THE IMPLICATION OF CAPITAL STRUCTURE TOWARDS THE PROFITABILITY PERFORMANCE OF PN17 COMPANIES

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Submitted in Partial Fulfillment

of the Requirement for the

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UNIVERSITI TEKNOLOGI MARA

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DECLARATION OF ORIGINAL WORK

BACHELOR OF BUSINESS ADMINISTRATION

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UNIVERSITI TEKNOLOGI MARA

JOHOR

“DECLARATION OF ORIGINAL WORK”

I, Wan Nor Alia binti Wan Mohd Saleh (I/C Number:920929085536)

Hereby, I declaire that,

- This work has not previosly been accepted in subtance for any degree, locally or overseas and is not being concurrently for this degree or any other degree
- This project paper is the result of my independent work and investigation, except where otherwise stated.
- All verbatim extracts heve been distinguished by quotation marks and sources of my information have been specifically acknowledge

Signature:____________________ Date:____________________

LETTER OF SUBMISSION

01st January 2017

Madam NorHasniza Mohd Hassan Abdullah

Department of Finance

Faculty of Business and Management

Universiti Teknologi MARA

85009 Segamat

Johor Darul Takzim

Dear Mdm,

SUBMISSION OF PROJECT PAPER

Attached is the project paper titled "**The Implication of Capital Structure towards Profitability Performance of PN17 companies**" to fulfill the requirement as needed by the Faculty of Business Management, Universiti Teknologi MARA.

Thank You.

Yours sincerely,

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(WAN NOR ALIA BT WAN MOHD SALEH)

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ABSTRACT

This research aims at investigating the effect of capital structure on the profitability performance of PN17 companies that listed in Bursa Malaysia. This study is to explore the impact of three variables, namely short-term debt ratio, long-term debt ratio, and total debt ratio on the return on equity by using balance panel data set of listed companies between 2010 until 2015. Panel data methodology was employed and White Cross-section regression was used to estimate the coefficient of explanatory variables. The result indicated that the profitability performance are negatively affected by short-term debt ratio and total debt ratio. The result obtained might indicate that the firm might funding their activities by using the Pecking order theory, which is based on the idea that the companies will use their internal financing sources first to operate their activities (Ahmed Sheikh and Wang, 2011). When a company probably become bankruptcy and distress, an increased in debt can cause a higher total agency costs that effecting to a negative result on firm profitability (Dawar, 2014). The result acquired from this study also shows that only 2.28 percent in Return on Equity were influenced by short-term debt ratio, long-term debt ratio and total debt ratio. Whereas, the remaining are determine by other factors, such as economic, and sales performance.