

**THE PERFORMANCE OF LOGIT MODEL VERSUS ALTMAN'S Z-  
SCORE MODEL IN PREDICTING BANKRUPTCY OF LARGE  
INDUSTRIAL PRODUCT FIRMS IN MALAYSIA**



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## **Contents**

1.	Letter of Report Submission.....	iii
2.	Letter of Offer (Research Grant).....	iv
3.	Acknowledgements .....	v
4.	Enhanced Research Title and Objectives.....	vi
5.	Report.....	1
5.1	Proposed Executive Summary .....	1
5.2	Enhanced Executive Summary .....	2
5.3	Introduction .....	3
5.4	Brief Literature Review.....	5
5.5	Methodology .....	8
5.6	Results and Discussion.....	10
5.7	Conclusion and Recommendation.....	15
5.8	References/Bibliography .....	16
6.	Research Outcomes .....	20

## 2. Letter of Offer (Research Grant)

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Ruj. Kami : 600-UiTMKDH (PJI.5/4/1)  
Tarikh : 23 September 2013

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Tuan/Puan

### KELULUSAN PENUKARAN TAJUK PROJEK DANA KECEMERLANGAN 01/2013

Tajuk projek	: Stock Market Price Information As A Predictor Of Bankruptcy For Large Manufacturing Firms
Kod projek	: 600-UiTMKDH (PJI.5/4/1/3/13)
Kategori perojek	: Kategori B (2013)
Tempoh	: 01 Jun 2013 – 31 Mei 2014
Jumlah peruntukan	: RM5,000.00
Ketua projek	: Cik Asmahani Binti Nayan

Dengan segala hormatnya perkara di atas adalah dirujuk.

Sukacita dimaklumkan bahawa pihak Universiti telah meluluskan cadangan penyelidikan tuan/puan untuk membiayai projek penyelidikan di bawah Dana Kecemerlangan UiTM.

Bagi pihak Universiti kami mengucapkan tahniah kepada tuan/puan kerana kejayaan ini dan seterusnya diharapkan berjaya menyiapkan projek ini dengan cemerlang.

Untuk tujuan mengemaskini, pihak tuan/puan adalah diminta untuk melengkapkan semula kertas cadangan penyelidikan sekiranya perlu, mengisi borang setuju terima projek penyelidikan dan menyusun perancangan semula bajet yang baru seperti yang diluluskan.

Sekian, terima kasih.

*"Transformasi Berkualiti Ke Arah Kecemerlangan"*

Yang benar

A handwritten signature in black ink.

**DR. MAHAZIR ISMAIL**  
Timbalan Rektor  
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UiTM Cawangan Kedah

S.K. - Prof. Madya Dr. Abd Razak Ahmad

#### **4. Enhanced Research Title and Objectives**

(if any)

Original Title as Proposed:

Stock Market Price Information as a Predictor of Bankruptcy for Large Industrial Product Firms

Improved/Enhanced Title:

The Performance of Logit Model Versus Altman's Z-Score Model in Predicting Bankruptcy of Public Industrial Product Firms in Malaysia

Original Objectives as Proposed:

- a. to propose a bankruptcy model based on a hybrid of firms' current market price and past information
- b. to measure the effectiveness of the proposed market price model by comparing its efficiency to Altman's z-model used by many commercial banks

Improved/Enhanced Objectives:

- a. to evaluate the performance of Logit model based on market price and past information
- b. to compare the performance of the logit model with Altman's z-score model

## **5. Report**

### **5.1 Proposed Executive Summary**

Most studies on bankruptcy prediction try to classify bankrupt firms from a pool of firms using financial ratios, macroeconomic variables and firms' non-financial information. As the financial and non-financial information are mostly collected from the financial statements, published at the end of the financial years, the information will be obsolete by the time they are being used to measure the financial health of firms. To overcome this problem we propose a hybrid model to include information taken from the stock market price information (SMPI) of the firms to estimate the probability of firms' failure. The aim of the work is to conclude why SMPI is or is not a good contributor to the model and to determine how efficient is the proposed model compared to the z-score model used by commercial banks.

The sample will be healthy and financially distressed large listed manufacturing firms. Small and medium enterprises are omitted as these SMEs do not trade shares. Traded shares' prices are needed to estimate the firm's market price. Data will be collected from Bursa Malaysia, for the last 5 years prior to bankruptcy. The data will be placed into training and validation samples and will be analyzed using the logit model. A model based on the z-score will be reproduced and a comparison will be made between the z-score model and the new model. The information obtained could be used by banks to evaluate credit risk of potential borrowers, the ability of which is very crucial for Malaysia to realize one of its NKEAs to become a financial centre