



**UNIVERSITI TEKNOLOGI MARA**

**THE IMPACT OF LEVERAGE ON  
SHAREHOLDERS' RETURN**

**MUHAMMAD ANWAR BIN RAMLAN  
2015142913**

Thesis submitted in fulfillment  
of the requirements for the degree of  
**Bachelor of Business Administration**  
**(Finance)**

**Faculty of Business Management**

**December 2017**

## **ABSTRACT**

The use of leverage by the company may give big impact toward shareholders' return either in positive or negative way. The study aims to investigate the impact of leverage on shareholders' return. This research are using five (5) independent variable which are debt ratio (DR), long term debt ratio (LTBR), price to book ratio (PTBR), firm size (FS), and tax rate (TR). While the dependent variable is return on equity (ROE). The sample of 100 listed companies randomly selected from Bursa Malaysia was chosen for this study with the time period about 10 years which from 2007 to 2016. The data that had been used in this research is quantitative secondary data and the data structure is panel data. Moreover, the research are conducted by using panel least squares method to generate result for this study. The finding indicate that two independent variable show the significant result which are price to book ratio (PTBR) and tax rate (TR). While the rest show the insignificant result. The price to book ratio (PTBR) show the positive significant impact toward return on equity (ROE) which mean increase in price to book ratio (PTBR) will cause the increase in return on equity (ROE) and vice versa. In contra, the tax rate (TR) show the negative significant impact toward return on equity (ROE) which mean increase in tax rate (TR) will cause the decrease in return on equity (ROE) and vice versa.

## **ACKNOWLEDGEMENT**

Firstly, all praise to Allah SWT for giving me the opportunity to finish my thesis. Without the grace and mercy from Allah SWT, I won't be able to complete this long and challenging journey successfully.

My gratitude and thanks go to my supervisor, Dr. Norashikin Ismail as I greatly indebted to her. Without her continuous support, guidance, patience, motivation and advise, this paper won't be able to be completed within the given time. Also, a special thanks goes to my co-advisor, Madam Rabiatul Alawiyah Zainal Abidin. I could not imagined of having better advisors as Dr. Norashikin and Madam Rabiatul Alawiyah Zainal Abidin for my research study. My appreciation also goes to my colleagues and friends for helping me with this project.

Finally, I would like to thank and dedicate this research to my precious family especially both of my parent. Thank you for provided me with endless support in terms of mentally and spiritually throughout conducting this research study. This piece of victory is dedicated to both of you. Alhamdulillah.

## TABLE OF CONTENT

	<b>Page</b>
<b>AUTHOR'S DECLARATION</b>	<b>ii</b>
<b>ABSTRACT</b>	<b>iii</b>
<b>ACKNOWLEDGEMENT</b>	<b>iv</b>
<b>TABLE OF CONTENT</b>	<b>v</b>
<b>LIST OF TABLES</b>	<b>vii</b>
<b>LIST OF FIGURES</b>	<b>viii</b>
<b>CHAPTER ONE INTRODUCTION</b>	<b>1</b>
1.1 Introduction	1
1.2 Research Background	1
1.3 Problem Statement	2
1.4 Research Question	3
1.5 Research Objective	3
1.6 Significance of the Study	3
1.7 Scope of the Study	4
1.8 Limitation of the Study	4
1.9 Summary	5
<b>CHAPTER TWO LITERATURE REVIEW</b>	<b>6</b>
2.1 Introduction	6
2.2 Leverage and Shareholders' Return	6
2.3 Debt Ratio	7
2.4 Long Term Debt Ratio	8
2.5 Price to Book Ratio	9
2.6 Firm Size	9
2.7 Tax Rate	10
2.8 Theoretical Framework	11
2.9 Summary	12

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Introduction**

This first chapter will explain the overview of the research. The chapter begins with the background of the study. Then, the chapter discuss about the problem statement which the reason of conducting this studies followed by research question and research objectives. Then, the chapter will explain on significance of the study, scope of study, and limitation of study. Last but not least, the chapter will be conclude by summary.

### **1.2 Research Background**

Financial leverage is defined as the portion of debt used by the company to finance their operation. When the company are using excessive debt, it will increase their financial risk and the company may face a financial distress which will lead them to bankruptcy. So when the firm are facing high financial risk, shareholders will tend to demand more on return since they also face the added financial risk (Ali, 2014).

Based on Trade-Off Theory, the firms that use debt financing can get a benefit in term of tax shield. Tax is a type of payment that the individual or the company have to pay to the government once they have reach a certain level of profit. This is considered as a loss, therefore most of company prefer to avoid them by using tax shield (Serrasqueiro & Caetano, 2012).

On the other hand, Pecking Order Hypothesis suggest that there are certain level of information asymmetry between management and investor. The theory claims that the management have more knowledge about the company, therefore they prefer to use internal financing first, followed by debt and lastly equity. In case the company that use this theory use equity financing, the investors and the public may assume that the company are having financial distress. (Andersson, 2016)

In Malaysia, Bursa Malaysia had introduced Practice Note 17 (PN17). The company that faced financial problem will be categorized under Practice Note 17 (PN17) and all the company that being listed is the company that are listed under