UNIVERSITI TEKNOLOGI MARA

THE RELATIONSHIP BETWEEN DEBT-FINANCING AND LEVERAGE LEVEL OF FINANCING COMPANIES IN MALAYSIA

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ABSTRACT

The main objective of this study was to investigate the relationship between Debt to Equity, Short Term Leverage, Tangible Asset, Liquidity and Growth towards Financial Debt. The sample of this study were taken from seven (7) listed companies under Bursa Malaysia which are Malayan bank, Cimb bank, Public bank, Rhb bank, Hong Leong bank, Affin bank and Ambank. The data were collected for the period of 10 years, which was from the year 2007 – 2016. In conducting this study, researcher has used Descriptive, Correlation and Regression analysis in order to obtain accurate results for this research. The sample was found to be asymmetric whereas the distribution has heavier tails and a sharper peak than the normal distribution. There was an amount of 31.73% of the dependent variable that was explained by the independent variables used in this study as referred to the R-squared indicator. The study is positively auto-correlated as its value is below 2 and the error terms were found to be not normally distributed. Besides that, GLS was not needed since the error term was homogeneous. The results that were established in correlation were, a significant and positive relationship was discovered between short term leverage and growth with financial debt. On the other hand, there was a negative relationship between debt to equity, tangibles asset and liquidity with financial debt. The results obtained along conducting this study have enhanced our understanding on the factors that affects the leverage level of financing companies in Malaysia.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

A simple word of leverage can be understood as one of the method used by a firm to finance their assets. Leverage is one of the financial instruments or borrowed capital that is used to increase the potential return of an investment, for example margin. In other words, leverage is also known as debt in which a certain amount of money borrowed from one party to another party. Besides that, debt is one of the methods that a firm or even an individual used to purchase a large amount of goods or services that they cannot afford to pay under certain circumstances. From the financial perspective, leverage is an obligation to pay a sum of money for a service render or delivery of goods under a specific agreement.

Financial leverage is created when an organization used debt in their financial structure. It is used to multiply the yield on investment provided returns that are generated by the exceeding of debt over its cost. Usually, party who owes the money is called as debtor and the other party who gives the money to be owed is called as creditor or lender. Loans, bonds, commercial paper can be listed under the example of debt.

Most of the firms use debt to finance their operations. Thusly, the firms had the opportunities to expand its leverage since it can put resources into the business operations without expanding its equity. From other research, it is found that organization that have more debt than equity is considered to be highly leveraged. This research is focusing on the determinants of financial leverage level of financing companies in Malaysia.