PREDICTING CORPORATE FINANCIAL DISTRESS USING THE LOGIT MODEL:

CASE IN MALAYSIA

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Dear Sir,

SUBMISSION OF PROJECT PAPER (FIN 667)

It is with great pleasure that I present you my thesis entitle **"Predicting Corporate Financial Distress Using Logit Model: Case in Malaysia"** for your kind evaluation as required by the Faculty of Business Management, UiTM.

Your kindness in accepting the unbounded thesis is highly appreciated.

Thank you.

Yours Sincerely,

………………………………
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ABSTRACT

This study investigates the usefulness of financial ratio in predicting the financial distress of companies in Malaysia. 67 companies were analyzed with 11 initial financial ratios that have been grouped to five categories. They are firm size, cash flow, efficiency ratio, profitability ratio and liquidity ratio. From 67 companies, we take 40 of non-distress companies and 27 of distress companies. These 27 distress companies have obtained court protection against their creditors under Section 176 of the Malaysian Companies Act, 1965. Most of the analysis of data found that the overall variable is found significant. But, the findings revealed that financial ratios that measure liquidity are the most significant in their discriminating power on whether a company is successful or will become financially distressed. It is match with the theory where liquidity ratios determine company's ability to pay short term debt obligation, thus the larger margin of safety that company possesses to cover its short-term debts. From the predictive ability of the model, the overall classification rate is 82.1 percent. This overall study showed the result is quite good, but to increase the accuracy more ratios need to be added. With more advanced statistical models used recently, logistic regression (Logit Model) is still effective and reliable statistical tool. This study will provide a better understanding on the relevant factors that lead to corporate distress and can take the immediate action to minimize the risk.