MARKET TIMING AND CAPITAL STRUCTURE: MALAYSIAN EVIDENCE

TENGKU MUHAMMAD FARHAN BIN TENGKU MD YUSOFF

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By:

TENGKU MUHAMMAD FARHAN BIN TENGKU MD YUSOFF

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Universiti Utara Malaysia

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821044
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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

Kajian ini adalah bertujuan untuk mengkaji sama ada *market timing theory* didapati relevan dalam pembiayaan firma di Malaysia. Kajian yang dijalankan di negara membangun adalah terhad seperti di Malaysia. Oleh itu, kajian ini mempunyai dua objektif untuk dicapai iaitu (1) untuk mengenal pasti penentu perubahan dalam *book leverage* berasaskan *market-to-book, profitability, asset tangibility* dan *firm size*, (2) untuk mencari sama ada pembiayaan di firma Malaysia kebanyakannya dibuat melalui *net equity issue* seperti yang dicadangkan oleh *market timing theory*. Penentu ini menyokong kebanyakan kajian masa lalu dalam *market timing*. Dalam analisis deskriptif menunjukkan satu penemuan yang ketara untuk *market timing theory* apabila *net equity issue* di IPO+5 meningkat yang berhubung kait dengan penurunan purata *book leverage*. Oleh itu, kajian ini mendapati penunjuk atau petanda bahawa firma Malaysia mengikut tingkah laku *market timing theory*, namun tidak konklusif.

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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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