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MARKET TIMING AND CAPITAL STRUCTURE: MALAYSIAN EVIDENCE

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MASTER OF SCIENCE FINANCE
UNIVERSITI UTARA MALAYSIA
2017
MARKET TIMING AND CAPITAL STRUCTURE: MALAYSIAN EVIDENCE

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Dissertation Submitted to
School of Economics, Finance and Banking
Universiti Utara Malaysia
In Partial Fulfillment of the Requirement for the Degree of Master of Science (Finance)
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Dr. Faizah Ismail

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21 Jun 2017
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DECLARATION

I hereby declare that this project paper is based on my original work except for the citations and quotations that are used in this study. All of them have been duly acknowledged. I also declare that this project paper has not previously been submitted to any Master’s program in Universiti Utara Malaysia and any other institutions.

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ABSTRACT

This paper is to examines whether the market-timing are found to be relevant in Malaysian firms financing decision. Limited studies have been conducted in the emerging or developing country such as Malaysia. Thus, this study have two objectives to be achieve in this study which are (1) to identify the determinants of the change in book leverage based the market-to-book, profitability, asset tangibility, and size, (2) to seek whether the financing decision in Malaysian firms were mostly made through net equity issues as implied by the market timing theory. In the descriptive analysis show one notable finding is when the mean of net equity issues increases at IPO+5 associated with decreasing mean of book leverage and market leverage. The determinants support most of the past studies in market timing. Thereby, this study found an indicator or sign that Malaysian firms follow the market timing behavior, yet not conclusive.

Keywords: Market timing, capital structure, market-to-book
ABSTRAK

ACKNOWLEDGEMENT

الرحمه الرحمن لله ب سم

In the name of Allah, the Most Gracious and the Most Merciful

Alhamdulillah. All praise goes to Allah SWT for His kindness, mercy and blessing which has guided me to face all the trials and tribulations to complete this dissertation.

First and foremost, I would like to express my sincere gratitude and appreciation to my supportive, charismatic, and committed supervisor Dr. Faizah Ismail, for her constructive comments, encouragement and suggestions. Without her patience and guidance, I might not be able to complete this thesis.

Not to forget, to all my lecturers at Universiti Utara Malaysia who had taught me a lot, thank you very much. To all my classmates, especially Zainuddin Md Zaki, Fadli Othman, Munirah Baharuddin and Sufian Abdullah who had helped me a lot when I was in trouble and down. Thank you for all your support.

Finally, I also would like to express my dedication to my parents, Mr. Tengku Md. Yusoff Bin Mahmood and Mrs Zawiah Binti Md Noor, and all my family members, for their full moral and financial support for me to finish my study. I love everyone of you.

May Allah bless.

Sincerely,

Tengku Muhammad Farhan Bin Tengku Md Yusoff
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CHAPTER ONE

BACKGROUND OF THE STUDY

1.1 Introduction

Capital structure is a firm’s choice in managing its long-term financing in an attempt to maximize value. This capital structure involves the firm’s financing choices comprising debt, short-term or long-term, equity, or combination. However, a firm needs to meet its appropriate strategy to finance its investment in order to expand its business, and at the same time avoiding the company from facing any financial distress that could lead to bankruptcy.

This chapter addresses and outlines the basis and plan of this study. This chapter is to provide the snapshot on the background of the study in Section 1.2, problem statement in Section 1.3, research questions in Section 1.4, research objectives in Section 1.5, significance of the study in Section 1.6 and Section 1.7 discusses the scope of the study. Finally Section 1.8 explains the organization of this dissertation.

1.2 Background of the study

Most of the studies on capital structure determinants are still inconclusive (see Titman & Wessels, 1988). These studies mostly tested the two traditional theories of pecking-order and trade-off. However, not many have test the market timing theory by Baker and Wurgler (2002) which made its debut later. Likewise, most Malaysian based studies also tend to test the two traditional theories and similar results have been reported (see Deesomsak et al. 2004 and Mahmood, 2007). This study attempts to move a step ahead in testing the market timing theory by Baker and Wurgler (2002) and seek the relevance of this recent theory in Malaysian firms. Thus far, limited
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REFERENCES


