

**FOREIGN EXCHANGE EXPOSURE AND ITS DETERMINANTS
AMONG SOME LISTED COMPANIES FROM SELECTED SECTORS
IN MALAYSIA**

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OTHMAN YEOP ABDULLAH GRADUATE SCHOOL OF BUSINESS

UNIVERSITI UTARA MALAYSIA

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IN MALAYSIA**

A research paper submitted to the Othman Yeop Abdullah Graduate School of Business,
In fulfillment for the requirement of a degree in Master of Science (Finance)

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2015

DECLARATION

I declare that the substance of this project has never been submitted for any degree or postgraduate programs and qualifications.

I certify that all the supports and assistance received in preparing this research paper and all the sources abstracted have been acknowledge in this stated research paper.

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ABSTRACT

This study constructs an analysis on the effect of foreign exchange rate change on firm value of 90 Malaysian companies in Plantation sector, Consumer Product sector and Industrial Product sector that were listed on Bursa Malaysia for the period of January 2008 to December 2012. This study also extends the analysis by investigating the possible determinants of foreign exchange exposure. The result of this study reveals that companies in Plantation sector seems to be more exposed to foreign exchange rate risks compared to Consumer Product sector and Industrial Product sector. Besides that, size, liquidity, debt, asset turnover, profit margin, currency diversification and foreign subsidiary diversification were found to be insignificant in explaining the possible factors that can influence foreign exchange exposure. Overall, the results suggests that the extent of foreign exchange exposure was rather low with the degree of the exposure was more prominent in Plantation sector than in Consumer Product sector and Industrial Product sector. US dollar and Singapore dollar seemed to pose greater exposure on Malaysian firms though which years showed more prominent exposure was different for all the three sectors.

Keyword: Foreign exchange exposure, Malaysian firms, selected sectors

ABSTRAK

Kajian ini membina satu analisis terhadap kesan perubahan kadar tukaran asing ke atas nilai 90 firma Malaysia dalam sektor Perladangan, sektor Produk Pengguna dan sektor Produk Industri yang tersenarai di Bursa Malaysia bagi tempoh Januari 2008 hingga Disember 2012. Kajian ini juga melebarkan analisa dengan menyiasat faktor-faktor yang berkemungkinan mempengaruhi pendedahan pertukaran asing. Hasil kajian ini menunjukkan bahawa firma-firma daripada sektor Perladangan lebih terdedah kepada risiko kadar tukaran asing berbanding dengan sektor Produk Pengguna dan sektor Produk Perindustrian. Disamping itu, saiz, kecairan tunai, hutang, perolehan aset, margin keuntungan, kepelbagaian matawang dan kepelbagaian subsidiary asing didapati tidak signifikan dalam menjelaskan faktor-faktor yang berkemungkinan boleh mempengaruhi pendedahan tukaran asing. Secara keseluruhan, hasil kajian ini menyarakkan bahawa takat pendedahan tukaran asing adalah agak rendah dengan kadar pendedahan lebih ketara dalam sektor Perladangan berbanding dengan sektor Produk Pengguna dan sektor Produk Industri. Dollar Amerika dan dollar Singapura menunjukkan pendedahan yang lebih besar keatas firma-firma Malaysia, walaupun begitu tahun-tahun yang menunjukkan pendedahan yang lebih ketara adalah berbeza bagi ketiga-tiga sektor tersebut.

Kata kunci: Pendedahan tukaran asing, firma-firma Malaysia, sektor-sektor terpilih

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CHAPTER 1: INTRODUCTION

1.0 Background of Study

As the business world now continues to expand at an unprecedented rate it not only brings advantages to one country's economy but disadvantages come into the picture as well. Ease in handling business trading and transactions have been one of the key elements that drive world economy. However, involvements in the international business have exposed firms' around the world with great exposure from fluctuations in foreign exchange rates. Firms are exposed to foreign exchange rate exposure whether it is in a small scale or large scale depending on the nature of business and trading carried out by each firm (Kiymaz, 2003). This has lead to growing interest in researchers to conduct empirical studies to investigate to what extent foreign exchange exposure affects firms, both domestic and multinational firms (Bartram & Bodnar, 2012, Aggarwal & Harper, 2010, Bartram, 2008, Kiymaz, 2003, Zhao, 2010, Chow & Chen, 1998, Fraser & Pantzalis, 2004). This is because, theoretically, fluctuations in foreign exchange rate can affect a firm's cash flow and would eventually contribute to the possibility of affecting the firm's value which is a major concern on investors' part (Fraser & Pantzalis, 2003).

Some previous studies convincingly argued about the possibility of not only multinational firms, but also domestic firms facing exposure from changes in the exchange rates due to nature of the business like purchasing inputs from foreign suppliers as well as the trading activities (El-Masry, 2006, Aggarwal & Harper, 2010). Unlike multinational firms that have operations in foreign countries and able to have access to hedging instruments due to operating in a much larger scale of business, domestic firms less likely to be able to have

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