

IS THERE A RELATIONSHIP BETWEEN THE GEARING RATIO AND THE
VALUE OF A FIRM (MARKET PRICE OF A SHARE) -- MALAYSIAN
CONTEXT (PROPERTY SECTOR ON THE KUALA LUMPUR STOCK
EXCHANGE)

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ABSTRACT

The purpose of this paper is to see whether a relationship exists between the debt-equity ratio (gearing ratio) and the market price per share for the companies listed under the property sector on the Kuala Lumpur Stock Exchange (KLSE). Statistical tests were applied (correlation, regression, degree of coefficient and the students t distribution) to provide numerical evidence on the relationship. The results throw some light to the question of relationship. Based on the numerical testimony, there exists a weak negative relationship between the debt-equity ratio and the market price of shares.

CHAPTER 1

INTRODUCTION

In any commercial and profit-making organization, readily available funds provide the life blood that sustains the viability of the enterprise. Shrewd financing of a corporation's operations will add to the resilience of the firm, enabling it to expand when opportunities appear and to hold out during bad times.

Given the wide scope of financing instruments available in the market, the actual financing mix of the organization will be according to the person or manager in charge. The mix between equity capital and borrowings at any one point of time is usually somewhere between the two extreme limits of total equity funding or borrowings.

Running an entire operation on share capital alone might imply that the entity is unable to attract funds from outside and this will definitely raise some questions to its viability. And it would also be meaningless if the whole operation is financed by borrowed funds because this will mean that the entity is working for the creditors rather than the shareholders.

Between the two extreme limits, there is no magic formula as to the appropriate financing mix for corporations. Certain