



STOCK RETURN PREDICTION USING FINANCIAL RATIOS

BACHELOR OF BUSINESS ADMINISTRATION

WITH HONOURS (FINANCE)

FACULTY OF BUSINESS MANAGEMENT

AZLIZAN BIN WANG KEE

2013145263

AZLIZAN BIN WANG KEE

UC NUMBER: 990226425867

I hereby declare that

**Submitted in Partial Fulfilment of the
Requirement for the
Bachelor of Business Administration with Honours (Finance)**

This project paper is the result of my independent work and investigation, except where otherwise stated.

**FACULTY OF BUSINESS MANAGEMENT
UNIVERSITY TECHNOLOGY MARA
KOTA KINABALU**

Signature:

December 2015

10 JANUARY 2016

ACKNOWLEDGEMENT

First and foremost, I would like to express my highest gratitude to Allah S.W.T for His guidance, bless and for giving me the strength to complete this Final Year Project Paper within the stipulated time.

I would sincerely like to thank to my advisor, Mr. Shamlie Bin Salisi for the knowledge and guidance to complete this final year project paper since the early days. Thank you for the continuous supports, supervision and motivations. You always gave us views and perspective through advices and making correction where we have gone wrong. Your encouragement helps us through this project.

Secondly, I would like to thank to Prof. Madya. Dr. Imbarine Bujang for teaching us the Research Methodology subject and also to all lecturers of UiTM Sabah. Without their knowledge and guidance, I would not be able to finish this project paper.

Last but not least, thanks to my family and friend who are always supporting and showing their willingness to help in realizing this project paper. Thank you to all of you that involved direct or indirectly to make sure this paper completed smoothly.

TABLE OF CONTENTS

	PAGE
TITLE PAGE	i
DECLARATION OF ORIGINAL WORK	ii
LETTER OF SUBMISSION	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
LIST OF FIGURES	viii
LIST OF TABLES	ix
LIST OF ABBREVIATIONS	x
ABSTRACT	xi
CHAPTER 1	INTRODUCTION
1.1	Introduction 1
1.2	Background of Study 1-2
1.3	Problem Statement 2-3
1.4	Research Objectives 3
1.5	Significant of Study 4
1.6	Scope and Limitation of Study 5
	1.6.1 Scope of Study 5
	1.6.2 Limitation of Study 5
1.7	Summary of Chapter 6
CHAPTER 2	THEORY AND LITERATURE REVIEW
2.1	Introduction 7
2.2	Theory Used in the Study 7-8
2.3	Literature Review 8
	2.3.1 Stock Return 8-9
	2.3.2 Book to Market Ratio 9-10
	2.3.3 Dividend Yield 11
	2.3.4 Earning per Share 11-12
	2.3.5 Price to Earnings Ratio 13-14
2.4	Theoretical Framework 14
2.5	Summary of Chapter 15

CHAPTER 3**DATA AND METHODOLOGY**

3.1	Introduction	16
3.2	Data Collection	16
	3.2.1 Data Sampling	16-17
	3.2.2 Data Processing	18
3.3	Empirical Formula	19
	3.3.1 Multiple Regressions	19
3.4	Measurement of Variables	20
	3.4.1 Dependent Variable	20
	3.4.2 Independent Variables	21
3.5	Data Estimation Procedures	22
	3.5.1 Panel Data Analysis	22
	3.5.1.1 Unit Root Test	23
	3.5.1.2 Poolability Test	23
	3.5.1.3 Hausman Specification Test	23
	3.5.1.3 Pooled OLS	24
	3.5.2 Diagnostic Checking	24
	3.5.2.1 Multicollinearity	24-25
	3.5.2.2 Autocorrelation	25
	3.5.2.3 Heteroskedasticity	25-26
	3.5.2.4 Ramsey RESET Test	26
3.6	Hypothesis	27
3.7	Summary of Chapter	28

CHAPTER 4**RESULTS AND ANALYSIS**

4.1	Introduction	29
4.2	Unit Root Test	29
	4.2.1 Levin, Lin and Chu Test	30
	4.2.2 Hadri Unit Root Test	31
4.3	Results and Findings	32
	4.3.1 Poolability Test	33
	4.3.2 Hausman Specification Test	33
	4.3.3 Random Effect Model Analysis	34-36
4.4	Discussions of Analysis	37-38
4.5	Diagnostic Checking	39
	4.5.1 Variance Inflation Factors	39
	4.5.2 Wooldridge Test	39-40
	4.5.3 Modified Wald Test	40
	4.5.4 Ramsey RESET Test	41
4.6	Summary of Chapter	41-42

ABSTRACT

This study aims to give the evidence of whether financial ratios are able predict the future stock return in Malaysian Stock Market. Four variables are used as a predictor of future stock return which are the Book to Market Ratio (BTM), Dividend Yield (DY), Earning per Share (EPS), and Price to Earnings Ratio (PE). This study covers the period of 2010 until 2014 using quarterly data of 24 listed companies in Bursa Malaysia Stock Exchange from Industrial Product Industry. Results from the multiple regressions analysis shows that only BTM, DY, and PE are able to predict future stock return, as EPS is insignificant. In addition, DY has superior predictive power compared to the other variables.