A STUDY ON THE BEHAVIOR OF EARNING PER SHARE IN RELATION TO THE CHANGING OF CAPITAL STRUCTURE AND EARNING BEFORE INTEREST AND TAX (EBIT).

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LETTER OF SUBMISSION

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The Head of Program
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Dear Sir/Madam

SUBMISSION OF PROJECT PAPER (FIN650)

Attached is the project paper titled **"A STUDY ON THE BEHAVIOR OF EARNING PER SHARE IN RELATION TO THE CHANGING OF CAPITAL STRUCTURE AND EARNING BEFORE INTEREST AND TAX (EBIT).**" to fulfill the requirement as needed by the Faculty of Business Management, MARA University of Technology.

Thank you.

Yours sincerely,

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ABSTRACT

This paper is aimed to study and analyze the relationship and behavior of company's Earning Per Share and its Capital Structure and EBIT performance. There are 11 construction companies from the KLSE main board selected randomly for the purpose of this study. In order to get a fairer conclusion the study was done for a period of 5 years covering the pre and post economic downturn in Asian region, that is from 1996 through 2000. For the purpose of this study, two models have been selected to test and analyze the above mentioned relationship (multiple regression analysis and hypothesis testing). The regression result showed that there are mixture impacts on EPS by every percentage increase or decrease of each independent variable in each company. However, at the Critical Value equal 2.365 (Degree of Freedom, v = 7 (11- 4), t - statistic = 0.025 (0.05/2 two tail test) the findings in most companies have revealed that there is no significant correlation between most of the independent variables i.e. EBIT, DPR, DER and DAR with EPS. Despite that, the Coefficient of Correlation, denoted by 'r', showed that the linear relationship between the dependent variable and the independent variables are generally strong. Similar results are obtained on the Coefficient of Determination, denoted by 'r^2', showed that averagely more that 80% of the variation in EPS can be explained by the independent variables in this study i.e. EBIT, DPR, DER and DAR.

INTRODUCTION

General introduction to finance which is applicable to many different situations; the richest and most varied applications are those that occur in complex organizations, especially the modern company as a corporation. In this paper we shall be studying finance from company viewpoint, it is important that we understand from the perspective of finance exactly what a company organized in the corporate form is. The corporation is an organization that raises fund from capital suppliers by issuing contracts (securities), invests that money in productive assets, operates those assets (perhaps hiring other resources such as management and labour), and distributes the money proceeds from operating those assets to all that have claims on those proceeds. We usually know this group of capital suppliers as those who own the equity and debt claims on the company.

There are many strategies for the firm to raise its required funds. However, the most basic and important instruments are stocks or bonds. The firm's mix of different securities is known as its ***Capital Structure***. Capital structuring and, in particular, locating the optimal capital structure, have, for a long time, been a focus of attention in many academic and financial institutions that probe into this area. A natural question arises: What is the optimal debt - equity ratio? Academically, the problem is appealing because it is fairly open ended and subject to controversies and criticisms. While in practical, there is