THE RELATIONSHIP BETWEEN LEVERAGE AND PROFITABILITY OF LISTED COMPANIES IN MALAYSIA

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JUNE 2016

ACKNOWLEDGEMENT

In the Name of Allāh, the Most Gracious, the Most Merciful

First of all, I am truly grateful to Allah S.W.T for his blessing and for giving me mental and physical strength to complete this project paper entitled "The Relationship Between Leverage and Profitability of Listed Companies in Malaysia". I would also like to convey my special thanks to my parents for giving me the support, also to my colleagues for their valuable cooperation and opinion towards this project paper.

I would like to extend my gratitude and appreciated to Miss Norfariza Binti Mohd Ali, my respectable advisor, for the continuous guidance and support enabling my work to be carried out. Besides that, I would also like to thank Sir Syamsyul Bin Samsudin for his advice and other lecturer who have encouraged me for this study either directly or indirectly. Their kind and encouraging comments are much appreciated.

Finally, it is impossible to thank all the people who had provided the support and thus I declared that I am indebted to all of those who have contributed in one way or another in making this project paper possible. They have provided invaluable insight and comment that have helped me in my understanding of the said project paper.

Thank you.

ABSTRACT

Briefly, Listed Companies in Malaysia shows a significant growth while the Malaysian economy gives cause for concern on several fronts. One of the initiatives is optimize capital management practices among Listed Companies. Hence, this study is undertaken to investigate whether have relationship between leverage and profitability of Listed Companies in Malaysia. Particularly, this study measures 5 Listed Companies in Malaysia for about 10 years duration. For the empirical work, Regression Analysis and Covariance Analysis were conducted to determine the relationship of Total Debt Ratio, Short Term Debt Ratio and Long Term Debt Ratio with the Return on Equity of Listed Companies in Malaysia. The empirical evidence using panel econometrics technique which is Ordinary Least Square (OLS) shows Short Term Debt Ratio and Long Term Debt Ratio are positively related whereas Total Debt Ratio are negatively related to Return on Equity. However, all the relationship are found insignificant. This means that a negative relationship between leverage and the performance indicates the firm may lead to use higher than appropriate levels of debt. This over leveraging may increase the lenders' influence which in turn limits the manager' ability to manage the operations effectively and consequently affecting the firm performance in negative way.

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