

Abstract

The main objective of this paper is the development of a bankruptcy prediction model for firms involved in property development in Malaysia. The data set includes a sample of 78 companies that are involved in property development from 1995-1998, consisting 22 failed and 56 non-failed companies listed on the Kuala Lumpur Stock Exchange. A prediction model is developed for up to three years prior to the failure event, consisting three financial variables (a cashflow ratio, total debt, and operating leverage), and a dummy variable (firm's exposure to the commercial property sector) based on a univariate and subsequently multivariate logistic regression analysis. Since the data gathered is on a company-by-company basis, this paper uses maximum likelihood computation to estimate the parameters of the model. The interpretation of this model based on year 1997 is as follows. Holding all other variables constant, if EBIT/Total Asset goes up by one percent, on the average, the probability of failure reduces by 9.3 percent. Similarly, the probability of failure goes up by 0.0016 percent, on average, if Total Debt increases by 1 percent. If Sales/Total assets goes up by one percent, on the average, the probability of failure increases by 4.3 percent. The probability of failure is also positively related to Commercial Exposure. Results are in line with empirical studies by Altman (1977), Beaver (1966), Deakin (1972), except for the inclusion of the dummy variable for industry specific factor.