CAPITALIZATION AND CORPORATE PERFORMANCE OF PUBLIC LISTED SHIPPING COMPANY: A STUDY OF MALAYSIA INTERNATIONAL SHIPPING CORPORATION BERHAD (MISC BERHAD)

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ABSTRACT

The study was aimed to investigate the relationship between capitalization and firm's performance. The capital structure is measured by using leverage ratio and its indicate only four different selected leverage ratio, which represents the capital structure as an independent variable for this study, which are short term debt ratio, long term debt ratio, total debt ratio and the account payable ratio while performance is represented the capital structure by return on asset. The study was conducted using quarterly basis data from January 2005 until December 2014 from public listed Shipping Company named Malaysia International Shipping Corporation Berhad as the largest market capitalization company among all Public Listed Shipping Company in Malaysia. The data are then analyses using Econometric Views (Eviews). From this study, it was realized that two factors of capital structure which are Short Term Debt Ratio, Total Debt Ratio and Account Payable Ratio can give effect towards Return on Assets while the other factor which is Long Term Debt Ratio does not give any effect towards Return on Assets. Lastly, Short Term Debt Ratio and Account Payable Ratio which has a significant negative relationship with Return on Assets and another two factors Long Term Debt Ratio and Total Debt Ratio have insignificant negative and significant positive relationship with Return on Assets respectively.

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CHAPTER ONE

INTRODUCTION

1. BACKGROUND OF STUDY

The capital structure is specified as the mix of debt and equity used to finance the operation of the firm (Damodran, 2001). Debt versus Equity has been a pivotal issue in capital structure management, particularly when it comes to their relationship with performance and profitability. Capital structure and its relation to performance has been a difficult issue to tackle ever since the study of Modigliani and Miller (1958). Their work suggested that capital structure had no influence over the performance. In other words, on that point irrelevant between capital structure and performance of the firm. However, their study is founded on very restrictive assumptions, such as perfect capital markets, no transaction costs, symmetric information, etc. When these factors are put into play, their theory does not apply in the real world. On the contrary, Modigliani and Miller (1963) in a modified paper considered the existence of corporate tax and, therefore, suggested that firms should apply as much debt as possible in order to maximize their value by maximizing the benefit from the interest tax shield.

Furthermore, by hold in the real world, it was led a study by Jensen and Meckling (1979) which showing that capital structure affect firm's value and performance, and also demonstrate that the amount of leverage in a firm's capital