



UNIVERSITI TEKNOLOGI MARA

**THE DETERMINATION OF PRE-FINANCIAL
DISTRESS AMONG PN17 COMPANY IN
MALAYSIA**

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ABSTRACT

Majority of researchers used existed models and formulas in order to measure pre-financial distress of the firm. However, they are small number of researchers find out how financial performance of firms can be affected by pre-financial distress. This study will investigate the impact of pre-financial distress on financial performance towards the listed companies in PN17 by using financial ratio as the indicator. Hence, a panel data analysis of 10 listed Practice Note 17 companies in Bursa Malaysia from 2010 to 2017 periods (eight years) before the company listed as PN17 companies has been used in this study. The purpose of study took eight years is to investigate the performance of firms before the firms listed at PN17 companies and to now the symptom of pre-financial distress. This study uses four financial ratio as independent variables which are return on asset, time interest earn, working capital turnover and current ratio. The dependent variables of this study is total debt ratio. The Ordinary Least Square model and Panel regression analysis was used to recognize the most optimal financial ratio towards the total debt ratio. The findings of this paper designate that only two independent variable have significance relationship with total debt ratio and the other to variable have insignificance relationship with total debt ratio.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

The purpose of this study is to examine more about the factors of pre-financial distress. It is importance towards certain parties such as investors, and stock market regulators based on the pre-financial distress companies PN17 status. The major purpose of this study as mention above is developed with an aim to clarify the factors of pre-financial distress, also known as bankruptcy and weakening corporate sector in PN17. Financial distress is the most threats in the firms globally despite their size, nature, and type of operation (Chua, 2012). The negative connotation of pre-financial distress is used to describe the company financial situation confront with the temporary lack of liquidity and with the difficulties to fulfilling financial obligations on time (Outecheva, 2007).

In other words financial distress is the situation where company meet or has difficulty paying off its financial obligations to its creditor. They technically insolvent and illiquid, the insolvency is the inability to cover its liabilities using the assets of the business. Usually the firm is forced to take educative action when the situation of the firm's operating cash flow are not sufficient to satisfy current obligations. On 30th November 2004, Bursa Securities had introduce the PN17 listed company with the purpose of improving the qualities of the company in the main market.

Companies under Practice Note No 17 (PN17) face a overwhelming task to put their financial consecutively and drag themselves out from the grouping. Out of the 926 companies listed on Bursa Malaysia Securities Bhd, then 22 companies have fallen under PN17 as of June 30, 2018. The listed companies are suspended instead of bankruptcy and will be given chances to regularize their company. On top of that, the prolong the time was taken by the financial distress company and the amendment were develop to organize their financial condition and will continue trading in main market. The purpose of this amendment are to fortify and boost the quality of the listed company in PN17 in order to make the investor more confidence and protections when want to make investing in the PN17 company.