



**UNIVERSITI TEKNOLOGI MARA  
MELAKA CITY CAMPUS**

**THE RESPONSES OF INTERNATIONAL COMPANY'S STOCK  
RETURN IN MALAYSIA**

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**NOV 2010**

DECLARATION OF ORIGINAL WORK



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“DECLARATION OF ORIGINAL WORK”

I, NURUL LIYANA MOHAMAD FADZILLAH, (I/C Number: 870914-43-5174)

Hereby, declare that,

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

Signature :

Date:

## **LETTER OF SUBMISSION**

2 NOV 2010

The Head of Program

Bachelor of Business Administration (Hons) Finance

Faculty of Business Management

Universiti Teknologi MARA

75300 Melaka

Dear Sir/Madam,

### **SUBMISSION OF PROJECT PAPER**

Attached is the project paper titled “The Responses Of International Company’s Stock Return In Malaysia” to fulfill the requirement as needed by the Faculty of Business Management, Universiti Teknologi MARA.

Thank You

Yours sincerely,

NURUL LIYANA MOHAMAD FADZILLAH

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Bachelor of Business Administration (Hons) Finance

## CHAPTER 1

### INTRODUCTION

#### 1.1 BACKGROUND OF STUDY

Established companies in Malaysia with good characteristics in handling business may have the potential to spread their business to the international level. The exchange rate is one of the factors which will be a focus on international trading. The exchange rate can be defined as “the charge for exchanging currency of one country for currency of another”. Other definition is “the amount of one currency that a person or institution defines as equivalent to another when either buying or selling it at any particular moment”. For example, when importing items from the USA, we used USD rate as the mean of transaction through intermediaries such as banks.

The theory of dividend and its effect on the value of the firm is perhaps one of the most important yet puzzling theories in the field of finance. By declaring a dividend yield as a factor, it might be exposing the firms’ performance in trading activities. Like earnings, dividends act as proxy for the future profitability. Besides from that, other factors of economic variables are also bringing impact on the stock return of firm which is determined as factors of firm’s performance. For this study, the researcher investigates a debt ratio, P/E ratio and book to market value ratio that perform firms’ revenue. All these factors will create an expectation to the investors to compare with other multinational companies in Malaysia. It also can be used to evaluate a company based on its assets, such quality, services and others. A company also can hire a certified accountant, economist, or statistician to help them evaluate a company's debts or equity. This will force a manager to make a decision without objective function. Choosing the wrong objective function can be disastrous to the company. These factors are known as distress risk to financial companies

on their return. There are consisting of ratio that examine from financial statement of company that would estimate the firms' performance.

## 1.2 PROBLEM STATEMENT

International business is known as a multinational company (MNC) in which a company has a worldwide approach to market and production or one with operations in more than a country. The foreign exchange transaction will exist in trading, whether for export and import product or services.

The researcher was interested in investigating the changes of USD rate to firms doing international trading business, for example there are many aspects that would affect the firm such as different product or the services provided. **Sundaram and Mishra (1991) and Sundaram and Black (1992)** pointed out that the ability of a firm to adjust prices as a result of unexpected exchange rate movements will depend on the elasticity of demand for their products, which in turn depends on the degree of product differentiation achieved. Other companies are doing small business and some company doing larger trading with other country. In the case of transactions of stocks, the places and times for trading are limited, but in the case of transactions of foreign exchanges dealers in the world are trading 24 hours except weekends. This problem made the researcher felt that there's a need to investigate how the changes of USD rate would affect the stock return of companies in trading product or services.

The researcher also found out that firms are more likely to pay dividends when profits are high, debt is low or where investment opportunities are low. This finding is generally consistent with the literature (**Fama & French, 2001**). And induce investors to high demand of return that they will get. When the company gain high profit, this could give investors opportunities to gain high return from their investing. In Malaysia, to attract many investors to invest in this companies, they need a good financial performance. A company also would be affected if they are in a high