CAPITAL STRUCTURE DETERMINANTS OF MALAYSIAN PUBLIC LISTED REAL ESTATE COMPANIES (2007-2009)

By

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ABSTRACT

Examining capital structure determinants of seventy two publicly-listed Malaysian real estate firms during 2007-2009, this study clarifies the impact of the sub-mortgage loan crisis on the capital structure of the sampled firms, and establishes which theory, Trade-off Theory (TOT), or Pecking Order Theory (POT), that explains financing behavior by the firms. The capital structure determinants tested are size, profitability, tangibility, non-debt tax shields (NDTS), growth, liquidity, business risk (BR) and effective tax rate (ETR). Three debt ratios, namely, short-term debt ratio (STDR), long-term debt ratio (LTDR) and total debt ratio (TDR), are proxies for capital structure. Findings indicate that size and profitability affect debt ratios positively, NDTS and liquidity affect the debt ratios negatively, tangibility affects STDR and TDR positively and LTDR negatively, growth affects STDR and TDR negatively and LTDR positively, while ETR affects LTDR and TDR positively and STDR negatively. Inconsistent with almost all previous studies, and unsupported by both the TOT and POT, business risk positively affects STDR and LTDR, and has a significant positive relationship with TDR. The results also show that the debt levels of these firms declined during the sub-mortgage loans crisis. Finally, the results suggest that both theories (TOT and POT) explain the financing behavior of the sampled firms, though, when taking into account the decline in the debt levels, POT seems to explain the financing behavior of the firms better than TOT.

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BR	Business risk
DVs	Dependent variables
ETR	Effective tax rate
GROWTH	Growth opportunities
IVs	Independent variables
LIQ	Liquidity
LTDR	Long-term debt ratio
NDTS	None-debt tax shields
POR	Pecking Order Theory
PROF	Profitability
SIZE	Firm size
STDR	Short-term debt ratio
TANG	Tangibility
TDR	Total debt ratio
WACC	Weighted average cost of capital

CHAPTER ONE: BACKGROUND OF THE STUDY

1.1 Introduction and Background of the Study

Capital is the main engine, as it were, for the companies' processes; without capital there will be neither operations nor productivity. One can liken capital to the blood that runs in the veins to give life to the body. Capital gives the day-to-day life for companies and enables companies to seek sustainability. It is very axiomatic that without capital there will be no companies. Capital can be provided through two major sources: one is the equity and the other one is the debt. These two resources make up the liabilities side in the balance sheet. Unlike debt, equity comes through selling ownership rights whether common or preferred stocks, whilst debt is just a contractual agreement by which companies borrow a specific amount of money. Such contractual agreements specify clearly that the borrowed amounts represent obligations on companies and these amounts should be repaid with interests within a stipulated time frame. These two sources enable companies to generate the required funds for their production operations and investing activities. The combination between these two components forms the so-called the capital structure.

It is very important before going further in this topic to put forward some definitions to gain a better understanding about capital structure. Indeed, there are a lot of definitions that have been put forward to clarify the meaning of capital

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