

**FIRM VALUE AND THE TAX
BENEFITS OF DEBT: A STUDY ON
PUBLIC LISTED COMPANY IN
MALAYSIA**

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Malaysia

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ABSTRACT

This study has three main objectives. First, to empirically defines the relationship between firm value and debt of Public Listed Company in Malaysia once endogeneity of contemporaneous debt is corrected. Secondly the study looks into the possibility impact of alternative theories such as Free Cash Flow and Debt Signaling Hypotheses to the relationship between firm value and debt. Finally, it examines the influence of managerial ownership towards firm value and how it affects the benefits of debts.

This study uses interest expense scaled by total assets as proxy of debt. The relationship between firm value and debt is statistically tested by running Ordinary Least Square Estimation on the primary equation. Other primary variables used are the market value of equity, with other control variables of earnings, research and development, dividend and capital expenditure, scaled by total assets. This study then documented that the primary equation is not consistent with Miller and Modigliani theorem and suggested that contemporaneous of interest expense is indeed endogenous. Two-Stage Least Square Estimation is used to test the endogeneity of contemporaneous interest expense and to estimate the predicted value of interest expense that was then use for the later analysis.

The study found that there is a positive relation between firm value and debt once endogeneity of contemporaneous debt is corrected. Further into the study, it also found that firms with managerial alignment have higher tax benefits of debt of 63 cents compare to average firms which is 38 cents per ringgit.

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TABLE OF CONTENTS

Chapter	Description	Page
	Abstract	i
	Acknowledgement	ii
	Table of Contents	iii
	List of Tables	vii
CHAPTER 1:	INTRODUCTION	1
1.1	Purpose and significance of the study	2
1.2	Research question/objectives of the study	3
1.3	Scope of the study	4
1.4	Limitation of the study	4
1.5	Organization of the study	5
CHAPTER 2:	LITERATURE REVIEW	6
2.1	Background on capital structure	6
2.2	Relationship between firm value and debt – OLS specification	7
2.3	Hausman (1978) test of endogeneity	9

2.4	Alternate interpretation	10
2.4.1	Free cash flow theory	10
2.4.2	Debt signaling hypotheses	11
2.5	Firm value and debt – role of managerial ownership	13
2.6	Malaysian evidence	14
CHAPTER 3: RESEARCH METHODOLOGY		18
3.1	Development of hypotheses	18
3.2	Selection of measures	20
3.2.1	OLS specification	20
3.2.2	Hausman (1978) test of endogeneity	21
3.2.3	Two-Stage Least Square (2SLS) estimation	22
3.2.4	Free cash flow theory	23
3.2.5	Debt signaling hypotheses	24
3.2.6	Role of managerial alignment in the relation between firm value and debt	25
3.2.7	Robustness test	26
3.3	Sampling design	26
3.4	Data collection procedures	26
3.5	Data analysis techniques	27

CHAPTER 4: RESEARCH RESULTS	28
4.1 Introduction	28
4.2 Summary statistic	28
4.3 Analysis of measure	29
4.3.1. OLS specification	29
4.3.2. Hausman (1978) test of endogeneity	31
4.4 Testing of hypotheses	33
4.4.1 Two-stage least square (2SLS) specification	33
4.4.2 Alternate interpretation	34
4.4.2.1 Free cash flow theory	34
4.4.2.2 Debt signaling hypotheses	36
4.5 Role of managerial alignment in the relation between firm value and debt	37
4.6 Robustness test	39
4.6.1 Alternate empirical specification	39
4.6.2 Additional firm and industry level controls	40
4.6.3 Other robustness test	42
4.7 Summary of research results	43

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS	45
5.1 Summary and conclusion	45
5.2 Suggestion for future research	46
5.3 Implications	47
REFERENCE	48
APPENDIX	48
Appendix A: Variables Definition	50
Appendix B: List of firms	51

LIST OF TABLES

Table	Title	Page
Table 4.1:	Descriptive Statistic	25
Table 4.2:	Relation between firm value and debt; OLS vs Two-Stage Least Square (2SLS) estimation	26
Table 4.3:	First Stage Regression for Hausman (1978) test	28
Table 4.4:	Distinguishing between the tax and agency explanation of debt – Free cash flows	30
Table 4.5:	Distinguishing between the tax and signaling hypotheses of debt – Short term debt	32
Table 4.6:	Role of managerial alignment in the relation between firm value and debt	34
Table 4.7:	Robustness test: Alternate empirical specification	36
Table 4.8:	Additional control for firm and industry level factors	37
Table 4.9:	Robustness test: All lagged control variables	38