FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
DEGREE IN FINANCE
(BM 242)

FINAL REPORT

TITLE: DETERMINANTS OF CAPITAL STRUCTURE PERFORMANCE OF PROPERTY DEVELOPER COMPANIES IN MALAYSIA

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ACKNOWLEDGEMENT

Alhamdulillah, I am grateful to Allah for the good health and well-being that necessary to complete this research.

Firstly I want to give my sincere thank you to Dean of the Faculty of Universiti Teknologi Mara, Johor, for the continuous encouragement and for providing me with all the necessary facilities for the research.

I would like to express special thanks of gratitude to the lecturer Sir Abdul Razak bin Jambari, who give me the opportunity to do this research, which also helped in giving a good guideline for this research.

A special thanks to my family, that always supporting me from far away. To my mom and dad, I am really thankful to them by providing me all the things needed to complete this research.

To all my friends, thank you for helping and encouraging me to finish this research within period of time.

I would also like to expand deepest gratitude to all those who have directly and indirectly help me to complete this research.

ABSTRACT

This research is about determinants that affecting capital structure performance of property developers companies in Malaysia. The sample of this study are five top public companies that listed in Bursa Malaysia. The period of this study is approximately 8 years range from 2005 until 2014. The collected data was tested using E-views 7.0. Capital structure divided into two major components, debt and equity financing whilst only leverage financing was picked to become subject in this investigations. To determine the optimal leverage to invest in leverage, debt ratio was used as dependent variable. Besides that, five factors that influence capital structure performance were detached including tax rate, liquidity and profitability, market interest rate, and growth rate. Based on regression analysis, the result shows that there is a significant relationship between all three variables with capital structure performance.

1.0. INTRODUCTION

Based on Wikipedia.com, property development is a multifaceted business encompassing activities from the renovation and re-lease of existing buildings to the purchase of land with the intention of earning a return on the investment (purchase) either through rent, the future resale of the property, or both. Developers are known as the directors of the doings, which converting ideas on paper to make it real property or estate. Real property assets are typically very expensive compared to other available investment instruments such as stocks or bonds. Only rarely of real property which the investors willing to sacrifice their money to pay the entire amount of the purchase price in cash. Generally, a large amount of the purchase price will be financed using some sort of debt.

Capital structure is essentially concerned with how the firm decides to divide its cash flows into two broad components, a fixed component that is reserved to meet the obligations toward debt capital and another component that belongs to equity shareholders. Capital structure influences everything from the firm's risk profile, how easy it is to get funding, how expensive that funding is, the expected amount of return to their investors and lenders, and its degree of insulation from both microeconomic business decisions and macroeconomic downturns (Axial.net).

According to Rabiah, Mohd Sabri, and Khairuddin (2012), in corporate world of business, it is the management's job to make capital structure decision. There are two kind of sources used by today corporate businesses for financing their activities which include internal and external sources. Example of internal source would be through issuance of Initial Public Offering (IPO) and as for external source, it is by debt or leverage. Managers have to carefully ensure that their capital structure decisions maximize their firm value. The maximizing of firm's value refer to a balance between debt-to-equity ratios and also minimizes the firm's cost of capital. Mistakes will lead to financial distress and eventually go