



THE RELATIONSHIP OF FINANCIAL LEVERAGE AND PROFITABILITY:
EVIDENCE FROM MALAYSIA COMPANIES

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ACKNOWLEDGEMENT

Firstly, I would like to express my appreciation to my parents and colleagues because helping me and give motivation for me during preparation to complete this research. Also, I would to thanks Universiti Teknologi Mara (UiTM) at Sabah Branch because prepare facilities that available for student such as providing software for data collection and others.

Then, I would like to send my deep gratitude for my advisor, Ms Shafawati for give guideline and consult me to complete my research paper. Her willingness to spend his time generously has been much very appreciated.

I would like to thank various people involved in completing this paper by giving comments and suggestions as my inspiration to improve the quality of my research paper.

Lastly, I would like to send my deep gratitude to all my beloved friend who always support me, share their advice and knowledge as well as willingness to spend their time with me during the period of completing this project paper.

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ABSTRACT

Capital structure is a combination of two components of debt and equity used by a company to fund its activities. The decision on capital structure is essential because it requires maximizing firm returns, and the effect of this choice allows companies to cope with their competitive setting and financial leverage benefit the company make a better return on their assets. Hence, this study will examine the relationship between financial leverage and profitability of Malaysian companies. Sample of 54 firm from 100 top companies by market capitalization that listed in Bursa Malaysia use in this research paper. Moreover, 54 companies are the total number that have complete variable data used in this study. This study use ROE as measurement of profitability and long-term debt, short-term debt and total debt as proxies for financial leverage. Thus, the research indicated that between total debt and profitability there is a positive association, but having lower significant levels implies that some profitable firms may use debt financing as their external financing to obtain a better return for their business.