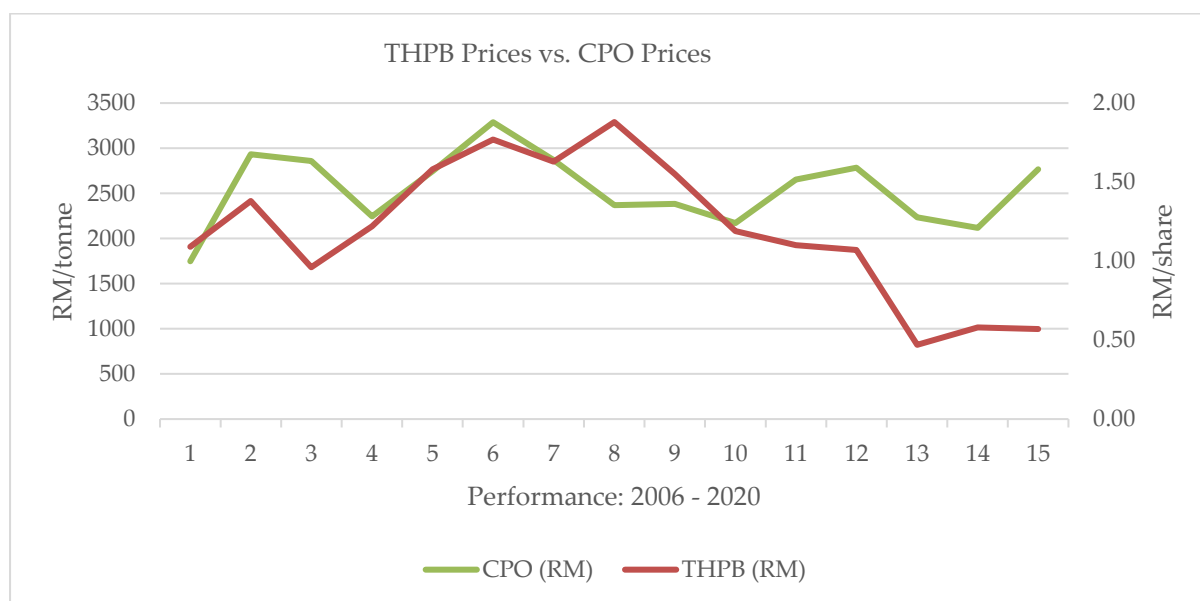

Figure 1: Dividend history of Tabung Haji over a 27-year period.
Source: Bursa Malaysia and Malaysian Palm Oil Council (MPOC).

TH maintains a diversified portfolio of robust businesses, with BIMB Holdings Berhad standing out as one of its premier assets. Table 1 provides an overview of TH's key business segments. Despite its successes, TH has encountered challenges with certain subsidiaries, notably TH Heavy Engineering Berhad (THHE). This engineering firm faced severe financial distress, evident in its share price plummeting from RM1.72 in

2008 to penny stock status by December 2018. Recognizing the unsuitability of the oil and gas industry within its investment portfolio, THHE was subsequently acquired by a specialized subsidiary under the Ministry of Finance Malaysia in 2019, as reported by The Malaysian Reserve (2019). This strategic move underscores TH's commitment to cultivating the plantation business as another lucrative segment to bolster its long-term income growth.

Table 1: TH's High-Performance Companies.

Registered Business	Percentage of Equity Held by TH
Bank Islam Malaysia Berhad (BIMB)	53.50%
Tabung Haji Plantations Berhad	73.85%
Tabung Haji Properties (Private Limited)	Wholly owned
Tabung Haji Hotel Services (Private Limited)	Wholly owned
Tabung Haji Travel Services (Private Limited)	Wholly owned

Source: Bloomberg and Annual Report.

Malaysia's abundant natural resources, coupled with advancements in agricultural technology, have propelled local companies, particularly in the biotechnology sector, into high-value industries. As the world's second-largest palm oil producer and a major exporter of vegetable oil, Malaysia has leveraged foreign investment in sectors like electrical and electronics (E&E) over the past five decades. However, relying solely on manufacturing is deemed unsustainable, necessitating the optimal utilization of domestic resources for long-term economic viability. Palm oil plantations and related industries are pivotal in supporting Malaysia's modern agricultural sector amid increasing global demand for edible oils. To mitigate the volatility of crude palm oil prices, Bursa Malaysia Derivatives Berhad now offers commodity futures contracts on its trading floor, providing price protection for stakeholders.

This research aims to examine the impact of fluctuations in CPO on the profitability of TH from 1994 to 2020. The cultivation of palm oil at a large scale began in the 1960s as part of national policies aimed at alleviating severe poverty in both Peninsular and Borneo regions (Sabah and Sarawak). Approximately 40% of Malaysia's palm oil plantations are owned by small-scale farmers, while the remaining majority are under the management of large private enterprises such as TH. Given the perception of palm oil plantation and its associated industries as lucrative investments with substantial returns, it is essential to ascertain the extent to which this CPO business can sustain TH's long-term financial model.

Literature Review

During the 1960s, due to the absence of Shariah-compliant financial institutions, there arose a necessity to establish an institution in Malaysia dedicated to managing and safeguarding deposits from hajj pilgrims for their journeys to Mecca. Concurrently, there

was an opportunity to utilize these funds for profitable investments that could contribute to the nation's economic growth. Capitalizing on this concept, LUTH was founded in 1963 (Muneeza et al., 2018) (Ishak, 2011). The evolution of this institution over the past three decades is noteworthy. LUTH commenced with 1,281 depositors in 1963, experiencing exponential growth to reach 9.3 million account holders by the end of 2017 (Rahman et al., 2020). In 1995, LUTH was rebranded as TH, continuing its significant role in the socio-economic development of Malaysian Muslims (Ismail, 2020).

Alamad (2019) asserts that TH holds the distinction of being Malaysia's inaugural Islamic investment company, entrusted by the government with the responsibility of overseeing the hajj pilgrimage arrangements, encompassing both deposit-taking and logistical management, for Malaysian Muslims. Presently, TH stands as an integral component of Malaysia's Islamic Financial Institutions, conducting business operations centred on muamalat (financial transactions) and ibadah (worship) activities (Zandi et al., 2017). With BIMB as a prominent subsidiary, TH has emerged as a formidable financial institution, financing diverse global business endeavours (Yusuf et al., 2016).

According to the residual dividend theory, dividends should only be distributed when profits remain after funding profitable investments (Walter, 1963). This theory underscores the significance of prioritizing investments with potentially higher returns compared to others at similar risk levels. Hence, TH incorporates THPB into its investment portfolio with the expectation that this plantation segment will yield favourable returns to facilitate TH's future dividend obligations. The Gordon Dividend Growth Model (GGM) holds relevance in influencing TH's intrinsic value over the long term. Essentially, GGM posits that a firm's true intrinsic value is contingent upon the future growth of its dividend payments in conjunction with investors' required rate of return (Gordon, 1959). Understanding the pivotal role of dividend payments in determining a firm's value, TH must endeavour to devise an optimal financial model capable of consistently increasing dividend payments in the foreseeable future.

TH's fundamental business ethos extends beyond its consistent and foreseeable dividend pay-outs each year to encompass a dedication to corporate social responsibility (CSR) initiatives. Geva (2008) underscores the significance of corporate entities' commitment to supporting CSR endeavours and social development. The scope of CSR should not be restricted solely to the pursuit of environmental, social, and governance (ESG) frameworks but should encompass any initiatives aimed at full compliance and best business practices as advocated by stakeholders (Azam et al., 2019). In the context of TH, its CSR programs are delineated into four pivotal domains: marketplace, workplace, community, and environment. Consequently, TH is resolute in collaborating with organizations that prioritize delivering positive values within any of these four domains.

In order to uphold its current dividend policy, TH relies on income generated from its investment portfolio, which includes profits from its listed subsidiaries as well as gains from its Shariah-compliant equity investments in Bursa Malaysia (TH Plantations Berhad, 2020). However, due to the inherent uncertainties of financial and commodity markets, this investment portfolio is subject to volatility and fluctuating performance, compounded by past poor business decisions and significant losses in the plantation sector (Bakar et al., 2020). To mitigate these risks and maintain a desirable dividend pay-out, TH has been advised to explore alternative investment options such as fixed income financial assets (Edge, 2016).

Despite these challenges, TH remains a success story in hajj fund management, serving as a benchmark for many businesses worldwide. Its commitment to sustainability and ongoing efforts for enhanced profitability underscore the continued relevance and viability of its current financial model.

Data & Methodology

This study employs bivariate econometric time-series (ETS) analysis to model yearly secondary data spanning from 1994 to 2020. Crude palm oil (CPO) prices and TH's declared dividends are sourced from the Malaysian Palm Oil Council (MPOC) and TH's annual reports, respectively. The chosen observation period of 27 years encompasses six economic cycles and includes two significant economic crises—the Asian Debt Crisis of 1997 and the United States Subprime Mortgage Crisis of 2007.

Two common estimation methods within ETS are utilized: ordinary least square regression analysis and the Engle-Granger 2-step cointegration procedure. The baseline analysis employs ordinary least squares (OLS) regression to investigate the theoretical relationship between CPO prices and TH dividends in the long run. Robust estimates are obtained using the Engle and Granger (1987).

Given that most time-series economic data are non-stationary, the Engle-Granger cointegration test is chosen to address these stationarity issues, denoted as EG henceforth.

Dependent and Independent Variables

In this study, the CPO price serves as the explanatory variable believed to influence TH dividend growth over the past 27 years. Historically, CPO prices have exhibited volatility, primarily driven by the interplay of supply and demand dynamics within the CPO market. Empirically, our hypothesis centres on TH dividends as the primary focus of the study, necessitating a thorough examination of dividend annual growth rates and overall performance across this 27-year period.

To establish a robust model specification, the change in CPO prices is designated as the predictor variable directly impacting TH dividend payments. This setup

establishes a causality, aiming to elucidate a cause-and-effect relationship between the two variables of interest.

Estimation Methods

Working within the framework of residual dividend theory (Lintner, 1956) and dividend growth expectation theory (Gordon, 1959), we confidently develop our model specification, which involves TH dividends and changes in CPO prices. Our hypothesis asserts that changes in CPO prices can significantly influence TH's future dividends. As previously mentioned, we employ OLS linear regression and EG cointegration as estimation tools to test our empirical model. These methods are employed to discern the presence of long-run and short-run causality in our model. Mathematically, our bivariate model is expressed as follows:

$$Dividend_t = \alpha + \beta_1 CPO_t + \varepsilon_t \quad (t=1,2,\dots n=T) \quad \dots\dots\dots(1)$$
Where
α = Intercept of the regression line
β_1 = Slope of the regression line
$Dividend_t$ = TH dividend at time t
CPO_t = Change in CPO prices at time t
ε_t = Error term (assumption of normality)

Empirical Results

This section holds significant importance within the study as it furnishes empirical evidence to validate our model. It meticulously presents both descriptive and inferential statistics, elucidating the intricacies of our analysis. Additionally, this section comprehensively reports diagnostic tests conducted on our model to ensure its robustness and reliability.

Descriptive Statistics and Pearson's Correlation

It is evident that TH's dividend payments have exhibited a degree of volatility over the past 27 years, as illustrated in Figure 2. The occurrence of two significant economic crises—the Asian Debt Crisis of 1997 and the U.S. Subprime Crisis of 2007—has notably impacted TH's financial performance. The latter crisis prompted intervention by the U.S. Federal Reserve to address liquidity issues in the American economy. Examining Figure 2, TH dividends fluctuate within a range of 9.5 percent to 1.25 percent over the specified period. Undoubtedly, investor sentiments and demand-supply conditions in the commodity markets strongly influence TH dividends.

Figure 3 provides a clear comparison between TH dividends and the annual change in CPO prices. The erratic movements in CPO price changes are starkly contrasted with the relatively stable pattern observed in TH dividends. Notably, CPO prices exhibit significant volatility, particularly during the period from 1999 to 2007. This

volatility is exemplified by a major 50% drop in CPO price between 1998 and 1999, followed by a remarkable 68% increase between 2006 and 2007. Despite fluctuations, both variables exhibit slight downtrends over the full sample period from 1994 through 2020, as indicated by the trend lines.
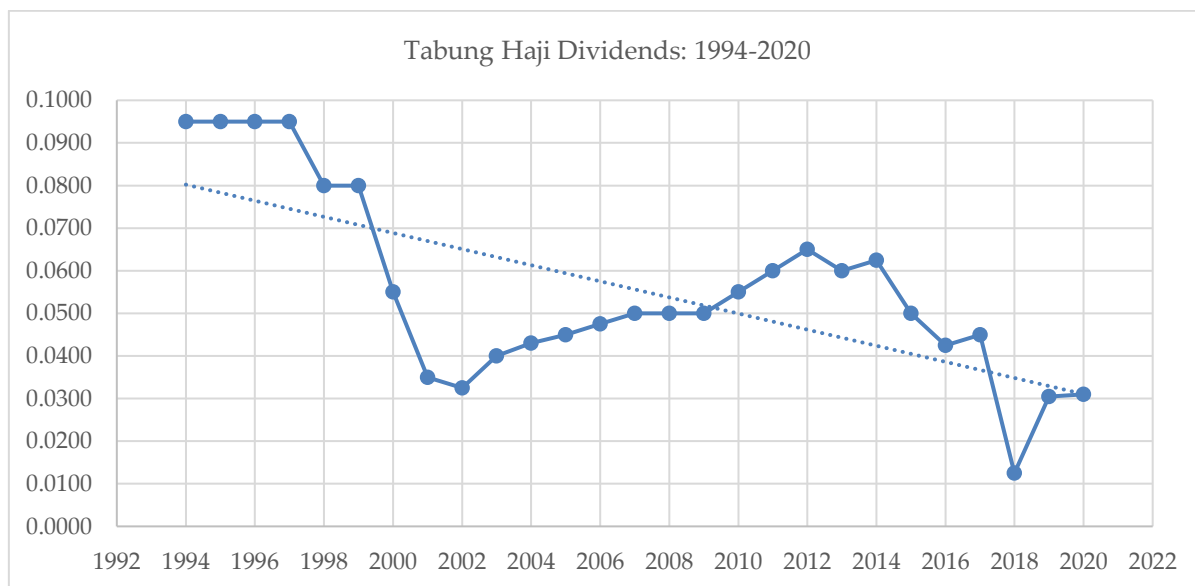

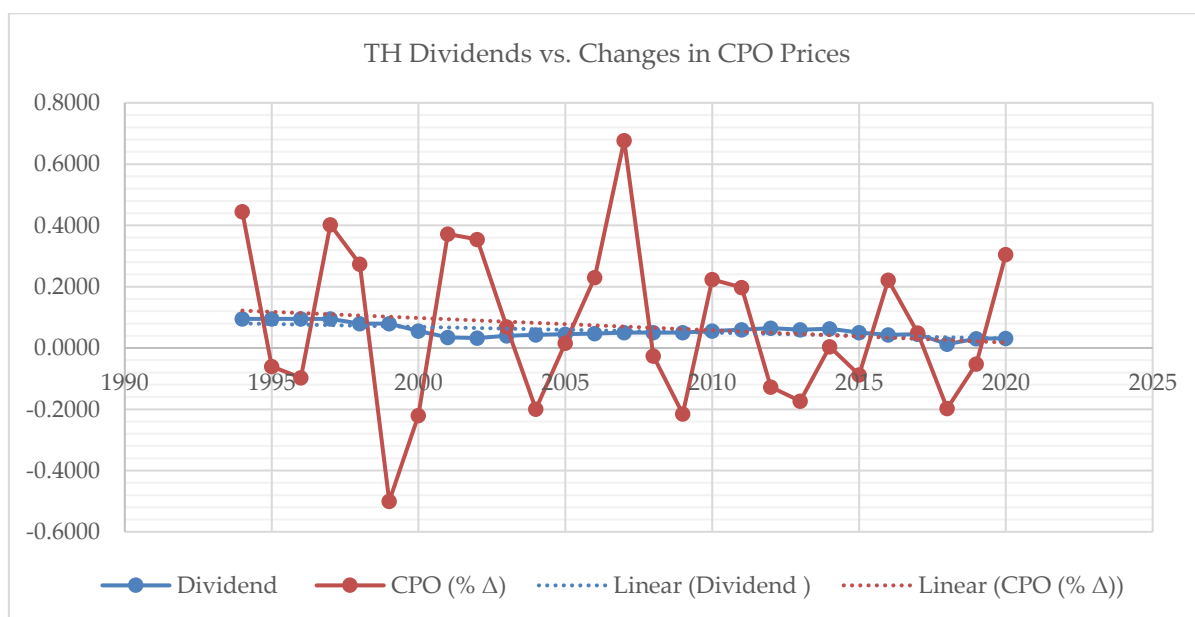**Figure 2**: Historical Performance of Tabung Haji Dividends.

Figure 3: TH's dividends vs. percentage change in CPO prices.

Table 2 presents the descriptive statistics of TH dividends and CPO prices over the observed period. The mean dividend of TH stands at 5.66%, with the highest dividend yield of 9.5% p.a. recorded in three consecutive years from 1994 to 1996. In contrast, the CPO price exhibits greater volatility, with a mean price of RM2,065.04 per tonne. The CPO price reached its peak at RM3,288.00 per tonne in 2011. On an annual percentage change basis, it is evident that CPO is more volatile than TH dividends. In

terms of measures of dispersion, the CPO price has a higher standard deviation relative to TH dividends. Examination of the maximum and minimum values in Table 2 confirms that the CPO price exhibits the widest spread, underscoring its high degree of dispersion.

Table 2. Summary Statistics of TH Dividends and CPO Prices.

Tested Variables	Average or Mean	Standard Deviation	Maximum	Minimum
Dividend (%)	5.66%	2.19%	9.50%	1.25%
CPO(RM/tonne)	2065.04	662.43	3288.00	880.00
Change in CPO (%)	6.98%	26.39%	67.73%	-50.00%

It is surprising to observe a very weak positive correlation between TH dividends and changes in CPO prices, as depicted in Table 3. Their degree of association is found to be statistically insignificant. With a correlation value of 0.0067, the best possible explanation for this weak relationship could be attributed to the small sample size (n=27).

Table 3: Pearson's Correlation (Total Observation = 27) H_0: Rho = 0 (p-value).

Tested Variables	Dividend (%)
Dividend (%)	1.00
% Δ in CPO	0.0067(0.9734)

Ols Regression Analysis

The empirical findings from the long-run regression analysis are displayed in Table 4. It is apparent that a weak and statistically insignificant positive relationship exists between changes in CPO prices and TH dividends. These results from the baseline analysis preliminarily contradict our anticipation that fluctuations in CPO prices could impact TH's dividend pay-outs. Additionally, we observe a notably poor goodness-of-fit for our estimated model, as evidenced by the coefficient of determination (adjusted R-squared equals -0.04).

Table 4: Parameter Estimates of OLS Regression Dependent Variable: TH Dividends.

Tested Variables	DF	Parameter Estimate	Standard Error	T Value	Pr > T
Intercept	1	0.0555	0.0044	12.42	<0.0001
Δ in CPO	1	0.0005	0.0167	0.03	0.9734
R^2	0.000	Adjusted R^2	-0.04		

Engle-Granger Cointegration Test

The empirical results from EG analysis are summarized in Table 5. EG is renowned for capturing both long-run and short-run dynamic relationships in a bivariate error correction model (ECM). The procedure involves several steps: first, conducting stationarity tests using Augmented Dickey-Fuller (ADF) on all data series, ensuring

they are integrated at first difference or I (1). Next, applying the same stationarity test to long-run residuals to confirm the absence of a unit root. Subsequently, performing a cointegrating regression, where our ECM demonstrates efficiency at lag 2.

Table 5: Parameter Estimates of ECM (2) Dependent Variable: TH Dividends.

Tested Variables	DF	Parameter Estimate	Standard Error	T Value	Pr > T
Intercept	1	-0.0019	0.0024	-0.80	0.4368
ldDiv	1	0.0648	0.2081	0.31	0.7592
l2dDiv	1	0.3516	0.2357	1.49	0.1531
lr	1	-0.2972	0.1228	-2.42	0.0263*
ld Δ in CPO	1	0.0039	0.0065	0.60	0.5547
l2d Δ in CPO	1	0.0009	0.0063	0.15	0.8826
R^2	0.276	Adjusted R^2	0.075		

*Significant at 5%

Our initial hypothesis posited a significant relationship between changes in CPO prices and TH dividends. The results from the EG analysis offer empirical support for the existence of a significant long-term relationship, or equilibrium relationship, between the two variables under examination. This is evidenced by the low p-value of the error-correction term (lr), which stands at 0.0263, below the alpha (significance level) of 0.05. Additionally, the parameter estimates of our error-correction term, representing the model's speed of adjustment towards equilibrium, is notably high at 29.72%. This suggests that TH dividends will return to their equilibrium position at this speed following a given rate of change in CPO prices. However, our Granger Causality test fails to establish the presence of a dynamic relationship between the two variables.

Table 6: Test of First and Second Moment Specification (White's test).

DF	Chi-Square	Prob > ChiSq
20	22.58	0.3098

Table 7: DW Autocorrelation Test.

Durbin-Watson D	2.234
Pr < DW	0.5870
Pr > DW	0.4130
Number of Observations	24
1st Order Autocorrelation	-0.172

The diagnostic test on heteroscedasticity (White's test) is displayed in Table 6. With a high p-value of 0.3098, it confirms that the variance of residuals in our ECM remains constant (homoscedasticity). Regarding the diagnostic test on autocorrelation, we conduct the Durbin-Watson (DW) test, and the results are presented in Table 7 below.

The high p-value strongly supports our null hypothesis, indicating the absence of serial correlations among the ECM's residuals.

The Cumulative Sum of Residuals test (CUSUM test), a pivotal diagnostic tool in time series modelling, serves to identify potential model misspecifications such as gradual structural changes, missing predictors, and neglected nonlinearities (Durbin, 1969). Illustrated in Figure 4, the red dotted line residing within the boundary functions affirms the constancy of coefficients (i.e., stability in both short-run and long-run parameters), indicating the absence of structural changes in our parameters. Overall, our estimated model has been authenticated as both valid and reliable. From the perspective of the Engle-Granger cointegration test, a significant equilibrium relationship between changes in CPO price and TH dividends is evident.
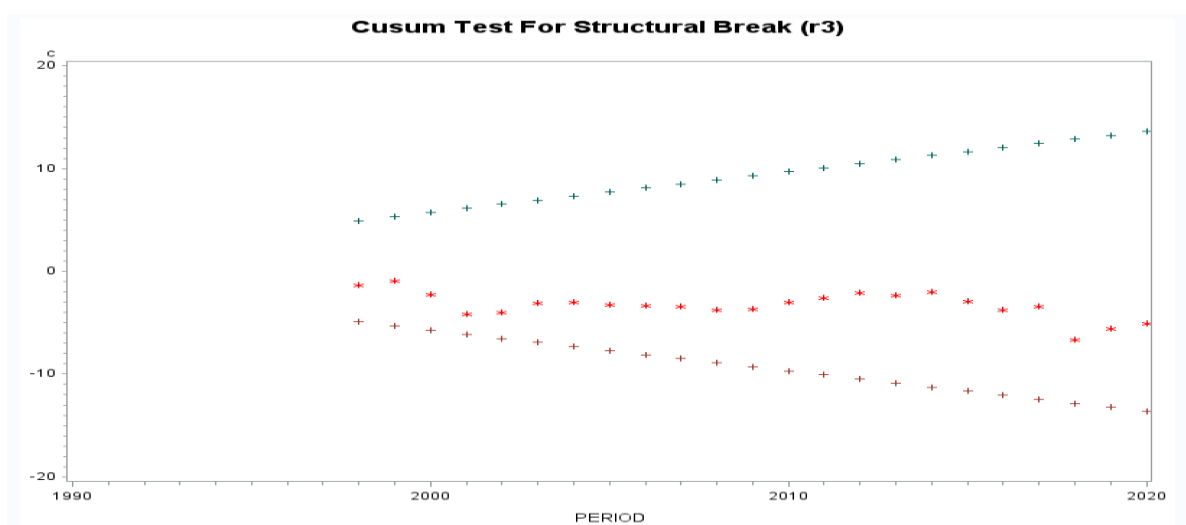

Figure 4: Full Sample Period: 1994-2020.

Conclusion

This study investigates the relationship between CPO and TH's declared dividends to its depositors or unit holders. Utilizing the frameworks of residual dividend theory and dividend expectation theory, the study employs the Engle et al. (1987) test to model yearly secondary data from 1994 through 2020. The empirical results indicate a significant equilibrium relation between changes in CPO prices and TH declared dividends. However, the study fails to establish short-run causality between them.

Surprisingly, this study unveils a marginal positive correlation between TH dividends and the percentage change in CPO prices. It becomes apparent that TH's plantation business, conducted through its subsidiary, does not significantly contribute to sustaining TH's dividend pay-outs. Perhaps, BIMB Holdings Berhad emerges as the standout performer within TH, with annual earnings displaying more promise than Tabung Haji Plantations Berhad. Analysing THPB's performance over the past five years (2016-2020), its share price has not once surpassed the RM1.30 resistance level. Therefore, Tabung Haji may need to re-evaluate its current investment strategies

within its plantation segment and other business segments to better benefit its depositors and support income growth over time. In summary, TH must consistently strive to maintain the trust and loyalty of its depositors to ensure continued support well into the future. Regarding BPKH, the Indonesian hajj fund management institution only commenced effective operations in 2018, with its primary focus remaining on safeguarding collections made by Indonesian hajj pilgrim depositors. Consequently, there is limited comparison to be made with TH, particularly concerning their financial models.

This research can be enhanced by expanding the sample size to include other business segments like property development and banking operations. Additionally, considering Maldives Hajj Corporation Limited in the sample could offer new insights into hajj fund management. Employing a more robust estimation technique such as panel data analysis is strongly recommended. Extending the time series observation to include data from 2021 to 2023 would also be beneficial. Future researchers should consider incorporating new control variables like BIMB's profits and ASB dividends to improve the internal validity of the study. The empirical results from this study are expected to inform TH's strategic decisions aimed at maximizing shareholders' wealth.

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