UNIVERSITI TEKNOLOGI MARA

THE DETERMINANTS OF CAPITAL STRUCTURE MODEL: A CASE OF WHOLESALE AND RETAILS INDUSTRY IN MALAYSIA

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ABSTRACT

This study investigates the relationships of the factors that influence the capital structure of wholesale and retail industry in Malaysia. On this research, there are four independent variables are used which are enterprise value (EV Multiple), liquidity, firm size and profitability. These are used to study on the effect that would give impact on the capital structure of the wholesale and retail industry in Malaysia. This study used data gathered from the statistical and annual financial year positions. The findings demonstrated that liquidity, firm size and profitability have significant positive relationships with the capital structures while enterprise value has inverse relationships with others.

TABLE OF CONTENT

PAGE

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CHAPTER ONE (1)

RESEARCH OVERVIEW

1.1 Introduction

The aim of this study is to investigate the determinant of capital structure towards the wholesale and retail industry in Malaysia. In 2018, our country recorded an annual growth rate of 11.8% which amounted to RM 237 billion after a 30-year period in the industry from 1987 until 2018.

1.2 Background of Study

One of the most important concerns in corporate finance is capital structure. It is an appropriate long-term debt and equity combination, as well as a significant corporate policy dealing with a firm's activities, debts, and equity (Brounen et al., 2006; Vo, 2017). There has been a developing literature on capital structure since the work of Modigliani and Miller (1958). Despite being a prominent focus of financial economists for decades, no theory has yet to explain the choice of capital structure.

1.3 Problem Statement

According to (Chowdhury & Chowdhury, 2010; Ebrati et al., 2013; Ebaid, 2009; Pouraghajan et al., 2012), existing research has explored the link between capital and profitability to mention a few; however, none of the studies have focused specifically on the performance of wholesale and retail enterprises. There will be issues where there is no fixed formula that determine how the evaluation on the company's capital structure. Each company has different their owns approach to calculate their debt-to-equity and not all company using the same approach. There should be a standardized approach or formula for the company to evaluate the capital structure and value their company as it is easier for potential investors as well as government can measure how well the company growth. For example, there are 2 company which A and B. Company A calculate the total asset which they adding the financial debt with non-financial liabilities and equity with total of RM 1,000 while company B calculate the total asset just by adding the financial debt and