



**THE RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND PROFITABILITY:
EVIDENCE FROM MALAYSIA**

NORFAIEZAH BINTI MOHAMAD

2013696066

BACHELOR OF BUSINESS ADMINISTRATION

WITH HONOURS (FINANCE)

FACULTY OF BUSINESS MANAGEMENT

UNIVERSITI TEKNOLOGI MARA

KOTA KINABALU

SABAH

JANUARY 2016

ACKNOWLEDGEMENT

First of all, I take this opportunity to thank to ALLAH SWT (Alhamdulillah) for his blessing in my health and strength during completion of this thesis.

Other than that, I'm also would like to express my gratitude to Madam Sarmila Udin for all her guidance, support, comment, advice and suggestion for the completion of this thesis. Here. Thank you for being so patient and kind in handling my problems during this time.

Here, I'm also want to thanks to my supervisor Sylvia Buaye during the practical Training for giving me a lot of guidance in assist me during my practical training. Not to forget to the staff Neptune Asia Engineering Services Sdn Bhd for being so understanding and nice to me.

For giving me their blessing me, always support me also for being my financial support, I would take this opportunity to saying thanks to my family. I also would like to thanks to my friends for their support in finishing this thesis.

Finally, I also would express my gratitude for those not mention in this acknowledgment. From the bottom of my heart I would say thank you. I will never forget your kindness.

TABLE OF CONTENTS

PARTICULARS	PAGE
TITLE PAGE	i
DECLARATION OF ORIGINALWORK	ii
LETTER OF TRANSMITTAL	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
1.1 Background of Study	1
1.2 Problems Statements	4
1.3 Research Objectives	6
1.4 Scope of Study	6
1.5 Significant of Study	6
1.6 Limitations of Study	7
1.7 Organization of Study	8
CHAPTER 2: LITERATURE REVIEW	10
2.1 Concept of Firm Performance	10
2.2 Concept of Financial Leverage	10

2.3 Relationship between Profitability and Financial Leverage	11
2.4 Conceptual Theoretical Framework	15
CHAPTER 3: DATA AND METHODOLOGY	16
3.1 Data Collection Instrument	16
3.2 Research Design	16
3.3 Sampling Design	17
3.3.1 Population	17
3.3.2 Sample Size	17
3.3.3 Sampling Technique	17
3.4 Empirical Model	18
3.5 Measurement of Variable	19
3.5.1 Dependent Variable	19
3.5.2 Independent Variable	20
3.6 Hypothesis	21
3.6.1 Relationship between Financial Leverage and Return on Asset	21
3.6.2 Relationship between Financial Leverage and Return on Equity	22
3.7 Panel Data Procedure	23
3.7.1 Descriptive Analysis	23
3.7.2 Panel Unit Root Test	24
3.7.2.1 Levin-Lin-Chu Test	24
3.7.2.2 Breitung Test	25
3.7.2.3 Harris Tsavalis Test	25
3.7.3 Diagnostic Test	26
3.7.3.1 Multicollinearity Test	26

ABSTRACT

The dominant issue in finance and had been keep pounder among researchers is whether the profitability of the companies is affected by the leverage. Nowadays, financing activities become important in every company in Malaysia. This is due for the companies to running their investment activities and for the most importantly to meet their working capital requirement. The companies have to considered their leverage before decide to use the debt or equity for their financing activities. Therefore, the management of companies in handling capital structure is very important. It's to avoid the company have a higher in leverage. The purpose of this study is to identify whether there is relationship between the capital structure and the profitability. In this paper, the capital structure will be measured through financial leverage and the profitability will be measure using the return on asset and return on equity. The finding shows that there is positive relationship and significant between the debt ratio, interest coverage ratio with the return on asset. There is also negative relationship and significant between debt equity ratio and return on asset. Other than that, in return on equity there are positive relationship and significant to debt equity ratio and interest coverage ratio. However, there are negative relationship and significant between debt ratio and return on equity.