UNIVERSITI TEKNOLOGI MARA

THE DETERMINANT OF CAPITAL STRUCTURE OF GOOD DEBT EXPOSURE COMPANY IN MALAYSIA.

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Final Year Project Paper submitted in fulfillment
of the requirements for the degree of
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AUTHOR'S DECLARATION

I declare that the work in this proposal of final year project paper was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This proposal of final year project has not been submitted to any other academic institution or non-academic institution for any degree orqualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Undergraduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

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Abstract

A company's capital structure is arguably one of its most important choices. From a technical perspective, the capital structure is defined as the careful balance between equity and debt that a business uses to finance its assets, day-to-day operations, and future growth the leverage of the companies is depends on several factors. Considering the impacts to the company performance and the importance company asset, several authors have been conducted the study in order to investigate the factors to the change of Capital Structure in selected companies. Capital structure has implications in determining the ability and success of a company. This study will analyses the capital structure of Capital Structure top 10 companies with good debt exposure in Malaysia focusing on good debt company. The secondary data from data stream collection and Companies Commission of Malaysia has been collected for the study. The study employed regression analysis on 10 companies, utilized the accounting data for the ten year period of 2007 to 2017. Capital structure is the Dependent Variable referring to debt ratio of the companies, decomposed into Long Term Debt ratio and Short term Debt ratio. The Independent Variables (IV) are age; size; tangibility; profitability; growth and taxation. Objective for this study is to examine the relationship between Independent variable: Size, Asset Tangibility, Profitability, Growth and Tax between leverage ratio of Total Debt Ratio, Long Term Debt Ratio and Short Term Debt Ratio. For methodology research, this research using e-view data consist of descriptive analysis, correlation analysis, regression analysis, test on assumption with is normality test. From previous researcher, for the Size, (Romano, Tanewski, and Smyrnios) found that company's size is among the significant variables associated with leverage 2001 . Asset tangibility (Esperança, Gama, & Gulamhussen, 2003), (Titman and Wessels 1988), and (Rajan and Zingales 1995) found a positive relationship between an aggregate measure of tangible assets, including land, buildings and equipments, with leverage. Profitability, (Myers, 1984) found a negative relationship between profitability and financial leverage. Next is Growth, Michaelas, Chittenden, and Poutziouris (1999) found a positive relationship between growth and short term debt. And lastly taxation, Modigliani and Miller (1963) found a positive impact of tax on leverage the empirical evidence remain inconclusive. The result for this research is, the size variable showed a negative sign, asset tangibility the result showed a positive relationship the relationship changes significantly according to long term and short term. Profitability, significant positive relation. Next is Growth, shows a negative and statistically significant relationship with the total debt ratio and LDR. SDR show contradicting result the correlation is insignificant. Lastly is Taxation, indicate a negative and statistically insignificant relationship between tax and total debt ratio. Following from the finding of this study, future direction of research might consider investigating further the contradicting insignificant finding in size and taxation.

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