EVA Evidence
On Public Listed Companies
In Malaysia

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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACKNOWLEDGEMENTS</td>
<td>iii</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>iv</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>v</td>
</tr>
<tr>
<td>APPENDICES</td>
<td>vi</td>
</tr>
<tr>
<td>CHAPTER 1: INTRODUCTION</td>
<td></td>
</tr>
<tr>
<td>1.1 Background</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Scope of the Study</td>
<td>2</td>
</tr>
<tr>
<td>1.3 Significance of the Study</td>
<td>3</td>
</tr>
<tr>
<td>1.4 Organization of the Study</td>
<td>4</td>
</tr>
<tr>
<td>CHAPTER 2: EVA FRAMEWORK</td>
<td></td>
</tr>
<tr>
<td>2.1 EVA definition</td>
<td>5</td>
</tr>
<tr>
<td>2.2 MVA definition</td>
<td>8</td>
</tr>
<tr>
<td>2.3 The Link between EVA and MVA</td>
<td>9</td>
</tr>
<tr>
<td>CHAPTER 3: LITERATURE REVIEW</td>
<td>10</td>
</tr>
</tbody>
</table>
CHAPTER 4: RESEARCH METHODOLOGY

4.1 Research Objectives 18
4.2 Selection of Measures 18
4.3 Research Hypothesis and Data Analysis Techniques 19
4.4 Sampling Design and Data Collection Procedure 22

CHAPTER 5: RESEARCH RESULTS

5.1 Summary Statistics of Sample Companies 25
5.2 Correlation Analysis of Independent Variables 29
5.3 Regression Analysis with MVA-to-capital as Dependent Variable
   for 100 Large Companies 30
5.4 Regression Analysis with Annual Change in MVA-to-capital as
   Dependent Variable for 100 Large Companies 36
5.5 Regression Analysis for the Wealth Creators and Wealth
   Destroyers 41

CHAPTER 6: CONCLUSION

6.1 Summary 50
6.2 Limitations of this Study and Further Research 51

BIBLIOGRAPHY 70
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ABSTRACT

This study examines claims that Economic Value Added (EVA) better explain stock values and stock returns than traditional accounting measures. Also, this study examines the relationship between EVA and Market Value Added (MVA) as well as the relationship between EVA and the annual change in MVA. The evidence suggests that EVA, in general, has a superior influence over stock values and stock returns compared to the traditional accounting measures like earnings per share. Its superiority becomes more apparent when regression tests are conducted separately for companies with positive EVA (wealth creators) and those with negative EVA (wealth destroyers). The adjusted R-square values range from 41.1% to 83.3% for the former and 28.3% to 86.8% for the latter where MVA is used as the dependent variable. However, this study finds that the relationship between EVA and MVA, and the relationship between EVA and the annual change in MVA is not a straightforward one. The relationship holds particularly well for the wealth creators, where the strong positive relationship between EVA and MVA shows that EVA is highly valued by the market. In other cases, the relationship is inconsistent throughout the years. Nevertheless, this study finds that EVA has its own technical merits as a tool to measure corporate performance and value companies.
LIST OF TABLES

1. EVA adjustments .................................................. 7
2. Examples of equity equivalent adjustments .......... 7
3. Distribution of sample and its representation by sector 22
4. Distribution of companies by EVA and EPS combination 25
5. Distribution of companies by MVA and annual change in MVA 27
6. Correlation analysis between EVA-to-capital and EPS 29
7. Empirical results for regression equation (1) 
   MVA-to-capital = a_1 + b_1 EVA-to-capital + e_1 30
8. Empirical results for regression equation (2) 
   MVA-to-capital = a_2 + b_2 EPS + e_2 32
9. Empirical results for regression equation (3) 
   MVA-to-capital = a_3 + b_{3(i)} EVA-to-capital + b_{3(ii)} EPS + e_3 33
10. Empirical results for regression equation (4) 
    Annual change in MVA-to-capital = a_4 + b_4 EVA-to-capital + e_4 36
11. Empirical results for regression equation (5) 
    Annual change in MVA-to-capital = a_5 + b_5 EPS + e_5 38
12. Empirical results for regression equation (6) 
    Annual change in MVA-to-capital = a_6 + b_{6(i)} EVA-to-capital 
    + b_{6(ii)} EPS + e_6 39
13. Empirical results of EVA-to-capital and MVA-to-capital 
    regression for the wealth creators 41
14. Empirical results of EVA-to-capital and MVA-to-capital 
    regression for the wealth destroyers 42
15. Empirical results of EVA-to-capital and the annual change 
    in MVA-to-capital regression for the wealth creators 44
16. Empirical results of EVA-to-capital and the annual change 
    in MVA-to-capital regression for the wealth destroyers 45
# APPENDICES

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>EVA and MVA calculation: A numerical example on RJ Reynolds for the year 1992 to 1996</td>
<td>52</td>
</tr>
<tr>
<td>2</td>
<td>Sample of 100 companies (ranked according to market capitalisation as at December 31, 1996)</td>
<td>55</td>
</tr>
<tr>
<td>3</td>
<td>EVA-to-capital</td>
<td>58</td>
</tr>
<tr>
<td>4</td>
<td>MVA-to-capital</td>
<td>61</td>
</tr>
<tr>
<td>5</td>
<td>Annual change in MVA-to-capital</td>
<td>64</td>
</tr>
<tr>
<td>6</td>
<td>EPS</td>
<td>67</td>
</tr>
</tbody>
</table>