FORECASTING THE RELATIONSHIP BETWEEN STOCK RETURN AND FINANCIAL RATIO : EVIDENCE FROM CONSTRUCTION COMPANIES

FATHIAH BINTI SUHAINI

2013299312

BACHELOR OF BUSINESS ADMINISTRATION WITH HONOURS (FINANCE)

FACULTY OF BUSINESS MANAGEMENT

UNIVERSITY TEKNOLOGI MARA

KOTA KINABALU SABAH

JUNE 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. Marius Benedick 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.

A lots of thanks also to my researcher's member in helping me direct or indirectly in order to giving any idea and solution of what I have been done today. I already tried hard to complete this paper especially in gathered all the information.

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 CONTENT

	PAGE
TITLE OF PAGE	i
DECLARATION OF ORIGINAL WORK	ii
LETTER OF TRANSMITTAL	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v-viii
LIST OF FIGURE	ix
LIST OF TABLE	x
LIST OF ABBREVIATIONS	xi
ABSTRACT	xii

CHAPTER 1 : INTRODUCTION

1.0 INTRODUCTION	1&2
1.1 PROBLEM STATEMENT	2&3
1.2 RESEARCH OBJECTIVE	3
1.3 SIGNIFICANT OF STUDY	3&4
1.4 summary of chapter	4

CHAPTER 2 LITRETURE REVIEW

2.0 INTRODUCTION	5
2.1 THEORY USED IN THE STUDY	5&6
2.2 LITERATURE REVIEW	6
2.2.1 STOCK MARKET	6

2.2.2 BOOK TO MARKET RATIO 7&8

2.2.3 DIVIDEND YIELD 8

2.2.4 EARNING PER SHARE 9

2.3 THEORETICAL FRAMEWORK 10

2.4 SUMMARY OF CHAPTER 10

CHAPTER 3 RESEARCH METHODOLOGY

3.0 INTRODUCTION 11

3.1 DATA COLLECTION 11

3.1.1 SAMPLE DESIGN 11

3.1.2 TARGET POPULATION 11&12

3.1.3 SIMPLE SIZE 12

3.1.4 DATA PROCESSING 12&13

3.2 EMPIRICAL MODEL 13

3.3 MEASUREMENT OF VARIABLES 14

3.3.1 DEPENDENT VARIABLE 14

3.3.2 INDEPENDENT VARIABLE 14

3.4 DATA ESTIMATION PROCEDURE 15

3.4.1 PANEL DATA ANALYSIS 15

3 4.2 UNIT ROOT 16

3 4.3 POOLABILITY TEST 16

3 4.4 HAUSMAN 16

3 4.5 POOOLED OLS 16

3.5 DIAGNOSIS TEST

3.5.1 MULTICOLLINEARITY 17

3.5.2 AUTOCORRELATION 17

3.5.3 HETEROSKEDASTICITY 18

ABSTRACT

This study aims to give the evidence of whether financial ratios are able predict the future stock return in Malaysian Stock Market. Three variables are used as a predictor of future stock return which are the Book to Market Ratio (BTM), Dividend Yield (DY) and Earning per Share (EPS). This study cover the Period of 2011 to 2015 using 30 companies in Bursa Malaysia Stock Exchange. Results from the multiple regressions analysis shows that only BTM and DY are able to predict future stock return, as EPS is insignificant. In addition, DY has superior predictive power compared to the other variables