UNIVERSITI TEKNOLOGI MARA

THE EFFECT OF CAPITAL STRUCTURE ON CORPORATE PROFITABILITY EVIDENCE ON MALAYSIAN SERVICE SECTOR

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of the requirements for the degree of
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(Hons) Finance

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AUTHOR'S DECLARATION

I declare that the work in this project paper was carried out in accordance with the regulation of Universiti Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I,hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Universiti Teknologi Mara, regulating the conduct of my study and research.

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ABSTRACT

The purpose of this study is to access the effect of capital structure on profitability of Malaysian service sector. This study is to investigate and to answer the following research questions; what is the impact of equity financing on profitability of companies in the service sector in Malaysia? What is the effect of long term debt to profitability of firms in Malaysia? What is the influence of short term debt on firms' profitability in Malaysia? Organizations take debt as a medium to grow and ultimately grow their profit. However, that not the case for all the organizations. Debt also can be burden and ultimately cause the high cost to the companies.

Then, the data used is taken from Data Stream and uses a panel data of 7 companies from service sector within the year 2006 to 2016. The result of the study shows that, the equity financing have positive relationship with profitability, meanwhile short term debt and long term debt shows negative relationship with profitability. The study concluded that the services sector companies to use equity to finance their operation as equity financing enhance their profit. Besides that, the top management of the organization need to develop the way of determining how capital structure should be divided.

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