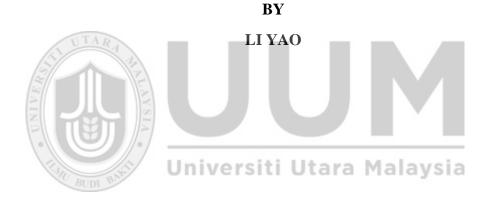
THE DETERMINANTS OF CAPITAL STRUCTURE OF REAL ESTATE COMPANIES: EVIDENCE FROM CHINA



Thesis Submitted to
School of Economics, Finance and Banking UUM College of Business
Universiti Utara Malaysia,
in Partial Fulfillment of the Requirement for the Master of Science (Finance)

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ABSTRAK

Secara keseluruhannya pasaran hartanah global terus menarik perhatian daripada institusi, pengurus dana dan pelabur swasta. Justeru itu, hartanah telah secara rasmi diiktiraf sebagai satu salah satu aset, ia menerima reputasi yang kukuh sebagai sumber relatif pulangan yang lebih stabil, hasil yang lebih tinggi dan aliran tunai yang kukuh. Penyelidikan telah membuktikan bahawa pilihan struktur modal adalah berbeza dengan ketara di kalangan industri. Industri hartanah adalah eksklusif dalam pelbagai industri dari segi pemilihan struktur modal. Ini adalah salah satu hasil daripada syarikat hartanah mempunyai keselamatan yang lebih tinggi (aset hartanah) untuk menangani jumlah hutang yang lebih besar, dan biasanya mempunyai nisbah tahap hutang yang lebih tinggi. Oleh itu, kajian ini adalah penting kerana ia meningkatkan kefahaman penentu struktur modal di syarikat hartanah di China. Kajian ini mengkaji penentu struktur modal syarikat-syarikat hartanah di China, yang disenaraikan di Bursa Saham Shanghai dan Bursa Saham Shenzen dari tahun 2005 hingga 2012. Sampel akhir terdiri daripada 70 dengan sejumlah 561 pemerhatian.

Hasil kajian jelas mengesahkan bahawa apa yang telah ditemui dalam kajian lain, namun dalam skop yang berbeza. Hasil kajian menunjukkan bahawa faktor yang paling kuat dalam mempengaruhi keputusan tahap hutang dalam model adalah pelepasan cukai selain hutang , keuntungan, ketara dan saiz syarikat. Dapatan kajian menunjukkan bahawa pelepasan cukai selain hutang mempunyai hubungan positif dengan jumlah hutang bagi REC di China. Keuntungan adalah signifikan negatif dengan tahap hutang dalam kedua-dua model dan selaras dengan teori pecking order. Hubungan positif antara ketara dan tahap hutnag memberi sokongan kepada teori keseimbangan yang menramalkan bahawa aset ketara bertindak sebagai cagaran dan memberi keselamatan kepada pemiutang sekiranya berlaku masalah kewangan. Saiz syarikat REC adalah positif dan signifikan untuk mengawal tahp hutang, syarikat yang lebih besar boleh meminjam pada kadar yang lebih menggalakkan kerana mereka dilhat sebegai kurang risiko

Kata Kunci: Struktur modal, krisis kewangan global, tahap hutang, REIT, China

ABSTRACT

Ultimately global property markets continue to receive an increasing degree of

interest from institutions, fund managers, and private investors. With real estate

having formally been acknowledged as an asset class, it is receiving a strong

reputation as a relative source of more stable returns, higher yields and steady cash

flows. Research has proved that capital structure selections differs significantly

across industries. Property industry is exclusive in diverse industries in terms of

capital structure selection. This as a result of property firms have more security (real

estate assets) to deal with larger amounts of debt, and usually have higher leverage

ratios. Therefore, this study is important as it develops the understanding of capital

structure determinants in Chinese real estate companies (REC). This study examines

capital structure determinants of real estate companies in China, listed on the

Shanghai Stock Exchange and Shenzhen Stock Exchange from the year 2005 until

2012. The final sample consists of 70 with a total of 561 observations.

The findings clearly confirm for what has been found in other studies but in different

scope. The result shows that the most powerful factor in affecting LEVERAGE

decisions in the model is non-debt tax shields, profitability, tangibility and size of the

companies. The result shows that non-debt tax shields is positively related to total

debt for Chinese REC. Profitability is negatively significant to leverage in both

models and in line with the pecking order theory. The positive relationship between

tangibility and leverage gives support to the trade-off theory which postulates that

tangible assets act as collateral and provide security to lenders in the event of

financial distress. The size of REC companies is positively and significantly control

for leverage, bigger firms can borrow at more favourable rates because they are

perceived as less risky.

Keywords: Capital structure, leverage, RECs, China

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ACKNOWLEDGEMENT

First and foremost, Alhamdulillah, thanks to Allah S.W.T for ALL the blessings upon me and for providing me the guidance and chance to complete this dissertation to fulfill the requirement of Master of Science Finance at Universiti Utara Malaysia.

I would like to express my sincere gratitude and appreciation to my supervisor Dr. Zaemah bt Zainuddin for the continuous support of my masters study and dissertation, for her patience, guidance, advices, motivation, enthusiasm, and immense knowledge. Her guidance helped me in all the time of research and writing of this dissertation. I could not have imagined having a better advisor and mentor for my master's study. I would also like to thank her for her feedbacks. Their commitment and time spent for this dissertation is most appreciated.

I would like to thank my father and my mother, for their utmost assistance and prayers. And to all my colleagues in the Master of Science (Finance) programme and my lecturers, I wish to thank you all for your support and friendship. To them I dedicated this dissertation.

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CHAPTER 1

INTRODUCTION

1.1 Background of Study

The relationship between firm value and capital structure has been the most debated and unsettled issue in the field of corporate finance literature on both theories and empirical researches in the past 50 years. Though company's financing behaviour can influence the firm value, factors that determine the capital structure are also an important issue to be addressed in today's corporate environment due to the importance of capital structure. The concept of capital structure can be seen as the way corporates finances their investment activities, which is either in form of equity or debt or the mix of both equity and debt (Kerrigan, 2014). While debt and equity may likely be different in nature, but they match together as company's financing. The essential point is to make the best financing choice or pattern that suit the business organization and will maximise shareholders wealth. Management of corporation play a crucial role in selecting the debt to equity in order to maximize firm value. A wrong choice made by the management of the company in their capital structure mixed may lead to financial distress and lastly to bankruptcy (Feng et al., 2007).

Modigliani and Miller's irrelevancy propositions argued that firm's financing policy is irrelevant under a restrictive set of conditions in the world of perfect capital markets. They revealed that determinants of capital structure do not affect firm value. Nevertheless, in reality, perfect markets do not exist, and it is inexperienced to sum up that financing and investment decisions are unrelated. A number of theories have been

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