UNIVERSITI TEKNOLOGI MARA

DETERMINANTS OF CAPITAL STRUCTURE OF MALAYSIAN PROPERTY DEVELOPERS

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ABSTRACT

The purpose of this study is to examine the determinants of capital structure of Malaysian property developers. Cross-sectional regression analysis to establish the moderating effects of the firm-specific variable. The sample includes 30 firms in property sector extracted from Bursa Malaysia, as in 2015 to 2020. The data extracted from BMSB database. In this research, the firm value is measured by its dependent variable which is debt ratio and its independent variable which is profitability, tangibility, growth opportunity, liquidity and non-debt tax shield. The study shows a positive relationship on debt ratio toward profitability and tangibility. However a negative relation between growth opportunity, liquidity and non-debt tax shield. It should be noted that the data comprised only one sector of the Malaysia market which is in the property industry. Thus, the result may differ than the whole Malaysia market. This study contributes to the literature by providing evidence from developing country's perspective.

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CHAPTER 1: INTRODUCTION

1.0 BACKGROUND OF STUDY

Today's business organisations have grown significantly. The ability of managers to fund their enterprises efficiently is crucial to their rapid and sustainable growth. As a result, every company entity must make capital structure decisions. Making capital structure decisions is the responsibility of management in the corporate environment. Today's corporate business organisations typically use a combination of internal and external financing sources. The issuance of stock through an initial public offering (IPO) is an example of an internal source, while debt is an example of an external source. Management must carefully consider capital structure decisions to guarantee that the firm's value is maximized. The process of maximizing firm value involves the selection of debt and equity securities with various costs and benefits in a balanced proportion. Mistakes in the choosing of securities may cause the company to have financial difficulties and ultimately fail. This shows, maximizing firm value through capital structure decisions is not an easy task.

The capital structure of a firm is defined by Investopedia.com as a mix of long-term debt, specific short-term debt, common equity, and preferred equity. A company's capital structure describes how it uses several sources of funds to fund its overall operations and growth. Bonds and long-term notes payable are examples of debt, while common stock, preferred stock, and retained earnings are examples of equity. Working capital requirements, as well as short-term debt, are considered part of the capital structure. Meanwhile, Dictionary.com describes capital structure as a company's allocation of all of its financial resources, including equity and bonds. This study seeks to give empirical information on the determinants of capital structure of Malaysian property developers.

There are 5 explanatory variables included in this research such as profitability, tangibility, growth opportunity, liquidity and non-debt tax shield while there is only one dependent variable, debt ratio. A regression model will be used in the analysis to see how the explanatory factors affect the debt ratio. This isn't a new study since there are numerous others have been conducted in the past. As a result, this research is more like a re-evaluation