

**AN INVESTIGATION ON FOREIGN EXCHANGE
EXPOSURE IN MALAYSIA LISTED COMPANIES**

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EXPOSURE IN MALAYSIA LISTED COMPANIES**

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Abstract

In the light of globalization and internationalization of world markets, foreign exchange risk has become one of the most difficult and persistent problems with which financial executives must cope. This risk cannot be avoided, but can be managed by hedging in currency forwards and options. The need and approach for managing it depends on the size of exposure and fluctuations in exchange rate. Malaysia has its own status in the international markets. This study construct an analysis about foreign exchange exposure Malaysia companies were listed on Kuala Lumpur Stock Exchange during period January 2000 to December 2010. This study extent the prior researches by investigating the effects of major determinants toward the foreign exchange exposure. This study reveals that company efficiency, size, asset tangibility and growth opportunity do affect the foreign exchange exposure in Malaysia companies in general. However, the result comes up differently when those companies classified into their industry sectors. For Industry Product sector, this study documents the evidence that financial leverage, efficiency, profitability and size of the companies are significantly influence the foreign exchange exposure.

Keywords: Exchange rate exposure, Foreign currency, Bursa Malaysia

Abstrak

Memandangkan globalisasi dan pengantarabangsaan pasaran dunia, risiko pertukaran mata wang asing telah menjadi salah satu masalah yang paling sukar dan berterusan. Risiko ini tidak dapat dielakkan tetapi boleh diuruskan melalui perlindungan nilai mata wang asing pada masa hadapan. Keperluan dan pendekatan untuk menguruskan matawang asing bergantung kepada saiz pendedahan dan naik turun dalam kadar pertukaran mata wang asing. Kajian ini membina analisis tentang pendedahan syarikat-syarikat pertukaran mata wang asing di Malaysia yang telah disenaraikan di Bursa Saham Kuala Lumpur dalam tempoh Januari 2000 hingga Disember 2010. Kajian ini meliputi penyelidikan terlebih dahulu dengan mengkaji kesan penentu utama terhadap pendedahan pertukaran mata wang asing. Kajian ini menunjukkan bahawa kecekapan saiz syarikat, asset tidak nyata dan peluang pertumbuhan menjejaskan pendedahan pertukaran mata wang asing dalam syarikat-syarikat di Malaysia secara amnya. Walau bagaimanapun, hasilnya adalah berbeza apabila syarikat-syarikat yang diklasifikasikan kepada sektor industri masing-masing. Bagi sektor produk industri, kajian ini membuktikan bahawa tahap kewangan, kecekapan, keuntungan dan saiz syarikat-syarikat ini secara ketara mempengaruhi pendedahan pertukaran matawang asing.

Katakunci: Pendedahan kadar pertukaran, Matawang asing, Bursa Saham Malaysia

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter begins with a general description of the background and the development of the field of study, followed by the actual problem. This study explained the purpose and the delimitations of the dissertation. Further, this study will present the study research questions and hypotheses. This study also measure the foreign exchange exposure based on dependent and independent variables.

1.2 Background of Study

As economic integrating and globalization have been increasing year by year, exchange rate movements have become very important source of risk of financial companies. In this context, it is very important to mention that virtually all existing empirical studies estimate currency exchange rate exposure on the basic of share prices. Exchange rate exposure can be defined generally as the extent to which changes in exchange rate affect stock returns and thereby company values (Bacha, Mohamad, Zain, and Rashid, 2013).

At the micro-level of analysis, if all other conditions are the same, then the higher the proportion of a company's international operations, the greater the effect of exchange rate movements on the company's value. Similarly, the greater the magnitude of exchange rate changes, the more obvious it is when companies are operating under this influence.

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