UNIVERSITI TEKNOLOGI MARA

THE IMPACTS OF DEBT FINANCING TO FIRM PERFORMANCE: PUBLIC LISTED FIRMS IN MALAYSIA

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Final Year Project Paper submitted in fulfillment
of the requirements for the degree of
Bachelor of Business Administration
(Finance)

Faculty of Business and Management

June 2018

AUTHOR'S DECLARATION

I declare that the work in this final year project paper was carried out in accordance with the regulations 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 Undergraduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

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ABSTRACT

Capital Structure is how a firm finances its overall operations and growth by using different sources of funds. It consists of debt financing and equity financing or both of them. A firm's capital structure can be a mixture of long-term debt, short-term debt, common equity and preferred equity. This study is focusing more on debt financing. Debt financing is also known as an external financing and equity financing is also known as internal financing. Debt comes in the form of bond issues or long term notes payables while equity is classified as common stock, preferred stock or retained earnings. The decision of capital structure is really important for a firm as any mistakes from it can lead to decease or bankruptcy. Since capital structure is really important in the company survival, the Chief Financial Officer of a firm should be able to make a good decision on how to finance their firm. Many assumptions on bankruptcy arise from a firm that use debt financing. Excessive leverage or uncontrolled usage of debt has bad impacts to the firms as it can expose them with financial risks. However, some researchers found out that there is no relationship between debt financing and firm performance. They even said that debt financing is better as it increases the efforts of the managers in generate more revenue in order to meet their payments. In other words, it can be such a motivation to the managers. The findings of this study will contribute greatly to the benefits of financial managers and help them examine the relationship between debt financing and firm performance.

ACKNOWLEDGEMENT

It is an honour to express my sincere gratitude to the following people for guiding me and supporting me through my process of completing my final year project paper. Firstly, I wish to thank God for giving me the opportunity to embark on my degree and for completing this long and challenging journey successfully. I would like to express my gratitude to my advisor, Sir Husnizam Hosin for believing me and supporting me.

My appreciation also goes to Madam Liyana and Madam Asyiqin who always help and assist us through this journey. Besides, I would like to thanks all my friends for helping me with this project.

Lastly, my parents, for always supporting me in everything I do. Thanks for always being so supportive and positive. That positive attitude is one of the things that can keep me motivated in completing this final year project paper. This piece of victory is dedicated to both of you. Alhamdulilah.

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