UNIVERSITI TEKNOLOGI MARA

PREDICTING ON THE FINANCIAL DISTRESS BY USING THE FINANCIAL RATIO

NUR NAZIFA MURFIQAH BINTI BUSU

Thesis submitted in fulfillment of the requirements for the degree of
Bachelor of Business Administration

(Hons) Investment Management

FACULTY OF BUSINESS AND MANAGEMENT

July 2017

ABSTRACT

This study is descriptive in nature and the purpose of this study was to confirm whether financial ratio applicable in order to predict financial distress by using logistic regression as a model that predict corporate failures in Malaysia over a five year period covering the from 19 companies that were analyzed with an initial 14 financial ratios. This paper also determining whether all the PN17 companies that are listed are financial failure. Secondary data was used and these were obtained through review of literature include journal and published financial report. E-views software was used to carry out the statistical analysis. This study choose the ratios based on the frequency used in previous studies. The result of study indicate there are three ratio out of 14 ratios chosen have significant relationship toward financial distress which is one ratio from profitability ratio (NI/SALES); one ratio (SALES/TA) from the liquidity ratio; and one ratio (TD/TA) from the leverage ratio. A classification results in using logistic regression showed high average accuracy rates of 78.87 percent for the analysis for each of the five years. Thus, this study shows that even with more advanced statistical tools more popularly used recently like multivariate discriminant analysis, logistic regression can still be effective and reliable as a statistical tool. Next, it was found that not all PN17 companies are financial failure. This study was conducted using the recent data on public listed companies in Malaysia. Hence, this model is more relevant in predicting corporate failure in Malaysia.

Keyword: Financial distress, PN17 companies, Financial Ratio, Logit regression

ACKNOWLEDGEMENT

Alhamdulillah and thanks for His blessings and greatness for allowing me to complete this research on time and fulfill the requirements of this thesis. Thanks to the Almighty God or the gift of knowledge. I am very grateful, to several individuals who had always helped me in completing this project paper. First and foremost, I would like to express my deepest appreciation and acknowledge the guidance I got from my main advisor, Miss Nurulashikin Binti Romli, and co-advisor Mdm Nur Liyana Binti Mohamed Yousop for their comments, guiding me throughout the research and wise advice in helping me completing this report. May Allah grant their the best reward in this world as well as in the hereafter, Ameen.

I would also like to thank you to my kind-hearted classmates they were willing to help me in sharing their opinions and feedback that gave me some improvements in completing this report.

And not to forget the most important, which is my family, for their support in term of moral and also for financing during the preparation of this report.

Without all of these commitments and support, this report would not have materialized.

TABLE OF CONTENT

CHAPTER ONE
INTRODUCTION

1.1 Introduction

This chapter provides an overview of this research work, problem statement, objectives, significance, scope of study and its limitations. The research questions of this thesis also presented while definitions of key terms used in this study are explained.

1.2 Background of study

Financial distress status can have severe consequences such as degradation in firms' performances and the worst scenario was bankruptcy to the firm who are experiencing it. The Malaysian Stock Exchange takes a very strict view of breaches to the Malaysian Stock Exchange Rules and Malaysia Stock Exchange Listing Requirements as there breaches have the potentials to undermine investor's rights and security. According to the Malaysian Stock Exchange Listing Requirements and Malaysian Stock Exchange Rules, a listed company that is financially distressed or do not have a core business or has failed to meet minimum capital or equity, companies' shareholders' fund are less than 25 percent of their total paid up capital, default in loan interest and principal repayments, companies suspended or ceased their operation, do not have any significant business or operation, winding-up of some heir subsidiaries and associated companies and auditors have expressed adverse opinions on the companies about poorly managed and do not have good track records would be classified as PN17 company. This company is required to submit to Malaysian Stock Exchange their plan on how to regularize or face possible delisting. These companies that involved in any criteria pursuant to Practice Note 17 of the Main Market Listing Requirements of Malaysian Stock Exchange are said to be reprimanded. Under these circumstance and accordance the Bursa Securities decision, the companies would be removed from the official list of Bursa Securities, after the imposition of suspension, and delisting procedure against the companies if it failed to be regularized.