THE IMPACTS OF CAPITAL STRUCTURE ON PROFITABILITY OF CONSTRUCTION FIRMS IN MALAYSIA

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ABSTRACT

The aims of this study was to identify the impacts of capital structure to the profitability of construction firms in Malaysia. The study focus on 10 construction firm in listed in Bursa Malaysia with the highest market capitalization (2015) as stated in Macropolis report. The financial ratio was obtained for the period of 2011 to 2016. This study also includes the descriptive statistics, normality test, unit roots tests, diagnostic check, Breuch Pagan Langrangian multiplier (BPLM) test, correlations, and regression analysis. The Pooled Ordinary Least Square (Pooled OLS) was used to create the regression model of the study. The results confirm that there is a significant positive impacts of independent variable that is Long-term debt ratio to the dependent variables that is return on asset (ROA) of firm. Meanwhile, both Short-term debt ratio (STD) and Debt-to-equity ratio (DER) have no significant effect to firm's ROA. Based on this study, firms will increase their profit if they have low long-term debt ratio. Thus, any movement in STD and DER, this does not give any changes in firm's ROA. Therefore, firms need to identify the best capital structure decision by emphasizing it effect to their profitability. Furthermore, the details of these information will be explain in this paper.

Keywords: Capital structure, firm's profitability, Long-term debt ratio, Short-term debt ratio, Debt-to-equity ratio, construction firms