UNIVERSITI TEKNOLOGI MARA

THE RELATIONSHIP BETWEEN LEVERAGE FACTORS AND FIRM PROFITABILITY – A STUDY ON 10 PUBLIC LISTED FIRMS IN MALAYSIA

NUR ATIQAH BINTI ABDUL GHAFAR

Thesis submitted in fulfillment

of the requirements for the degree of

Bachelor of Business Administration

(Hons) Finance

Faculty of Business and Management

July 2017

AUTHOR'S DECLARATION

I declare that the work in this 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 thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

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

Name of Student	:	Nur Atiqah Binti Abdul Ghafar
Student I.D. No.	:	2014503883
Programme	:	BBA (Hons) (Finance)
Faculty	:	Business and Management
Project Paper Final	:	The Relationship between Leverage Factors and Firm Profitability – A Study on 10 Public Listed Firms in Malaysia
Signature of Student	:	.....
Date	:	July 2017

ABSTRACT

The purpose of this is to investigate the relationship between leverage factors and firm profitability for selected public listed firms in Malaysia. 10 public listed firms from various industries were picked randomly from year 2012 to 2016. Selected proxies have been chosen to represent both dependent and independent variables. As for profitability the dependent variable, it used ROE (return on equity) as proxy. Besides, for leverage factors or the independent variables it used STD (short-term debt), LTD (long-term debt), TD (total debt) and DER (debt equity ratio). This research is carried out by using Balanced Panel Data method to capture heterogeneity across samples and due to the need to have bigger sample size. Besides, this study was using multiple regression analysis since there were many independent variables included such as STD, LTD, TD and DER. Assumption tests also included such as Descriptive Statistic, Regression Analysis, Correlation Analysis, Normality test (Jarque Bera), Multicollinearity, The White test and Breusch-Pagan-Godfrey test. There were positive relationships between all the variables except for STD where it has negative relationship. LTD (long- term debt) has positive significant relationship with ROE (return on equity). However, TD (total debt) and DER (debt equity ratio) were having positive insignificant relationship with ROE (return on equity). As for STD (short-term debt), it has negative insignificant relationship with ROE (return on equity). Besides, for the assumption tests, the error term not normally distributed, no multicollinearity problem exits, no serial correlation in error term and no heteroscadasticity (variance of observation is constant).

TABLE OF CONTENTS

	PAGES
AUTHOR'S DECLARATION	I
ABSTRACT	II
ACKNOWLEDGEMENT	III
TABLE OF CONTENTS	IV-VI
LIST OF TABLES AND FIGURES	VII
LIST OF ABBREVIATIONS	VIII
CHAPTER 1 : INTRODUCING THE STUDY	1
1.1 Introduction	1
1.2 Overview Of The Study	2
1.3 Problem Statement	3
1.4 Research Question	4
1.5 Research Objective	4
1.6 Significant of Study	5
1.7 Scope Of Study	5
1.8 Limitation Of Study	6
1.9 Summary	7
CHAPTER 2 : LITERATURE REVIEW	8
2.1 Introduction	8
2.2 Leverage Factors and Firm Profitability	9
2.3 Long Term Debt and Return On Equity	10
2.4 Short Term Debt and Return On Equity	11
2.5 Total Debt and Return On Equity	12

2.6 Debt Equity Ratio and Return On Equity 13

2.7 Summary 14

CHAPTER 3: RESEARCH METHODOLOGY 15

3.1 Introduction 15

3.2 Population and Sample 15

3.3 Data Collection 16

3.4 Variables 16

3.4.1 Measurement of Dependent and Independent Variables 17

3.5 Research Design 17

3.6 Theoretical Framework 18

3.7 Statistic / Econometric Method 19

3.7.1 Descriptive Analysis 19

3.7.2 Regression Analysis 20

3.7.3 Correlation Analysis 21

3.8 Tests on Assumptions 22

3.8.1 Normality Test 22

3.8.2 Autocorrelation 22

3.8.3 Heterocadasticity 23

3.8.4 Multicollinearity 23

3.8.5 Hypothesis Statement 24

3.9 Summary 25