DRIVERS OF LEVERAGE IN MALAYSIA'S BLUE CHIP FIRM: THE CASE OF MANUFACTURING SECTOR

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SEGAMAT, JOHOR.

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Submitted in Partial Fulfillment
of the Requirement for the
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DECLARATION OF ORIGINAL WORK

ARINA RAIHAN BT AZLAN **2013602536**

Hereby, declare that,

- ✓ This work has not previously been accepted in substance for any degree, locally or overseas and is not being concurrently submitted for this degree or any other degrees.
- ✓ This project paper is the result of my independent work and investigation, except where otherwise stated.
- ✓ All verbatim extracts have been distinguished by quotation marks and sources of my information have been specifically acknowledged.

Signature: _______________ Date: _________________

LETTER OF SUBMISSION

December 2016

Madam Suzana bt Hassan
Faculty of Business Management
Universiti Teknologi MARA
85009 SEGAMAT
JOHOR DARUL TAKZIM

Dear Madam,

SUBMISSION OF PROJECT PAPER

Attached is the project paper titled " **DRIVERS OF LEVERAGE IN MALAYSIA'S BLUE CHIP FIRM : THE CASE OF MANUFACTURING SECTOR** " to fulfill the requirement as needed by the Faculty of Business Management, Universiti Teknologi MARA.

Thank you.

Yours sincerely,

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Bachelor of Business Administration (Hons) Finance

ABSTRACT

This aim of this study is to explore the drivers of leverage in Malaysian Blue Chip manufacturing firms and to investigate whether these drivers are supporting Pecking Order theory (POT) or Trade-off theory (TOT). Generally, POT suggest that there is no optimal capital structure as firms prefer to use internal funds as first choice, followed by debt and equity as a last resort to finance their business. TOT, on the other hand, suggest optimal capital structure can achieve by setting off the benefits of debt with cost. The investigation is performed using panel data procedures for a sample of 32 firms listed in Bursa Malaysia during 2010 until 2015. Variable used in this study is debt to equity ratio or known as leverage as dependent variable, whereas asset tangibility, market to book value, degree of operating leverage, return on invested capital proxy for profitability, firm size and non-debt tax shield as independent variable. The variables are regressed with panel least square and tested with fixed effect (cross section). The results suggest that profitability and non-debt tax shield has a negative significant to debt to equity ratio. Market-to-book value, degree of operating leverage, and firm size appear to have a positive significant to debt to equity ratio. However, asset tangibility is negative related but does not appear significant to the leverage. It appeared that asset tangibility, profitability, market to book value and non-debt tax shield is consistent with Pecking order theory, while firm size and degree of operating leverage are according to trade-off theory.