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PROPORTIONALITY OF FINANCIAL RATIOS AND PREDICTION OF THE COMPANY PERFORMANCE OF STOCKS IN THE KUALA LUMPUR STOCK EXCHANGE

BY

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ABSTRACT

This paper analyses the proportionality assumption of financial ratios generated from counters selected from Kuala Lumpur Stock Exchange (KLSE), Malaysia. Proportionality assumption in financial ratios is essential in financial statement analysis as it allows us to compare ratios across firms of different sizes. Thus, it also allows us to use financial ratio to further our analysis into company performance prediction. Earning Per Share (EPS) and Revenue Per Share (RPS) are among the tools in measuring company performance. OLS regression analysis with enter-all-variables and stepwise methods will be used to forecast company performance, where this year (n) financial ratios will be used to forecast next year (n+1) EPS or RPS. A conclusion will be made on a set of ratios that are useful in company performance prediction.

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