CHAPTER FOUR

RESULTS

4.1 INTRODUCTION

Proportionality assumption is essential in financial ratio analysis. Financial ratio takes into account the relative relation between the size of the denominator and the size of the numerator. Therefore, proportionality assumption makes it possible to compare ratios across firms of difference sizes. In this chapter, the test results will be discussed in detail after numerous analyses and tests are carried out using two statistical packages, i.e. SPSS and E-Views.

First, 54 companies (except finance companies) on the Main Board with December as financial year-end (FYE) are selected randomly and their financial items are obtained. Next, various financial ratios are computed using the formulas given in Chapter Three. The list of the selected counters is given in Appendix I.

4.2 ANALYSIS FOR PROPORTIONALITY ASSUMPTION

In this section, 2 ratios from each category will be used to test for proportionality assumption in financial ratios (y_i/x_i). They are: -

(1) Liquidity

- Current Ratio (CR)
- Acid-test (quick) Ratio (QR)

(2) Return on Invested Capital/Profitability/Operating Performance

- Return on Assets (ROA)
- Return on Equity (ROE)

(3) Financial Leverage and Solvency

- Debt to Equity (DTE)
- Financial Leverage (FL)

(4) Asset Utilisation and Efficiency

- Working Capital to Sales (WCTS)
- Fixed Assets to Sales (FATS)

These ratios are used in the following regression: -

REG: $y_i = \beta_0 + \beta_1 x_i + \varepsilon_i$

where x is the denominator and y is the numerator, and β_0 and β_1 will be tested using t-test for proportionality assumption as follows: -

H_0: $\beta_0 = 0$

H_1: $\beta_0 \neq 0$

If the null hypothesis of $\beta_0 = 0$ is rejected, proportionality assumption is not satisfied.

And,

H_0: $\beta_1 = 0$

H_1: $\beta_1 \neq 0$

If the null hypothesis of $\beta_1 = 0$ is rejected, proportionality assumption is satisfied.

Table 4.1 presents the results of estimating the REG model for the year 1999. It is clear that the proportionality assumption is not rejected as all the β_0 values are not significant at the level of significance of 0.01 and most of the β_1 are significant except DTE and WCTS. Therefore, we can conclude that the REG model fulfils the proportionality assumption on financial ratios for counters listed in the KLSE. Nevertheless, before we provide a summary to this analysis, we need to test the problem of heteroscedasticity and normality of the REG series.

Table 4.1: Proportionality Assumption Test For β_0 And β_1, Heteroscedasticity Test And Normality Test In REG Model For The Year 1999

Ratio	β_0 (t-statistic)	β_1 (t-statistic)	White's Test (Chi-square Statistic)	Jarque-Bera Test (Probability)
CR	227.680 (2.40*)	0.882 (14.81**)	(33.80**)	163.106 (0.00)
QR	86.007 (0.99)	0.883 (16.22**)	(34.15**)	214.159 (0.00)
ROA	27.625 (0.87)	0.044 (6.13**)	(18.13**)	456.639 (0.00)
ROE	-40.106 (-1.80)	0.160 (9.46**)	(11.93**)	34.338 (0.00)
DTE	173.856 (0.32)	1.119 (2.70*)	(8.75*)	1106.500 (0.00)
FL	23.874 (0.05)	2.469 (6.05**)	(8.65*)	1009.838 (0.00)
WCTS	42.481 (0.40)	0.143 (1.95)	(9.73**)	323.825 (0.00)
FATS	268.761 (2.10*)	0.362 (4.07**)	(9.62**)	269.625 (0.00)

* Significant at $\alpha = 0.05$
** Significant at $\alpha = 0.01$

The results of the White's general heteroscedasticity test and the Jarque-Bera test of normality for the year 1999 are also reported in Table 4.1. The test results indicate that the homoscedasticity assumption in REG model is rejected for all the ratios except DTE and FL. The results of the Jarque-Bera test in Table 4.1 reveal that the normality assumption of regression residuals is also rejected for all the ratios at $\alpha = 0.01$. (The test results for the other years, i.e. year 1988 till 1998 are given in Appendix II).

It should be noted that although the test statistic for homoscedasticity is significant, the reason might not be heteroscedasticity, but rather specification errors, because the White's test can be a test of pure heteroscedasticity or specification error or both. In addition, heteroscedasticity may also occur due to the presence of outliers. In the KLSE, there are hundreds of counters with different sectors. Therefore, counters in one sector may share the same range of ratio compared to the other sectors and the difference in range can be quite substantial among sectors.

Since the REG models appear to be highly heteroscedastic in the majority of cases and in order for us to avoid the problem of heteroscedasticity (even though this problem will not lead us to reject the proportionality assumption), REG model will be transformed into a homoscedastic model (PRO). In this study, we assumed the heteroscedasticity takes the form of Var $(\varepsilon_i) = (x_i\sigma)^2$ and the model can be transformed into the following homoscedastic model (PRO):

PRO: $y_i/x_i = \beta_1' + (\beta_0' / x_i) + \varepsilon_i'$

(Please refer to Appendix III for the detail on transformation)

Next, the White's test will be used to test the proportionality assumption again. Unfortunately, the results of this transformation model (PRO) does not remove the heteroscedastic component in REG model. Therefore, we tried some other methods of transformation, such as logarithm, square root, inversion and etc. However, these transformations are also not any better than the REG model (before

transformation), even though Berry and Nix (1991) found that a log-transformed model was the best-fit model in some cases in their data. Therefore, we maintain our original model (REG) to test the applicability of the financial ratios in predicting the company performance in Part Two.

Before we proceed with Part Two, Table 4.2 shows the summary of the entire test for year 1988 until year 1999. Table 4.2 presents the results that the ratio proportionality holds well in every year for most of the ratios. Altogether, only 15 out of 96 ratios for coefficient estimates exhibit some deviations from the proportionality assumption, which represent 15.6%.

Table 4.2: Summary Of The Estimation Results Of REG Models From Year 1988 To Year 1999 At $\alpha = 0.01$

Test Results	**CR**	**QR**	**ROA**	**ROE**	**DTE**
Proportionality Assumption Rejected	2	0	0	1	1
Heteroscedasticity	4	4	12	7	6
Non-Normality	12	11	12	12	12

Test Results	**FL**	**WCTS**	**FATS**	**NO. OF SIGNIFICANT COEFFICIENTS**
Proportionality Assumption Rejected	0	6	5	15
Heteroscedasticity	5	9	4	51
Non-Normality	12	11	12	94

Note: The entries refer to the number of years

The results in the second row of Table 4.2 indicate that the model is highly heteroscedastic. It should be noted that heteroscedasticity can occur in at least 2 situations other than a cross-sectional data set with a large amount of variation in the size of the dependent variable (Studemund, 2001) as mentioned in Chapter Two:

(1) Heteroscedasticity can occur in a time series model with a significant amount of change in the dependent variable.

(2) Heteroscedasticity can occur in any model, time series or cross-sectional, where the quality of data collection changes dramatically within the sample.

However, heteroscedasticity does not destroy the unbiasedness and consistency properties of the OLS estimates. It only increases the variances of the β_1 distributions (it does affect the minimum-variance property) and it causes the OLS method to tend to underestimate the variances (and standard errors) of the coefficients.

In the presence of heteroscedasticity, it is always better to use Generalised Least Squares (GLS) method, but in reality, it is not always easy to apply GLS in practice. According to Studemund (2001), the boundary between heteroscedasticity as suggested by examination of the data and heteroscedasticity as a theoretical property of a model does become blurred in practice. And some forms of heteroscedasticity can in fact lead to non-normality.

Sector analysis is also carried out in this study. The summary results of the proportionality assumption test for β_0 and β_1, heteroscedasticity test and normality test in REG model for the year 1988 until year 1999 for consumer products sector are presented in Tables 4.3 to 4.6. Note that the sample size (n) for consumer products sector in our study is only 15 cases out of 54 cases for the whole sample of study in this report.

Table 4.3: Summary Of The Proportionality Assumption Test For β_0 In REG Model From Year 1988 To Year 1999 For Consumer Products Sector

Test For β_0	**PROPORTIONALITY ASSUMPTION**					
RATIO	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**
CR	16.998 (0.95)	34.090 (1.05)	53.611 (1.22)	86.402 (1.46)	25.665 (0.42)	-2.623 (-0.08)
QR	16.034 (1.40)	25.850 (1.02)	18.496 (0.62)	43.302 (1.01)	14.810 (0.30)	-7.482 (-0.41)
ROA	-4.540 (-0.41)	-2.419 (-0.19)	3.556 (0.13)	9.105 (0.34)	-5.157 (-0.21)	6.862 (0.21)
ROE	-2.433 (-0.37)	-2.903 (-0.42)	-7.337 (-0.56)	-8.348 (-0.67)	-6.632 (-0.45)	11.327 (0.49)
DTE	21.288 (1.03)	17.411 (0.72)	4.719 (0.10)	-23.343 (-0.30)	16.142 (0.44)	37.197 (1.03)
FL	7.797 (0.42)	2.420 (0.10)	-14.067 (-0.26)	-44.633 (-0.47)	-9.407 (-0.17)	6.338 (0.12)
WCTS	18.793 (1.08)	38.531 (1.21)	31.823 (0.77)	52.463 (0.89)	43.576 (0.74)	12.183 (0.43)
FATS	-0.188 (-0.01)	-1.700 (-0.06)	-4.413 (-0.12)	-2.470 (-0.06)	33.551 (0.82)	24.719 (0.54)

Table 4.3: Summary Of The Proportionality Assumption Test For β_0 In REG Model From Year 1988 To Year 1999 For Consumer Products Sector (Continued)

Test For β_0	PROPORTIONALITY ASSUMPTION					
RATIO	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
CR	36.105 (0.80)	19.362 (0.40)	19.887 (0.31)	9.753 (0.12)	78.815 (0.81)	36.855 (0.40)
QR	13.587 (0.59)	10.666 (0.30)	4.775 (0.10)	-3.032 (-0.05)	40.441 (0.48)	-0.421 (-0.01)
ROA	3.320 (0.10)	8.317 (0.20)	3.157 (0.06)	37.928 (0.63)	16.405 (0.31)	-7.241 (-0.29)
ROE	18.630 (0.67)	15.219 (0.50)	10.913 (0.28)	36.362 (0.82)	34.355 (0.62)	15.931 (0.56)
DTE	81.123 (1.21)	69.074 (1.50)	74.681 (1.54)	121.526 (1.75)	97.344 (1.64)	176.069 (1.36)
FL	45.805 (0.55)	25.036 (0.35)	27.407 (0.36)	50.741 (0.46)	27.258 (0.24)	98.717 (0.60)
WCTS	40.182 (1.07)	58.511 (1.23)	108.866 (1.49)	114.028 (1.22)	169.231 (1.81)	132.997 (1.42)
FATS	40.757 (0.77)	44.833 (0.78)	69.021 (0.84)	52.174 (0.49)	78.000 (0.76)	79.109 (0.70)

* Significant at $\alpha = 0.05$

** Significant at $\alpha = 0.01$

The figures in parentheses indicate the t-statistics.

Table 4.4: Summary Of The Proportionality Assumption Test For β_1 In REG Model From Year 1988 To Year 1999 For Consumer Products Sector

Test For β_1	PROPORTIONALITY ASSUMPTION					
RATIO	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**
CR	1.237 (11.08**)	1.140 (7.65**)	1.195 (8.72**)	1.073 (8.02**)	1.482 (7.32**)	1.617 (14.74**)
QR	0.595 (8.30**)	0.638 (5.45**)	0.902 (9.72**)	0.747 (7.70**)	0.945 (5.76**)	0.996 (16.46**)
ROA	0.126 (5.49**)	0.128 (5.90**)	0.145 (4.06**)	0.114 (4.05**)	0.126 (4.63**)	0.115 (3.42**)
ROE	0.140 (5.83**)	0.157 (7.28**)	0.210 (6.30**)	0.190 (6.72**)	0.155 (5.25**)	0.114 (2.69*)
DTE	0.582 (7.74**)	0.682 (9.18**)	0.826 (7.14**)	1.011 (5.79**)	0.628 (8.42**)	0.552 (8.36**)
FL	1.721 (25.51**)	1.817 (24.02**)	1.971 (14.43**)	2.170 (10.07**)	1.790 (15.65**)	1.720 (17.96**)
WCTS	0.060 (2.08)	0.031 (0.78**)	0.088 (2.22**)	0.069 (1.34)	0.105 (2.17*)	0.139 (6.35**)
FATS	0.322 (6.21**)	0.284 (8.19**)	0.258 (7.33**)	0.275 (7.27**)	0.223 (6.63**)	0.236 (6.68**)

Test For β_1	PROPORTIONALITY ASSUMPTION					
RATIO	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
CR	1.359 (12.13**)	1.499 (13.08**)	1.651 (11.14**)	1.591 (9.79**)	1.354 (6.31**)	1.539 (7.73**)
QR	0.850 (14.85**)	0.933 (11.20**)	1.127 (10.02**)	0.963 (7.49**)	0.874 (4.74**)	1.053 (5.98**)
ROA	0.130 (4.19)	0.129 (3.97**)	0.145 (3.98**)	0.095 (2.57*)	0.065 (2.03)	0.101 (7.04**)
ROE	0.112 (2.44*)	0.134 (3.06**)	0.155 (3.26**)	0.096 (1.96)	0.045 (0.75)	0.102 (3.49**)
DTE	0.542 (4.88**)	0.559 (8.48**)	0.499 (8.55**)	0.471 (6.16**)	0.422 (6.57**)	0.355 (2.71*)
FL	1.739 (12.62**)	1.772 (17.32**)	1.701 (18.81**)	1.743 (14.47**)	1.705 (14.03**)	1.656 (9.85**)
WCTS	0.088 (4.02**)	0.083 (3.79**)	0.094 (2.59*)	0.081 (1.76)	0.014 (0.35)	0.066 (1.47)
FATS	0.193 (6.31**)	0.165 (6.20**)	0.192 (4.74**)	0.231 (4.41**)	0.211 (4.85**)	0.254 (4.71**)

* Significant at $\alpha = 0.05$

** Significant at $\alpha = 0.01$

The figures in parentheses indicate the t-statistics.

Table 4.5: Summary Of The Chi-Square Statistic In Heteroscedasticity Test In REG Model From Year 1988 To Year 1999 For Consumer Products Sector

White's Test	**HETEROSCEDASTICITY ASSUMPTION**					
RATIO	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**
CR	4.21	3.47	4.54	3.69	5.43	2.64
QR	5.49	3.84	3.55	2.25	2.95	3.73
ROA	4.96	5.75	7.98*	4.89	3.71	1.68
ROE	4.40	7.27*	7.08*	3.70	3.82	1.43
DTE	7.54*	4.71	4.61	9.18*	5.41	4.57
FL	5.08	4.25	9.78**	11.23**	11.83**	13.17**
WCTS	5.78	1.83	4.93	4.97	3.81	5.99
FATS	8.82*	3.76	6.80*	7.14*	9.56**	10.06**

White's Test	**HETEROSCEDASTICITY ASSUMPTION**					
RATIO	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
CR	6.59*	7.01*	5.60	6.42*	3.49	6.80*
QR	3.49	4.36	7.61*	3.41	3.86	6.52*
ROA	2.07	1.10	2.23	0.85	0.77	4.98
ROE	0.36	0.95	0.91	0.13	0.65	0.54
DTE	0.49	3.07	2.87	1.52	12.72**	0.22
FL	5.55	13.70**	10.24**	12.88**	14.58**	2.51
WCTS	5.09	6.19*	0.85	0.25	0.76	0.62
FATS	10.67**	9.87**	0.34	0.58	0.18	0.07

* Significant at $\alpha = 0.05$

** Significant at $\alpha = 0.01$

Table 4.6: Summary Of The Normality Test In REG Model From Year 1988 To Year 1999 For Consumer Products Sector

Jarque -Bera Test	**NORMALITY ASSUMPTION**					
RATIO	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**
CR	35.464 (0.00**)	10.032 (0.01**)	6.484 (0.04*)	5.125 (0.08)	3.376 (0.18)	11.157 (0.00**)
QR	2.425 (0.30)	19.198 (0.00**)	14.739 (0.00**)	21.684 (0.00**)	21.610 (0.00**)	0.152 (0.93)
ROA	21.923 (0.00**)	4.968 (0.08)	2.70 (0.26)	6.886 (0.03*)	27.872 (0.00**)	53.557 (0.00**)
ROE	21.358 (0.00**)	1.039 (0.59)	1.741 (0.42)	19.316 (0.00**)	23.673 (0.00**)	62.567 (0.00**)
DTE	0.309 (0.86)	0.447 (0.80)	1.755 (0.42)	0.491 (0.78)	0.223 (0.89)	0.727 (0.70)
FL	1.042 (0.59)	0.023 (0.99)	0.590 (0.74)	1.882 (0.39)	2.894 (0.24)	0.069 (0.97)
WCTS	36.406 (0.00**)	15.289 (0.00**)	7.987 (0.02*)	3.218 (0.20)	7.781 (0.02*)	6.333 (0.04*)
FATS	0.094 (0.95)	0.165 (0.92)	0.066 (0.96)	0.774 (0.68)	0.536 (0.76)	1.036 (0.60)

Jarque -Bera Test	**NORMALITY ASSUMPTION**					
RATIO	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
CR	4.470 (0.11)	2.033 (0.36)	5.571 (0.06)	6.861 (0.03*)	19.100 (0.00**)	4.542 (0.10)
QR	3.289 (0.19)	3.799 (0.15)	4.642 (0.10)	46.637 (0.00**)	41.169 (0.00**)	15.048 (0.00**)
ROA	31.312 (0.00**)	47.112 (0.00**)	9.935 (0.01**)	19.660 (0.00**)	74.251 (0.00**)	25.244 (0.00**)
ROE	42.987 (0.00**)	59.870 (0.00**)	21.851 (0.00**)	38.836 (0.00**)	72.967 (0.00**)	26.695 (0.00**)
DTE	6.393 (0.04*)	0.272 (0.87)	0.198 (0.91)	0.443 (0.80)	0.011 (0.99)	39.724 (0.00**)
FL	1.602 (0.45)	0.593 (0.74)	0.476 (0.79)	0.623 (0.73)	2.580 (0.28)	5.378 (0.07)
WCTS	9.069 (0.01*)	5.952 (0.05)	12.663 (0.00**)	33.215 (0.00**)	30.731 (0.00**)	33.617 (0.00**)
FATS	1.053 (0.59)	1.160 (0.56)	15.951 (0.00**)	9.010 (0.01*)	13.699 (0.00**)	18.462 (0.00**)

* Significant at $\alpha = 0.05$

** Significant at $\alpha = 0.01$

The figures in parentheses indicate the probabilities.

Obviously, the results for consumer products sector are much better than for the whole market (REG model), where 81 out of 96 of the coefficient estimates (84.4%) are significant at $\alpha = 0.01$. More importantly, the results of the heteroscedasticity test and the normality test given in Table 4.5 and Table 4.6 show that the problems of heteroscedasticity and normality for consumer products sector are greatly improved compared to REG model, where only 13 out of 96 cases (13.5%) are highly heteroscedastic. The same analysis has been carried out for industrial products, properties and plantations sectors as well and the results can be found in Appendixes IV, V and VI. The sample size for industrial products, properties and plantations sectors are 10, 9 and 10 respectively. The results for industrial products, properties and plantations sectors show that the problems of heteroscedasticity and normality test are solved compared to REG model. The results show that only 1 case out of 96 cases (1.0%), 2 cases out of 96 cases (2.1%) and none of 96 cases for industrial products, properties and plantations sectors, respectively, are highly heteroscedastic.

Significantly, one major difficulty in conducting a sectorial analysis in this study is the difficulty in collecting data from the available public information. It is always easier to collect data for two or three years, but for about ten or twelve years, it is rather difficult to get annual reports for 12 years in detail for a particular stock. In addition, it is not just one stock but rather at least 30 stocks are needed for a study. Therefore, sectorial analysis in detail is not possible in this study due to the difficulty in data collection from available public sources. Further limitations and difficulties in this study will be discussed in detail in Chapter Five.

In conclusion, counters in the KLSE generally fulfil the proportionality assumption because only less than 20% of the cases appear not to have satisfied the proportionality assumption at $\alpha = 0.01$.

4.3 ANALYSIS FOR PREDICTING THE COMPANY PERFORMANCE

Companies and individuals try to use various methods to predict and measure the company performance. Studies have shown that the KLSE satisfies the weak form of the Efficient Market Hypothesis (e.g. Othman, 1988). This means that we cannot depend on available public information to measure and predict market movements in Malaysia and various analyses have been done to overcome this scenario.

In this section, financial ratios in year n will be used as independent variables for EPS or RPS in year n+1, the dependent variable, to regress on. EPS and RPS will be used in this analysis as company performance measurement. The period of study is 11 years (from year 1989 to 1999), which is one year less than Part One.

In addition, regression analyses with enter-all-variables and stepwise methods will be used in this section. The 18 financial ratios used as regressors/independent variables are as follow:

(1) Current Ratio (CR)

(2) Quick Ratio (QR)

(3) Return on Assets (ROA)

(4) Return on Equity (ROE)

(5) Debt to Equity (DTE)

(6) Financial Leverage (FL)

(7) Working Capital to Sales (WCTS)

(8) Fixed Assets to Sales (FATS)

(9) Fixed Assets Turnover (FAT)

(10) Days Sales in Receivables (DSIR)

(11) Working Capital Turnover (WCT)

(12) Cash Ratio (CASHR)

(13) Accounts Receivable Turnover (RT)

(14) Debt Ratio (DR)

(15) Current Debt to Equity (CDTE)

(16) Cash Turnover (CT)

(17) Inventory Turnover (IT)

(18) Creditors Turnover Days (CTD)

It is vital to explain the reason for using EPS and RPS as measurement of company performance. Earnings Per Share (EPS) involves earnings and Revenue Per Share (RPS) involves revenue. Both earnings and revenue are important for different categories of end-users and it serves different purpose and motive of study. For example, earnings is important for investors, where earnings is the actual figure that the company used to calculate profit distributed to shareholders and also the retained earnings for the company. Therefore, earnings determine the

dividend payout ratio to investors. As for revenue, it may be important to analyst in their company forecast process, where revenue has indirect impact on earnings and from revenue itself, one may be able to predict the earnings for the same company or the company in the same industry because they complement each other.

Table 4.7 gives the results of enter-all-variables method for predicting EPS (dependent variable) using 18 financial ratios (independent variables), whereas the results of the stepwise method for predicting EPS are presented in Table 4.8. The results of enter-all-variables method for predicting RPS are presented in Table 4.9 and the results of the stepwise method for predicting RPS are given in Table 4.10.

Table 4.7 shows that the enter-all-variables method in regression analysis managed to predict more than 70% ($R^2 > 0.70$) of EPS for all the years except year 1999 by using all the 18 financial ratios at $\alpha = 0.05$. The result for 1999 could be due to the financial crisis in the year 1998, which caused the KLSE to fall and the KLSE Composite Index (KLCI) to drop from 745.36 (February 1998) to 262.70 in September 1998, the lowest for the year. Therefore, it is difficult to predict the company performance in year 1999 using year 1998 data as compared to other years. In Table 4.7, it is shown that DTE and FL in year 1990 are omitted from the analysis due to the tolerance = 0.000 limits being reached. Tolerance in regression analysis is a statistic used to determine how much the independent variables are linearly related to one another (multicolinear). As we omitted DTE and FL in the analysis for year 1990, the coefficient of determination (R^2) dropped significantly

to 0.705, which means the 16 financial ratios in year 1989 managed to predict 70.5% of EPS in year 1990.

In particular, ROA is the sole financial ratio that can predict EPS in years 1989, 1994 and 1996 significantly, whereas years 1993, 1995 and 1999 have 2 financial ratios that are significant for predicting EPS. Furthermore, year 1991 has the most financial ratios that are significant for predicting EPS, which are ROA, DTE, DSIR, CDTE, CT and IT. Unfortunately, none of the 18 financial ratios is significant for predicting EPS in year 1998. From Table 4.7, it is obvious that ROA is important for predicting EPS for earlier years compared to current years. In addition, the R^2 does not differ much depending on how many financial ratios that are significant in predicting EPS successfully in any of the years in our study.

As we proceed to use stepwise method to predict EPS as in Table 4.8, the results show that the R^2 is 60% and above for most of the years except for years 1990 and 1999. The year 1990 result is due to the DTE and FL financial ratios being omitted in the study for that year. Table 4.8 shows that all the years have at least one financial ratio that is significant for predicting EPS using stepwise method. The years 1989, 1990, 1997 and 1999 have one financial ratio that is significant, and in these 4 years, ROA is the sole significant variable for 3 years. Besides that, CT and ROE are important for predicting EPS using the stepwise method. The years 1993 and 1998 have the most financial ratios that are significant for predicting EPS; there are 4 financial ratios and none of the financial ratios is common for both years except ROA.

Table 4.7: Results Of Predicting EPS Using Enter-All-Variables Method From Year 1989 To Year 1999

Ratio	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**
CR	2.94E-02 (0.56)	6.23E-02 (1.10)	5.67E-02 (0.86)	-0.109 (-1.18)	-1.56E-02 (-0.18)	2.89E-02 (0.31)
QR	6.31E-03 (0.08)	-0.107 (-1.04)	-0.110 (-1.29)	0.125 (1.06)	2.47E-02 (0.26)	-6.86E-03 (-0.06)
ROA	0.747 (2.23*)	2.37E-02 (5.47**)	2.05E-02 (3.37**)	3.80E-02 (4.43**)	3.94E-02 (6.00**)	3.22E-02 (6.00**)
ROE	8.73E-04 (0.19)	1.15E-02 (3.36**)	4.05E-03 (1.00)	-1.27E-02 (-2.58*)	-3.89E-03 (-1.87)	-3.48E-03 (-1.34)
DTE	-2.39E-04 (-0.19)		-3.41E-03 (-2.35*)	-2.67E-03 (-1.53)	7.71E-04 (0.46)	-1.28E-04 (-0.05)
FL	2.13E-02 (0.23)		5.33E-02 (0.64)	-1.92E-02 (-0.19)	-8.58E-02 (-0.84)	5.61E-02 (0.48)
WCTS	-2.98E-02 (-0.65)	-0.138 (-1.86)	-1.16E-02 (-0.54)	-3.32E-03 (-0.04)	-5.87E-02 (-0.51)	2.47E-02 (0.33)
FATS	-6.58E-03 (-0.40)	-1.72E-02 (-0.65)	3.40E-03 (0.17)	-4.83E-03 (-0.21)	-2.41E-02 (-0.78)	-1.70E-02 (-0.46)
FAT	-2.11E-04 (-0.03)	3.00E-02 (1.89)	1.07E-04 (0.01)	-3.13E-03 (-0.64)	-4.99E-03 (-0.89)	-2.41E-03 (-0.29)
DSIR	-9.91E-05 (-0.46)	-1.78E-04 (-0.29)	-8.63E-04 (-2.41*)	-1.68E-03 (-2.35*)	-8.83E-04 (-1.04)	-1.17E-03 (-1.14)
WCT	2.55E-03 (1.48)	-2.86E-03 (-1.93)	-9.50E-04 (-0.87)	-2.01E-04 (-1.08)	-5.43E-04 (-0.94)	3.61E-04 (0.35)
CASHR	-7.37E-04 (-0.82)	1.24E-03 (1.26)	6.89E-04 (1.06)	4.59E-06 (0.01)	8.68E-04 (1.33)	-1.06E-03 (-0.71)
RT	1.22E-03 (1.01)	-5.04E-03 (-2.39**)	-1.95E-03 (-1.86)	-9.17E-04 (-1.99)	-1.53E-03 (-1.65)	-4.02E-04 (-1.62)
DR	-1.06E-03 (-0.42)	-4.53E-03 (-2.16**)	3.35E-04 (0.13)	7.39E-03 (3.13**)	3.41E-03 (1.12)	2.30E-03 (0.61)
CDTE	8.79E-05 (0.08)	4.58E-04 (1.90)	3.43E-03 (2.95**)	1.77E-03 (1.14)	-3.47E-04 (-0.19)	-1.27E-03 (-0.59)
CT	4.34E-07 (0.11)	-1.01E-06 (-0.20)	6.87E-06 (2.06*)	6.95E-06 (1.94)	1.00E-05 (3.09**)	5.97E-05 (0.11)
IT	1.15E-04 (0.20)	6.98E-04 (0.91)	1.09E-03 (2.20*)	2.30E-04 (0.47)	2.49E-04 (0.47)	-3.00E-06 (-0.03)
CTD	9.85E-05 (0.85)	1.46E-03 (1.10)	2.14E-04 (0.52)	1.10E-03 (1.03)	7.81E-04 (1.17)	6.58E-04 (0.51)
R^2	**0.803**	**0.705**	**0.875**	**0.848**	**0.886**	**0.792**

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Table 4.7: Results Of Predicting EPS Using Enter-All-Variables Method From Year 1989 To Year 1999 (Continued)

Ratio	**1995**	**1996**	**1997**	**1998**	**1999**	**No. of * Significant Coefficients**
CR	-1.67E-02 (-0.34)	-1.12E-03 (-0.02)	-0.101 (-1.12)	-9.81E-02 (-0.77)	-0.196 (-1.48)	0
QR	4.44E-02 (0.39)	8.62E-02 (0.47)	-0.199 (-1.31)	1.61E-02 (0.10)	0.205 (1.04)	0
ROA	4.38E-02 (5.06**)	2.37E-02 (3.00**)	5.70E-03 (0.27)	1.33E-02 (1.76)	-2.33E-02 (-1.36)	8
ROE	-2.71E-03 (-0.81)	2.78E-03 (0.52)	9.62E-03 (0.81)	5.64E-03 (1.96)	1.57E-02 (1.90)	2
DTE	-1.81E-03 (-1.07)	-6.82E-04 (-0.28)	-3.28E-03 (-1.29)	-2.03E-03 (-0.97)	-8.49E-03 (-2.39*)	2
FL	0.103 (0.62)	0.172 (0.73)	0.401 (1.55)	0.369 (1.99)	0.793 (2.47*)	1
WCTS	-0.174 (-1.23)	-0.110 (-0.70)	0.500 (2.90**)	2.33E-03 (0.03)	9.16E-02 (0.75)	1
FATS	4.27E-02 (1.02)	-9.76E-02 (-1.12)	0.102 (1.17)	8.73E-02 (1.49)	4.94E-02 (0.55)	0
FAT	1.59E-02 (1.11)	-9.63E-03 (-0.65)	7.09E-02 (2.44*)	-1.41E-02 (-0.67)	1.21E-02 (0.31)	1
DSIR	-1.11E-03 (-1.17)	-2.30E-03 (-1.66)	-5.86E-04 (-0.52)	-9.23E-04 (-1.58)	-2.79E-03 (-1.93)	2
WCT	-1.05E-03 (-0.42)	2.54E-03 (0.64)	4.28E-04 (0.78)	3.73E-04 (0.24)	-1.77E-04 (-0.10)	0
CASHR	-1.67E-03 (-1.34)	-6.68E-04 (-0.51)	3.20E-03 (2.43*)	2.87E-04 (0.27)	1.12E-04 (0.07)	1
RT	-5.25E-03 (-2.76**)	-2.17E-03 (-1.35)	-8.86E-03 (-2.29*)	2.94E-03 (1.33)	1.07E-04 (0.02)	3
DR	5.49E-03 (1.43)	2.56E-03 (0.38)	-8.61E-03 (-1.46)	-6.60E-03 (-1.92)	-1.31E-02 (-1.48)	2
CDTE	-6.04E-04 (-0.44)	-1.80E-03 (-0.66)	5.01E-04 (0.30)	-1.73E-03 (-1.79)	3.62E-03 (1.77)	1
CT	-3.57E-03 (-1.61)	-7.57E-04 (-0.48)	9.68E-04 (1.03)	3.37E-06 (0.78)	6.15E-04 (0.89)	2
IT	2.43E-04 (1.14)	-1.37E-03 (-0.45)	2.10E-04 (0.47)	-1.21E-03 (-1.20)	-2.59E-03 (-0.75)	1
CTD	-7.79E-04 (-0.46)	1.19E-03 (0.78)	-3.13E-03 (-1.23)	-1.74E-03 (-1.37)	7.15E-04 (0.33)	0
R^2	**0.830**	**0.744**	**0.746**	**0.813**	**0.599**	

* Significant at $\alpha = 0.05$

** Significant at $\alpha = 0.01$

The figures in parentheses indicate the t-statistics.

Table 4.8: Results Of Predicting EPS Using Stepwise Method From Year 1989 To Year 1999

Ratio	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**
CR	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
QR	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
ROA	2.18E-02 (12.61**)	2.15E-02 (6.89**)	2.54E-02 (13.59**)	2.23E-02 (11.31**)	3.33E-02 (13.45**)	3.06E-02 (12.29**)
ROE	n.s.	n.s.	n.s.	n.s.	-1.87E-03 (-2.59*)	-1.07E-03 (-3.63**)
DTE	n.s.		n.s.	n.s.	n.s.	n.s.
FL	n.s.		n.s.	n.s.	n.s.	n.s.
WCTS	n.s.	n.s.	n.s.	n.s.	-4.39E-02 (-2.51*)	n.s.
FATS	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
FAT	n.s.	n.s.	5.27E-03 (2.89**)	2.78E-03 (3.36**)	n.s.	n.s.
DSIR	n.s.	n.s.	-3.66E-04 (-2.01**)	n.s.	n.s.	n.s.
WCT	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
CASHR	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
RT	n.s.	n.s.	n.s.	n.s.	n.s.	-3.99E-04 (-2.27*)
DR	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
CDTE	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
CT	n.s.	n.s.	7.16E-06 (2.15*)	8.17E-06 (2.22*)	1.03E-05 (3.57**)	n.s.
IT	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
CTD	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
R^2	**0.750**	**0.473**	**0.808**	**0.748**	**0.844**	**0.761**

Table 4.8: Results Of Predicting EPS Using Stepwise Method From Year 1989 To Year 1999 (Continued)

Ratio	**1995**	**1996**	**1997**	**1998**	**1999**	**No. of * Significant Coefficient**
CR	n.s.	n.s.	n.s.	n.s.	n.s.	0
QR	n.s.	n.s.	n.s.	n.s.	0.227 (4.99**)	1
ROA	2.74E-02 (9.37**)	1.97E-02 (7.24**)	2.94E-02 (8.92**)	2.6E-02 (10.58**)	n.s.	10
ROE	n.s.	6.74E-03 (4.17**)	n.s.	n.s.	n.s.	3
DTE	n.s.	n.s.	n.s.	n.s.	n.s.	0
FL	n.s.	n.s.	n.s.	n.s.	n.s.	0
WCTS	n.s.	n.s.	n.s.	n.s.	n.s.	1
FATS	n.s.	n.s.	n.s.	0.101 (3.27**)	n.s.	1
FAT	n.s.	n.s.	n.s.	n.s.	n.s.	2
DSIR	n.s.	n.s.	n.s.	-1.65E-03 (-4.74**)	n.s.	2
WCT	n.s.	n.s.	n.s.	n.s.	n.s.	0
CASHR	n.s.	n.s.	n.s.	n.s.	n.s.	0
RT	n.s.	n.s.	n.s.	n.s.	n.s.	1
DR	1.62E-03 (2.20*)	n.s.	n.s.	n.s.	n.s.	1
CDTE	n.s.	n.s.	n.s.	-3.72E-04 (-2.75**)	n.s.	1
CT	n.s.	n.s.	n.s.	n.s.	n.s.	3
IT	n.s.	n.s.	n.s.	n.s.	n.s.	0
CTD	n.s.	n.s.	n.s.	n.s.	n.s.	0
R^2	**0.742**	**0.677**	**0.600**	**0.751**	**0.320**	

n.s. Not significant
* Significant at $\alpha = 0.05$
** Significant at $\alpha = 0.01$
The figures in parentheses indicate the t-statistics.

In conclusion, it is obvious that ROA is very important for predicting EPS using Stepwise method. A summary table is provided later in this chapter and the overall results will be discussed in detail.

Tables 4.9 and 4.10 present the results of the financial ratios that are significant for predicting RPS. Table 4.9 reveals that more financial ratios are significant for predicting RPS compared with EPS using enter-all-variables method, where CT and RT appear to be important for predicting RPS. Only one financial ratio (CT) is significant for predicting RPS in years 1989 and 1998, whereas majority of the years have 3 or more financial ratios that are significant for predicting RPS. The year 1995 has the most number of financial ratios (six) that are significant. They are ROA, FAT, DSIR, RT, DR and IT.

Overall, the 18 financial ratios managed to predict more than 60% of RPS. As can be seen from Tables 4.7 and 4.9, the number of financial ratios that are significant for predicting RPS is greater than that for predicting EPS. But in terms of R^2, they are lower than those for predicting EPS, where the same set of financial ratios managed to predict more than 70% of the value of EPS using enter-all-variables method.

In addition, revenue is not affected by the financial crisis in year 1998 as compared with earnings. Table 4.9 shows that the R^2 for year 1999 does not differ much as compared with other years. In fact, it performed better as compared with years 1994 and 1998. This shows that the companies in the KLSE managed to

generate the same range of revenue in spite of the economic situation. However, the company performance measured by the EPS was affected in the process of generating profit or loss, which consist of depreciation, amortisation, net interest income, associates, tax, minority interest, etc. Last but not least, the most important component is extraordinary items, which refer to items of revenue and expenses which are attributed to events or transactions of a type that are outside the ordinary operations of the company and are not of a recurring nature.

Table 4.10 presents the results of the prediction of RPS using stepwise method with $\alpha = 0.05$. The results further confirm our earlier findings that more financial ratios are significant for predicting RPS as compared with EPS, but again their R^2 are less than the corresponding R^2 for predicting EPS in the majority of the years. All in all, the financial ratios that are significant managed to predict 50% or more of the value of RPS using stepwise method. As shown in Table 4.10, there are 4 financial ratios that are significant for predicting RPS in the earlier years of 1989, 1990, 1991, 1992 and 1993. However, the number of financial ratios that are significant was reduced to 2 for the later years of 1995, 1996, 1998 and 1999. Furthermore, CT appears to be the most important financial ratio again in predicting RPS using stepwise method, while WCT, ROA, ROE, FL and DR appear to be important for predicting RPS in years before 1995 and FAT appears to be important from year 1995.

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Table 4.9: Results Of Predicting RPS Using Enter-All-Variables Method From Year 1989 To Year 1999

Ratio	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**
CR	0.375 (0.37)	-0.343 (-0.50)	-0.215 (-0.15)	-1.559 (-0.86)	0.752 (0.43)	1.947 (0.97)
QR	1.296 (0.83)	-0.565 (-0.46)	-0.279 (-0.15)	2.226 (0.96)	-0.281 (-0.14)	-0.427 (-0.19)
ROA	0.277 (1.73)	0.283 (5.46**)	0.109 (0.82)	0.248 (1.48)	0.378 (2.81**)	0.205 (1.80)
ROE	-0.107 (-1.21)	-4.02E-02 (-0.98)	4.84E-02 (0.55)	-7.55E-02 (-0.78)	-5.79E-02 (-1.36)	-3.00E-02 (-0.55)
DTE	-3.07E-02 (-1.27)		-5.62E-02 (-1.77)	-7.40E-02 (-2.17*)	-4.30E-02 (-1.24)	-9.19E-02 (-1.81)
FL	-0.473 (-0.27)		3.120 (1.71)	2.279 (1.13)	-0.125 (-0.06)	0.552 (0.23)
WCTS	-0.456 (-0.52)	-0.418 (-0.47)	0.305 (0.64)	1.480 (0.93)	-2.04E-02 (-0.01)	1.490 (0.95)
FATS	-0.323 (-1.04)	-2.55E-02 (-0.08)	-0.427 (-0.95)	-0.473 (-1.03)	-0.538 (-0.85)	-0.434 (-0.56)
FAT	-1.88E-02 (-0.14)	0.961 (5.06**)	0.232 (1.22)	1.43E-02 (0.15)	-0.164 (-1.42)	6.15E-03 (0.04)
DSIR	-5.84E-02 (-1.43)	-1.37E-02 (-1.84)	-1.98E-03 (-0.25)	-2.63E-02 (-1.87)	-3.06E-02 (-1.76)	-4.21E-02 (-1.95)
WCT	5.14E-02 (1.57)	-3.08E-02 (-1.73)	2.28E-02 (0.95)	4.60E-03 (1.26)	2.085E-03 (1.76)	-1.17E-02 (-0.53)
CASHR	-2.64E-02 (-1.55)	4.87E-04 (0.04)	-2.07E-02 (-0.15)	-1.90E-03 (-1.20)	-9.50E-03 (-0.71)	-4.92E-02 (-1.55)
RT	-1.82E-02 (-0.79)	-8.90E-02 (-3.53**)	-4.95E-02 (-2.15*)	-1.77E-02 (-1.96)	-4.44E-02 (-2.34*)	-7.05E-03 (-1.34)
DR	7.91E-02 (1.66)	2.609E-02 (1.04)	-3.24E-02 (-0.56)	9.437E-02 (2.04*)	0.131 (2.11*)	0.114 (1.42)
CDTE	3.44E-02 (1.65)	-8.90E-03 (-3.08**)	4.63E-02 (1.81)	4.340E-02 (1.43)	3.20E-02 (0.85)	7.91E-02 (1.74)
CT	1.79E-04 (2.30*)	9.55E-05 (1.54)	1.80E-04 (2.44*)	2.08E-04 (2.96**)	1.84E-04 (2.77**)	3.81E-03 (0.34)
IT	1.50E-02 (1.44)	1.24E-02 (1.34)	1.04E-02 (0.96)	-2.81E-03 (-0.29)	9.58E-03 (0.89)	-1.35E-03 (-0.57)
CTD	-1.46E-03 (-0.66)	1.78E-02 (1.11)	-1.15E-02 (-1.28)	5.59E-04 (0.03)	8.90E-03 (0.65)	3.40E-02 (1.24)
R^2	**0.775**	**0.825**	**0.757**	**0.773**	**0.778**	**0.623**

Table 4.9: Results Of Predicting RPS Using Enter-All-Variables Method From Year 1989 To Year 1999 (Continued)

Ratio	1995	1996	1997	1998	1999	No. of Significant Coefficients*
CR	-1.420 (-1.58)	-1.458 (-1.35)	0.704 (-0.58)	2.04E-02 (0.01)	-1.823 (-1.33)	0
QR	2.434 (1.16)	4.133 (1.57)	-0.830 (-0.40)	-0 .666 (-0.21)	1.636 (0.81)	0
ROA	0.492 (3.13**)	0.221 (1.96)	-0.400 (-1.41)	-8.32E-02 (-0.54)	3.730E-02 (0.21)	3
ROE	-0.113 (-1.88)	-0.129 (-1.68)	0.228 (1.41)	7.04E-03 (0.12)	-2.55E-02 (-0.30)	0
DTE	-3.70E-02 (-1.20)	-3.02E-02 (-0.87)	-0.100 (-2.91**)	-7.94E-02 (-1.85)	-6.84E-02 (-1.87)	2
FL	0.127 (0.04)	-1.533 (-0.46)	7.749 (2.20*)	5.195 (1.37)	4.605 (1.39)	1
WCTS	-0.645 (-0.25)	2.055 (0.92)	3.374 (1.44)	0.707 (0.40)	2.059 (1.63)	0
FATS	0.253 (0.33)	-1.480 (-1.19)	4.86E-02 (0.04)	-0.455 (-0.38)	-0.379 (-0.41)	0
FAT	0.892 (3.41**)	0.141 (0.66)	1.211 (3.07**)	0.637 (1.47)	1.057 (2.65*)	4
DSIR	-5.57E-02 (-3.23**)	-5.52E-02 (-2.79**)	-2.12E-02 (-1.39)	-1.37E-02 (-1.14)	-2.82E-02 (-1.89)	2
WCT	1.77E-02 (0.39)	5.76E-02 (1.02)	-6.78E-04 (-0.09)	1.65E-02 (0.51)	3.41E-03 (0.19)	0
CASHR	-3.20E-02 (-1.41)	-2.83E-02 (-1.50)	1.02E-02 (0.57)	-5.67E-03 (-0.26)	-8.60E-03 (-0.51)	0
RT	-0.148 (-4.29**)	-5.25E-02 (-2.29*)	-0.180 (-3.42**)	-5.73E-02 (-1.26)	-0.122 (-2.42*)	7
DR	0.172 (2.46*)	0.256 (2.66*)	-3.57E-02 (-0.45)	1.81E-02 (0.26)	2.07E-02 (0.23)	4
CDTE	6.17E-03 (0.24)	2.66E-02 (0.69)	3.73E-02 (1.64)	2.79E-02 (1.41)	2.39E-02 (1.13)	1
CT	1.69E-02 (0.42)	-6.23E-04 (-0.03)	2.84E-02 (2.21*)	2.04E-04 (2.31*)	1.98E-02 (2.79**)	7
IT	8.88E-03 (2.29*)	6.90E-04 (0.02)	-2.45E-03 (-0.40)	2.57E-02 (1.25)	3.98E-02 (1.12)	1
CTD	2.13E-02 (0.70)	9.82E-03 (0.45)	-4.27E-02 (-1.23)	-1.52E-02 (-0.59)	-7.04E-03 (-0.31)	0
R^2	**0.760**	**0.660**	**0.728**	**0.610**	**0.657**	

* Significant at $\alpha = 0.05$

** Significant at $\alpha = 0.01$

The figures in parentheses indicate the t-statistics.

Table 4.10: Results Of Predicting RPS Using Stepwise Method From Year 1989 To Year 1999

Ratio	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**
CR	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
QR	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
ROA	0.123 (3.02**)	0.214 (4.84**)	n.s.	n.s.	0.240 (5.33**)	0.152 (2.64*)
ROE	n.s.	n.s.	9.93E-02 (3.34**)	0.107 (4.00**)	n.s.	n.s.
DTE	n.s.		n.s.	n.s.	n.s.	n.s.
FL	n.s.		1.043 (6.14**)	0.816 (5.16**)	n.s.	n.s.
WCTS	n.s.	n.s.	n.s.	n.s.	n.s.	0.809 (2.34*)
FATS	n.s.	-0.562 (-2.12*)	n.s.	n.s.	n.s.	n.s.
FAT	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
DSIR	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
WCT	7.97E-02 (2.76**)	n.s.	4.40E-02 (2.34*)	9.31E-03 (2.92**)	2.35E-02 (2.11*)	n.s.
CASHR	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
RT	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
DR	4.06E-02 (5.12**)	4.96E-02 (5.84**)	n.s.	n.s.	2.66E-02 (3.38**)	5.72E-03 (3.71**)
CDTE	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
CT	2.21E-04 (2.99**)	2.03E-04 (2.82**)	2.31E-04 (3.42**)	2.70E-04 (3.86**)	2.42E-04 (3.96**)	n.s.
IT	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
CTD	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
R^2	**0.674**	**0.647**	**0.681**	**0.647**	**0.675**	**0.449**

Table 4.10: Results Of Predicting RPS Using Stepwise Method From Year 1989 To Year 1999 (Continued)

Ratio	1995	1996	1997	1998	1999	No. of Significant Coefficients*
CR	n.s.	n.s.	n.s.	n.s.	n.s.	0
QR	n.s.	n.s.	n.s.	n.s.	n.s.	0
ROA	n.s.	n.s.	n.s.	n.s.	n.s.	4
ROE	n.s.	n.s.	n.s.	n.s.	n.s.	2
DTE	n.s.	n.s.	n.s.	n.s.	n.s.	0
FL	n.s.	n.s.	n.s.	n.s.	n.s.	2
WCTS	n.s.	n.s.	n.s.	n.s.	n.s.	1
FATS	n.s.	n.s.	n.s.	n.s.	n.s.	1
FAT	0.569 (4.24**)	0.421 (3.13**)	1.099 (5.81**)	0.952 (5.83**)	0.851 (4.98**)	5
DSIR	n.s.	n.s.	n.s.	n.s.	n.s.	0
WCT	n.s.	n.s.	n.s.	n.s.	n.s.	4
CASHR	n.s.	n.s.	n.s.	n.s.	n.s.	0
RT	n.s.	n.s.	-9.19E-02 (-2.57*)	n.s.	n.s.	1
DR	n.s.	4.51E-02 (2.84**)	n.s.	n.s.	n.s.	5
CDTE	n.s.	n.s.	n.s.	n.s.	n.s.	0
CT	0.103 (3.76**)	n.s.	3.89E-02 (3.68**)	2.34E-04 (2.91**)	2.44E-02 (3.78**)	9
IT	n.s.	n.s.	n.s.	n.s.	n.s.	0
CTD	n.s.	n.s.	n.s.	n.s.	n.s.	0
R^2	**0.517**	**0.478**	**0.574**	**0.494**	**0.525**	

n.s. Not significant
* Significant at $\alpha = 0.05$
** Significant at $\alpha = 0.01$
The figures in parentheses indicate the t-statistics.

Table 4.11 presents the summary of the estimation results of EPS and RPS obtained by using both methods. For predicting EPS, we can conclude that ROA is very important for both methods, where ROA is significant in 8 years out of 11 years for enter-all-variables method and 10 years out of 11 years for stepwise method. In addition, RT is the next variable that is important for enter-all-variables method (3 years out of 11 years) and ROE and CT (both 3 years out of 11 years) for stepwise method. Therefore, we can formulate the model for predicting the EPS as follows:

$$EPS_{i+1} = \gamma_1 ROA_i + \gamma_2 ROE_i + \gamma_3 RT_i + \gamma_4 CT_i$$

As for RPS, CT is the most important financial ratio in both methods (7 years out of 11 years for enter-all-variables method and 9 years out of 11 years for stepwise method). It is followed by RT (7 years out of 11 years), FAT (4 years out of 11 years) and DR (4 years out of 11 years) for enter-all-variables method and FAT (5 years out of 11 years), DR (5 years out of 11 years), ROA (4 years out of 11 years) and WCT (4 years out of 11 years) for stepwise method. RT appears to be only important for predicting RPS using enter-all-variables method and WCT is only important for stepwise method. Therefore, we can formulate the model for estimating the RPS as follows:

$$RPS_{i+1} = \gamma_1 CT_i + \gamma_2 DR_i + \gamma_3 FAT_i + \gamma_4 ROA_i + \gamma_5 RT_i + \gamma_6 WCT_i$$

Table 4.11: Summary Of The Estimation Results Of EPS And RPS

At $\alpha = 0.05$

Estimation Method	CR	QR	ROA	ROE	DTE	FL
EPS (Enter-all-variables method)	0	0	8	2	2	1
EPS (Stepwise method)	0	1	10	3	0	0
RPS (Enter-all-variables method)	0	0	3	0	2	1
RPS (Stepwise method)	0	0	4	2	0	2

Estimation Method	WCTS	FATS	FAT	DSIR	WCT	CASHR
EPS (Enter-all-variables method)	1	0	1	2	0	1
EPS (Stepwise method)	1	1	2	2	0	0
RPS (Enter-all-variables method)	0	0	4	2	0	0
RPS (Stepwise method)	1	1	5	0	4	0

Estimation Method	RT	DR	CDTE	CT	IT	CTD
EPS (Enter-all-variables method)	3	2	1	2	1	0
EPS (Stepwise method)	1	1	1	3	0	0
RPS (Enter-all-variables method)	7	4	1	7	1	0
RPS (Stepwise method)	1	5	0	9	0	0

Note: The entries refer to the number of years

It is evident that the financial ratios that are useful for predicting EPS and RPS are related to the assets column in the balance sheet statement, both fixed

assets and current assets, where ROA involves total assets, RT involves accounts receivable, CT involves cash and FAT involves fixed assets. Therefore, assets can be considered an important element in company performance prediction.

From Table 4.11 also, we noticed that CR and CTD are not important for predicting both EPS and RPS. In addition, QR, FL, WCTS, FATS, CASHR, CDTE and IT are less significant so that these variables can be omitted and yet would not make a significant different to R square.

In conclusion, in order for us to predict company performance in general, we should make use of ROA, CT and RT because these three financial ratios appeared to be important in both EPS and RPS equations.