MALAYSIA LISTED TECHNOLOGY COMPANIES: EXAMINING THE OPTIMAL CAPITAL STRUCTURE, FINANCIAL RATIOS TREND AND FINANCIAL HEALTH FROM 2012 TO 2016

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ABSTRACT

Capital structure of the firm plays an important role to help firm achieves better performance and sustainability in its business. As such, this study was conducted to investigate the optimal capital structure, to observe financial ratio trends and to examine the financial health in the context of technology companies listed on KLTEC Index in Malaysia. The financial data of 30 technology companies listed on KLTEC Index were extracted from Bloomberg database for 5 years, which is from 2012 to 2016. The financial data were analyzed using Descriptive Analysis, Financial Ratio Analysis and Altman's Z-Score. Descriptive analysis was used to investigate the optimal capital structure, the financial ratio analysis was used to see the profitability, tangibility and liquidity trends and Altman's Z-Score Model was used to examine the financial health of the listed technology companies. The descriptive analysis summarized that most of the technology companies have acquired 71.3 per cent debt financing to finance its assets. The profitability ratio showed a declining trend for three (3) consecutive years from 2014 to 2016, the tangibility ratio showed moderate-to-healthy trend which ranged between 0.40 and 0.38 in 2012 and 2016 respectively, and the liquidity ratio indicated a stable trend which ranged between 3.15x to 3.04x from 2012 to 2016. The Altman's Z-Score presented that the Green Packet Bhd, Omesti Bhd and HeiTech Padu Bhd have recorded the lowest Z-Score which portrayed high risk of bankruptcy.

Keywords: Capital Structure, Leverage, Optimal Capital Structure, Technology Companies

ABSTRAK

Struktur modal syarikat memainkan peranan yang penting dalam membantu syarikat mencapai prestasi dan kemampanan yang lebih baik di dalam perniagaan. Sehubungan itu, kajian ini dijalankan untuk menyelidik struktur modal yang optimal, memerhati perubahan atau tren nisbah kewangan, mengkaji kedudukan kewangan di dalam konteks syarikat teknologi yang tersenarai di KLTEC Index Malaysia. Data kewangan bagi 30 syarikat teknologi yang tersenarai di KLTEC Index Malaysia telah diperolehi daripada pangkalan data Bloomberg untuk 5 tahun, iaitu dari tahun 2012 hingga 2016. Data kewangan ini telah dianalisis menggunakan Analisis Deskriptif, Analisis Nisbah Kewangan dan Model Z-Score Altman. Analisis Deskriptif digunakan untuk menyelidik struktur modal yang optimal, Analisis Nisbah Kewangan digunakan untuk memerhati tren keuntungan, asset ketara dan kecairan dan Z-Score Altman digunakan untuk mengkaji keadaan kewangan. Analisis deskriptif mendapati majoriti syarikat teknologi menggunakan 71.3 peratus pembiayaan hutang untuk membiayai asset mereka. Nisbah keuntungan menunjukkan tren menurun selama tiga tahun berturut-turut dari 2014 hingga 2016, nisbah asset ketara menunjukkan tren sederhana-kepada-baik pada kadar di antara 0.40 and 0.38 pada 2012 hingga 2016 masing-masing, dan nisbah kecairan menunjukkan tren stabil pada kadar di antara 3.15x to 3.04x dari 2012 hingga 2016. Analisis Z-Score Altman menunjukkan Green Packet Bhd, Omesti Bhd dan HeiTech Padu Bhd telah merekodkan mata Z-Score yang terendah yang mempamerkan risiko tinggi terhadap insolvensi.

Katakunci: Struktur Modal, Keberhutangan, Struktur Modal Optimal, Syarikat Teknologi

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And others	Et al

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

The terminology of technology sector has been widened for so many times as more and more technologies companies with new businesses related to information technology (IT) has eventually entered into a market. The technology sector was originally begun with semiconductors, computing hardware and communcations equipments. Then it gradually adding companies that are related to ecommerce, social media services, sharing economy and cloud based computing. There are multiple investors exist either in global or local market as the technology sector has rapidly grown and gives a better returns to an investors.

According to Doms (2004), the stake in the telecommunication industry has eventually raised by investors as the industry has experienced an advanced growth. As the world nowadays has been facing a fast pace in the technological advances, the world also has seen a remarkable headway in the investment in the technology sector. The growth of technology sector foresees progress and development and the sector has become the key economic indicators of any country and has substantial influence on any country's economy (Roller, 2001; Datta, 2004; Wavermann and Meschi, 2005).

Koh and Magee (2006) reported that the average growth rate of Information and Communication Technologies (ICT) industry is relatively steep and is nearly to 20 to 30 percent for the ICT worldwide. Koh and Magee (2008) then compared the IT sector to the other important sector like energy whereby they found that the growth rate of IT sector is greater as the average growth rate of the energy sector is 6 per cent at an

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