THE IMPACT OF FINANCIAL LEVERAGE TOWARDS FRIMS PERFORMANCE IN AUTOMOTIVE INDUSTRY

FARAH NADHIRAH BINTI AZMAN
2014661456

BACHELOR OF BUSINESS ADMINISTRATION
(HONS) FINANCE
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
SEGAMAT, JOHOR.

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ABSTRACT

This study investigates the relationship between financial leverage on firm's performance in 20-years' time horizon (1996-20015). Financial leverage is important because its provide information for company and stakeholder wealth. This study focuses on automotive industry for selected companies Volkswagen and Toyota Motor Corporation. The dependent variable is firm's performance (return on asset) and independent variables are firm size (Ln of total asset), total debt to capital and long term debt to capital. This study used the secondary data from annual reports of companies Volkswagen and Toyota Motor Corporation. Panel data was used to collect the data which is combination of time series and cross sectional data. For this research used Least Square (LS) technique to identify the relationship between dependent variable with independent variable. F-test was used to test the hypothesis that the changes in the firm's leverage significantly explain changes in firm's value. The result shows that the firm's leverage level affect the firm's value. Based on the analysis in (1996-2015) all the independent variable is significantly impact the firm's performance. Return on asset is used as firm's performance as it shows how the companies manage their fund to meet the obligations and know how the asset has been used to develop company income.

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