



UNIVERSITI TEKNOLOGI MARA

**THE FACTORS AFFECT LEVERAGE
OF LISTED CONSTRUCTION
COMPANIES (TOP 20 IN
MALAYSIA)**

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ABSTRACT

The financial management and operation management of construction companies are very important. Failure to fulfill these will result in bad company's performance. This usually happens because of bad financial management and lack of capital. Construction companies tend to use their own money first in settling the development before getting the profit (Baharuddin, N. S., Khamis, Z., Wan Mahmood, W. M., & Dollah, H., 2011). Capital structure theories claim that the mix of debt and equity are very important. Therefore, there is a need to investigate this study. This research is conducted to study the factors that affect the leverage of firms. It focuses on the firms from construction sector in Malaysia. The firms are also listed in Bursa Malaysia. The internal determinants that can give effects towards the leverage will be analysed carefully. Leverage is considered as the dependent variable in this study and it will be measured by debt ratio. Debt ratio that is expressed by total debt divides total asset is the proxy that will be used in this study. Four independent variables are chosen in this study, which are firm size, company growth, asset tangibility and profitability. 20 listed construction companies in Malaysia are involved in this research and the data collected is based on financial report of the companies. Panel data will be used in this study and all the data is secondary data. This study is also based on 5 years data from year 2012-2016. Total of 100 observations will be gained. Last but not least, this study uses the Panel Ordinary Least Square (POLS) method to estimate the relationship and significance of the variables.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

Introduction for this research can be seen in this chapter 1. Overall in this chapter, person who does this research will explain the study background, research's problem statement, objectives of doing this research, several research questions and research's scope. Chapter 1 can be considered important and crucial as it will show the whole overview of what researcher is doing and determining all about this research.

1.2 Research Background

In this study, researcher is focused on construction companies. 20 construction companies in Malaysia are involved in this research. This includes Gamuda Land, Eco World Development Group Berhad, Sunway Berhad, WCE Holding and others. Financial performance of the firms is measured in this study to see how good and developed they are. Besides, these companies are also listed in Bursa Malaysia. The reason of choosing top 20 construction companies is based on their impressive capital market. This study is also to know how these companies manage their leverage successfully.

Two proportions that can be determined in capital structure are debt and equity financing of a company. Both debt and equity are the indicators to see how the company finances its operation. High leverage is related to any company that significantly has more debt than equity. While a firm who usually significantly has more equity than debt is related to low leverage.

Leverage or debt finance is normally has low price and is preferred than finance by equity. In point of view of debt holder, leverage finance has low risk and safer. This is because, before dividend, interest is the one that needs to be paid. Meanwhile by looking at liquidation incident, before equity, debt finance must be paid first.