

VALUE OF CASH HOLDINGS: AN EMPIRICAL EVIDENCE  
ON MALAYSIAN PUBLICLY LISTED COMPANIES

BANNAPOV FERUZBEK MIRZARAKHMONOVICH

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ON MALAYSIAN PUBLICLY LISTED COMPANIES

By

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Thesis Submitted to the Center for Graduate Studies,  
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for the Degree of Master Science in Finance

FEBRUARY 2011

## DECLARATION

I hereby declare that this thesis entitled “Value Of Cash Holdings: An Empirical Evidence on Malaysian Publicly Listed Companies” is based on my original research except for quotations and citations that have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at Universiti Utara Malaysia or other institutions.

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## ABSTRACT

This study examines corporate cash holdings motives, the cross-sectional variations in their values, as well as their effect on investment opportunities. I use a sample of 315 Malaysian publicly listed firms from years 2005 to 2010 which include the period of pre, during and after World Financial crisis. I develop three competing hypotheses (transaction motive, agency motive, and tax motive), theory of financing hierarchy, investment opportunities and value of cash. Findings show that an additional ringgit held by Malaysian firms worth approximately between MYR0.90 and MYR0.93, indicating that shareholders believe that the benefits of companies holding cash outweigh the potential liquidity problems of agency cost associated with it. I also estimate marginal value of cash holdings of the firms by dividing them into three investment opportunity groups. I find that the marginal value of cash holding is MYR0.94 for firms with high investment opportunity, while it is MYR0.91 and MYR0.84 for firms with medium and low investment opportunity respectively. The findings are consistent with previous studies and support all the hypotheses tested.

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## LIST OF ABBREVIATIONS

<b>BE/ME</b>	–	Book-to-market value of equity
<b>CEO</b>	–	Chief executive officer
<b>COB</b>	–	Chairman of the board
<b>GDP</b>	–	Gross domestic product
<b>MYR</b>	–	Malaysian ringgit
<b>NPV</b>	–	Net present value
<b>R&amp;D</b>	–	Research and Development expenses
<b>UK</b>	–	United Kingdom
<b>US</b>	–	United States
<b>USD</b>	–	United States dollar

## CHAPTER 1

### INTRODUCTION

#### 1.1 Background and motivations to the current study

It is generally understood that the reasons for corporations to hold cash are to pay for their financial obligations (particularly in the short-term), to take immediate advantage of business opportunities, and to provide for self-insurance against unknown hazards.

Acharya et al. (2008) argue that an important factor that may affect the probability that a distressed firm will default on its debt payments is the firm's holdings of cash and other liquid assets, which may in turn affect the firm's decision to retain a cash reserve that could otherwise be invested or paid out to shareholders. Since cash (which includes currency available and funds on deposit) is the most highly liquid asset, and is also the main class of current assets, it is usually examined to see its effect (or cost) when companies have large cash holdings.

In recent years, interest of financial researchers on firms' cash policy and cash positions has increased significantly, with a marked emphasis on cash holdings. Since operational cycle of firms basically consists of the cycle of cash, questions arise as to whether companies need to maintain large cash holdings.

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