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**CORPORATE EARNING PERFORMANCE  
IN MALAYSIA FROM 1992 TO 2001**

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**A STUDY OF THE PRICE EARNING RATIO (PER)**

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## **ABSTRACT**

This study is aimed at determining and analysing company's Price Earning Ratio performance in Malaysia during the period 1992 - 2001. Two models have been selected to test and analyse that performance (multiple regression analysis and hypothesis testing). The findings have revealed that all the independent variables of GDP, inflation rate and interest rate are found to be the significant independent variables in influencing the changes and variation of their earnings.

The weaknesses of this study is the attention and focus only on the economic variables which is external and no consideration at all on the internal variables for example, the organizational and management capability. For example, management influences on corporate earning performance may vary with organizational characteristics and managerial leadership behavior, one manager may exploit an economic movement opportunity, while another leader may forgo such an opportunity or adapt slowly to it. A manager is important in times of organizational growth, development and crisis, for most part of the organizations require maintenance, and the corporate manager will therefore make little difference to their performance.

Therefore the study recommends to other future student and researcher to include the organizational and management capability which is internal to the firm as one of the independent variables.

## TABLE OF CONTENT

Acknowledgement	iv
List of Table	v
List of Abbreviation	vi
List of Definition of Terms	vii
Abstract	viii
<b>Chapter</b>	
1.0 Introduction	1
1.1 Problem Statement	4
1.2 Background of study	4
1.3 Purpose and Objectives of study	5
1.4 Scope of study	5
1.5 Limitations and Significance of study	7
2.0 Literature Review	8
3.0 Concepts of Price Earning Ratio(PER)	16
4.0 Companies Profile	18
5.0 Research Methodology	
5.1 Database	54
5.2 The sample	54
5.3 Models Specification	
5.3.1 Multiple Regression Analysis	55
5.3.1 Hypothesis Testing	57
6.0 Interpretation of Regression Result	59
7.0 Summary, Conclusion and Recommendation	99

Bibliography  
Appendices



## **INTRODUCTION**

### **Overview of the Malaysian Economy**

In just 40 years, Malaysia has grown from a country whose future lay in the unknown to a nation that has gained international recognition for its socio-economic and industrial developments.

For 9 consecutive years from 1988 to 1996, Malaysia has sustained a gross domestic product (GDP) growth averaging 8.6 per cent. GDP growth in 1997 averaged 7.7 per cent before it shrank by 6.7 per cent in 1998 – the year which saw the downturn of many Asian economies, affected mainly by external factors. However, Malaysia's economic downturn was expected to bottom-out in 1999 as a government recovery programme takes hold, putting an end to the first recession the economy has witnessed in 13 years.

### **Economic Developments in the Malaysian Economy in the Fourth Quarter of 2001**

#### **Overview**

Economic conditions generally improved in the fourth quarter of 2001 although GDP (Gross Domestic Product) contracted marginally by 0.5%. The improved performance was driven by the strong fiscal stimulus expenditure and the strengthened domestic demand against a gradual recovery in external demand. Other positive developments in the fourth quarter include the moderation in the pace of decline in exports, imports and manufacturing production. Consequently, real GDP for 2001 has remained positive, expanding by 0.4%. The economy is expected to strengthen during the course of 2002 in tandem with sustained domestic demand and improved global economic conditions.

The prompt policy response across the globe in the aftermath of September 11 and the resolution to the West Asian conflict have aided in the recovery of consumer and business confidence. In the United States, consumer spending has rebounded strongly. Consumers responded strongly to sales incentives as increased disposable income

## LITERATURE REVIEW

Hammel and Hodes (1967)<sup>2</sup> concluded that, there is a direct correlation between expected EPS and P/E multiple that is the higher the expected growth rate, the lower the P/E multiple and conversely the lower the expected growth, the higher the P/E multiples. Two basic assumptions of their study are the expectations of future growth in a company's EPS influence the price investors, which they are willing to pay for the share. Other assumption are that a company with a history of highly volatile earning tend to trade at lower P/E multiple than other comparable company. Whose growth in earning has been more stable around a basic trend.

Murphy Stevenson (1967)<sup>3</sup> conducted a study to examine the relationship of future earnings and dividend growth to past Price Earning (P/E) ratio. They also observe the relationship between P/E relative to future growth of earning and dividend has used two tests. Correlation between the P/E of selected company in one period and the growth of earnings and dividends of the same companies in a successive period were observed. Companies were grouped into quintiles on the basis of P/E in one period, and then averages rate of growth of earnings were computed for each quintile in successive periods.

More than 80% at the correlation test results indicates that, P/E multiples bear no

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<sup>2</sup> John E Hammel and Daniel A. Hodes "Factors Influencing Price Earning Multiples", Financial Analysts Journal, 1967 pg. 90

<sup>3</sup> Joseph E Murphy and Harold W. Stevenson "Price/Earning Ratio and Future Growth of Earnings and Dividend", Nov-Dec 1967 pg.111