CORPORATE RELIANCE ON BANK LOANS: A CASE STUDY ON PROPERTY AND CONSTRUCTION SECTORS IN MALAYSIA

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UNIVERSITI TEKNOLOGI MARA

BACHELOR IN BUSINESS ADMINISTRATION

(HONS) FINANCE

FACULTY OF BUSINESS MANAGEMENT

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JOHOR

"DECLARATION OF ORIGINAL WORK"

I, Bibiwana Binti Asaari, (I/C: 840807-01-5572) hereby, declare that:

1. 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 degree.
2. This project paper is the result of my independent work and investigation, except where otherwise stated.
3. All verbatim extracts have been distinguished by quotation marks and sources of my information have been specially acknowledged.

Signature: ....   Date: ....

LETTER OF TRANSMITTAL

Muhamad Sukor bin Jaafar
Finance Department
Faculty of Business and Management
Universiti Teknologi MARA
Kampus Johor
85009 Segamat
Johor Darul Takzim

3rd May 2007

Dear Sir,

Corporate Reliance on Bank Loans: A Case Study on Property and Construction Sectors in Malaysia

On January 2007, I was required to do a project paper on and the above matter is the topic for it.

2. I was informed to submit this report on date of submission, as a part of the course requirement for Bachelor in Business Administration (Honors) Finance 06. I hereby submit this report and hope that you will find everything in satisfactory.

Thank you.

Yours sincerely,

....

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ABSTRACT

The focus of this research study was the widespread use of bank borrowings by companies in 2 sectors namely property and construction sectors which are listed in Main Board of Bursa Malaysia, within 5 years period ranged from 2001 until 2005. The objectives of this research study consist of 3 parts. Firstly, this research study has been conducted to overview those companies' reliance on bank loans as a source of financing. Therefore, two sets of Descriptive Statistics method have been used and the results suggested that, on average, bank loans acquired by both sectors constitute almost half of their outstanding debt. Secondly, this research study has been done to identify factors that might influent those companies' preferences on bank loans. In this respect, Multiple Regression method has been employed in order to test whether potential factors such as firms' size, age, leverage and interest rate would have significant influence on the companies' bank debt ratio. The result revealed that firms' age was one of the determinants of bank loans preference and it was positively related. Moreover, this study also observed that construction companies' leverage situation had a strong positive effect on its bank debt ratio. In contrast, property companies' leverage has been explained to be negatively related with its bank debt ratio. However, this research study failed to provide evidences showing firms' size and interest rate to have significant effect on both developers and contractors' decision to demand for bank loans as a source of financing. Lastly, this study also has been done to compare both sectors' reliance on bank loans and it was proven that actually, there was no significant difference of preferences on bank loans between the property and construction sectors in Malaysia during the period of 2001 until 2005.

CHAPTER 1

INTRODUCTION

1.0 Chapter Overview

This chapter comprises six major areas namely; background of study, problem statement, research questions, research objectives, significance of study, limitation of study, and definitions of term/concept.

1.1 Background of Study

The roles of banks remain central in financing economic activities in many countries. A sound and profitable banking sector is vital to withstand negative shocks and thus contribute to the stability of the financial system. With this respect, bank loans is one of the product serves by banks.

Referring to the statistics provided in Bank Negara Malaysia's Annual Reports of 2004 and 2005, it stated that loan and advances remained the largest class of assets owned by Malaysian financial system which constitute 37.2% share of total assets in 2004. Eventually, it became even greater in 2005 which was 37.8 % share of total assets owned by Malaysian financial system.

The statistics further explained that 78.1% of that portion of loans and advances are channeled to cater for credit services provided by Banking Institutions in 2004. This