

**THE EXCHANGE RATE EXPOSURE TO MALAYSIAN
NONFINANCIAL FIRMS**

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JOHOR**

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UTM, JOHOR**

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DECLARATION OF ORIGINAL WORK




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“DECLARATION OF ORIGINAL WORK”

I, HANISAH BINTI MISKAM, (I/C Number: 841130-01-5080)

Hereby, declares 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: 4th MAY 2007

ABSTRACT

PURPOSE

Financial theory predicts that a change in an exchange rate should affect the value of a firm or an industry. There are numerous studies which provide evidence for a relationship between foreign exchange movements and changes in firm values. This study will seek to estimate the sensitivity of Malaysian nonfinancial companies at the industry level over the period 2000-2006. It will focus on three selected industries which are construction, consumer products and hotel.

DESIGN/APPROACH/METHODOLOGY

In this study exchange rate exposure is defined as the changes in value of the firm or industry due to changes in exchange rates. The relationship between stock returns of the firms and exchange rate changes will be determined. The approach will employ Multiple Linear Regression model to estimate exchange rate exposure of 64 Malaysian nonfinancial companies over the period 2000-2006. The real exchange rate of the RM against the US dollar will be used as independent variable to be regressed with stock price as a proxy variable to firms' stock returns. The market variable, KLCI Index is intended to capture the time serial influence of the general market on individual stock returns. All data will be collected from the Datastream Database and annual reports.

FINDINGS

The findings indicate that the weak relationship between stock return and foreign exchange rate exposure shows the increase or decrease of the firms' value in Malaysia can not be wholly explained by the exchange rate changes. Malaysian nonfinancial firms

are negatively affected to an appreciation (depreciation) of RM against the US dollar, indicating that higher (lower) returns are associated with depreciation (appreciation) of the RM. Only the construction industry is significantly significant exchange rate exposure at the ten per cent level.

RESEARCH LIMITATIONS/IMPLICATIONS

Future research in the area should consider additional factors that might affect a firm's and an industry's exposure to exchange rate changes.

PRACTICAL IMPLICATIONS

The findings of the study have interesting implications for public policy makers who wish to understand links between policies that affect exchange rates and relative wealth affects. These findings should also be of particular importance to investors who under or overweight large multinational corporations.

ORIGINALITY/VALUE

The study extends previous research on foreign exchange rate exposure of nonfinancial companies making Malaysia as a base country.

KEYWORDS

Malaysia, Foreign exchange, Stock returns.

PAPER TYPE

Research paper.