UNIVERSITI TEKNOLOGI MARA

# DETERMINANTS OF COMPANY'S GROWTH IN ELECTRICITY SERVICES SECTOR IN MALAYSIA

**MOHD FARID BIN ABDUL KADIR**

Thesis submitted in fulfilment

of the requirements for the degree of

**Bachelor of Business Administration**

**(Hons) Finance**

**Faculty of Business and Management**

June 2017

# ABSTRACT

Price earnings ratio is referring to the ratio of the current share price of a company to the earnings per share received by the shareholders. Price earnings ratio can determine whether the company is overvalued or undervalued. Price earnings ratio of a company stocks depicts variability across time, indicating that stock markets had always been facing irrational pricing, speculation and financial bubbles. Therefore, the investors have various valuation techniques to identify whether the stock market is rationally priced or not. In addition, only a few researches has been made in Malaysia regarding the determinants of price earnings ratio. Thus, the purpose of this study is to identify the factors that affect the movement of price earnings ratio such as dividend payout ratio, earnings growth, firm sizes, firm leverage and return on equity in electricity services sector in Malaysia.

Keyword: price earnings ratio, dividend payout ratio, earnings growth, firm leverage, firm sizes, return on equity.

# ACKNOWLEDGEMENT

Alhamdulillah, praise to the Almighty Allah s.w.t., I am very grateful to be able to prepare this research successfully. I would never have been able to completethe research without the guidance from the lecturer, help from friends and support from the family.

I would like to express the highest appreciation and thankfulness to these two lecturers, Madam Zaibedah Zaharum and Madam Nor'Azurah Md Kamdari. Both of them are the research advisor and co advisor for me and I would like to express appreciation for her patience, and especiallyfor her excellent guidance in providing useful advice to help the researcher.

Big thanks to the friends, JBM 242 5C members who always shared opinions and knowledge among us. I also would like to acknowledge all other parties that have been helping in preparation of this research either directly or indirectly.

Last but not least, special thanksto my parents and family who always support me especially morally and financially not just for the period of this research but also for the whole years of study. Without their encouragement, I would not have been able to finish this research paper.

# TABLE OF CONTENTS


| | Page |
|---|---|
| **AUTHOR'S DECLARATION** | **i** |
| **ABSTRACT** | **ii** |
| **ACKNOWLEDGEMENT** | **iii** |
| **TABLE OF CONTENTS** | **iv** |
| **LIST OF TABLES** | **viii** |
| **LIST OF FIGURES** | **ix** |
| **LIST OF ABBREVIATION/NOMENCLATURE** | **x** |

**CHAPTER ONE : INTRODUCTION** .......... 1

1.1 INTRODUCTION .......... 1
1.2 BACKGROUND OF STUDY .......... 2
1.3 PROBLEM STATEMENTS .......... 3
1.4 RESEARCH OBJECTIVE .......... 5
1.4.1 Specific Research Objective .......... 5
1.5 RESEARCH QUESTION .......... 5
1.5.1 Specific Research Question .......... 6
1.6 SIGNIFICANCE OF STUDY .......... 6
1.7 SCOPE OF STUDY .......... 7
1.8 LIMITATION OF STUDY .......... 7
1.8.1 Data accuracy and reliability .......... 7
1.8.2 Lack of data .......... 8
1.9 DEFINITION OF TERMS .......... 8
1.10 SUMMARY .......... 9

# CHAPTER ONE

# INTRODUCTION

## 1.1 INTRODUCTION

In order to determine the growth of a company, the proxy of price earnings ratio is used to measure the growth of the company.Price earnings ratio acts as one of the important factors that affect the investors' decision to invest in selected companies. Price earnings ratio is the ratio of current share price of a company to the earnings received by the shareholders. Since the origin of discounted dividend growth model of Gordon and Shapiro (1956), price earnings ratio acts as a valuation technique that always remained at the centre of attention of investors and market analysts. Normally, investors will observe the price earnings ratio of a company to measure whether the company is overvalued or undervalued. Price earnings ratio shows the amount or earnings that will be received by the investors after purchasing a unit of share of a company. It also indicates the amount of money that an investor willing to spend by purchasing the shares of a company in order to receive every $1 of the company earnings.

According to Molodovsky (1953), fund managers, investors and market analysts are mostly relying on price earnings ratio to analyze the attractiveness of equity investment and to evaluate the performance of individual stocks. Investors will prefer a company with a higher price earnings ratio as it indicates that earnings growth is higher. So, investors will receive greater amount of earnings from a company with a higher price