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**The Impact of Liquidity and Leverage on Company's Performance of The Listed  
Property Companies in Bursa Malaysia**

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**Abstract**

This research investigates the impacts of leverage and liquidity on company's performance of companies in property industries that are listed on the Malaysian Stock Exchange (BURSA). The independent variables used in this study are leverage and liquidity. The dependent variable used in this study is company's financial performance measured by Return on Assets (ROA) and Return on equity (ROE). For independent variable, liquidity measured by Current Ratio (CR) while Debt-Asset Ratio (DAR) used to measure leverage. 63 companies that are listed under property industries has been selected. This study used secondary data derived from the financial statements over 5 years from 2016 – 2020. The data has been analyzed by using regression analysis in SPSS. The findings revealed that leverage had impact on company's performance while liquidity had no impact on company's performance measured by ROA. However, there is no impact on leverage and liquidity on company's performance measured by ROE.

*Keywords:* Liquidity; Leverage, Company's performance; Property industries; ROA; ROE; Multiple Regression Analysis

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**1. Introduction**

A company's performance is defined not only by its efficiency but also referred to the company's financial stability. Non-financial performance and financial performance are the two types of performance that a company can have (Hansen et al., 2005). Since it is a result accomplished by a person or group in an organization, a company's performance is intimately tied to management (Wiwiek et al., 2018). It is also about their power and duty to reach the goal in a lawful, non-violent, morally, and ethically manner.

There are different kinds of indicators that may be used to assess a company's performance. It is, however, still dependent on the markets in which the company operates. Some ratio analyses are going to be more critical than others. Assessing leverage and liquidity is an essential component for financial statement analysis, which indicates a company's economic performance. Numerous factors contribute to the company's performance; however, the prominent factors are liquidity and leverage. Calculating leverage and liquidity is essential to a company's long-term viability. It allows businesses to have a decent understanding of their previous financial profitability.

Companies with a clear understanding of these issues will take corrective measures to avoid future financial quagmires caused by future leverage, liquidity, and profitability crises (Chukwunweike, 2014).

Financial leverage is one of the most effective ways for a company to achieve its objectives and enhance its shareholders' benefits (Umerl and Muhammad, 2018). Owino (2010) stated that in the property sector, financial leverage is basically used to determine how much money can be acquired to finance an investment property compared to the property's value.

Ibenta (2005) stated that the ability of a corporation to fulfill its short-term maturing commitments is referred to as liquidity. While according to Investment Property Forum (2015), the property's price and marketing strategy may be influenced by the level of financial liquidity.

The increase in the firm's profitability is usually influenced by leverage and liquidity (Karaduman et al., 2010; Samo & Murad, 2019). Those both elements are attributing to the measurement of the business profitability. Leverage and Liquidity are the main dilemmas and significant topic that companies are usually facing because most of the companies' attention is drawn to manage the smooth obligation and active, and also the long-term commitment as an essential part of firms' fund source (Rudin et al., 2016).

Due to rising population and other economic activity, Malaysia has witnessed significant urbanization since the 1950s. The quick rate of urbanization has been connected to immigration, demographic change, and income levels, all of which have influenced the housing market. The housing market has also evolved due to increased demand and altering prices. The level of affordability affects the purchase of a residential property. Indeed, to own and possess a residential home, one must be able to afford it (Bujang, 2006).

Over the last 20 years, Malaysia's property industry has been a significant economic engine, creating vast areas of investment and opportunity. Following a decade-long price boom, Malaysia's real estate market has cooled in the previous two years due to enormous overstock. Unsold flats total MYR 18.48 billion (US\$ 4.41 billion) in Malaysia's largest cities, the consequence of enormous overdevelopment of top of buildings during the recent surge (propertyguru.com, 2021).

The property market has been dealing with a wave of abandoned housing projects for over two decades, which has harmed many buyers and continues to be a huge thorn in the flesh today. According to the (Ministry of Housing and Local Government (MHLG), 2009), Around 1990 and 2009, there had been 34 neglected condo complexes in Malaysia at various stages of implementation, encompassing 9,155 units and 5,484 buyers (Nagamany, 2016).

Several scholars assert that liquidity is critical because businesses that achieve poor or zero profitability can nevertheless service the economy, whereas those that lack liquidity are unable to do so, as cited in (Nassirzadeh and Rostami, 2010). As a result, profitability and liquidity management are critical for the company's growth and survival and cited in (Priya and Nimalathan, 2013).

Debt financing is well-known for having a detrimental impact on performance and profitability while having no impact on business size or expansion. This means that as financial leverage rises, the company's performance and profitability declines, and as financial leverage falls, the company's achievement and profitability rises (Rabbani et al., 2015).

Iavorskyi (2013), discovered that raising leverage by taking on debt allows the organisation to have a favourable impact on its performance. Hadlock and James (2002), In their study of undervalued companies, they discovered a positive link between debt financing and firm success. Nonetheless, Elena et al (2018) discovered a negative relationship between firm performance and debt funding. Based on these contradicting findings, financial decisionmakers face a difficult task in determining whether debt finance is beneficial for business performance or not.

Despite the fact that multiple evidence on the influence of leverage and liquidity on business performance has been conducted in various countries, there is still a lack of clarity on the matter, particularly in the Malaysian property industry. Hence this study was an attempt to examine the impact of liquidity and leverage on company's performance of the listed property companies in Malaysia with five years accounting period from 2016 – 2020.

### *1.1 Research objectives*

The objectives of the study are as follows:

1. To determine the impact of liquidity on the company's performance.
2. To determine the impact of leverage on the company's performance.

### *1.2 Research questions*

The findings of the study would answer the following question:

1. Is there any impact of liquidity on the company's profitability?
2. Is there any impact of leverage on the company's profitability?

### *1.3 The Importance of this research*

This study is important and can assist a number of parties. The first party is the management of a company that does business in a property industry. The management can use our findings to improve plan and implement long-term strategies based on the research that has been conducted. The second party is the investor, who can benefit from our findings which the information will assist them in their investment decisions. Simply put, our research can be a key finding on how company in property industry should operate and managed to maximize profit.

### *1.4 The outline of this research paper*

In a nutshell, this study contains five chapters, which will be continued as follows. Next, Chapter 2 review the relationship between ROE, ROA, and profitability. While in Chapter 3 defines research design methodology and variables. Chapter 4 shows the finding of this study, and lastly, Chapter 5 consists of a discussion on findings, limitations of the study, future recommendations, and conclusion of this study.

## **2. Literature Review**

The influence of liquidity and leverage management on financial performance is discussed in this section based on various published publication regarding profitability.

### *2.1. Liquidity*

Financial liquidity refers to a condition in which a company's assets can be easily and rapidly sold for cash at a low cost and with minimal price impact (Bolton and Allen, 2004). Bdc (2019), states liquidity as the ability of a corporation to raise cash when needed, for an instant, in resolving a current debt with current assets. It is the ability to meet short-term financial obligations with the existing assets.

Liquidity ratios can affect a company's funding in either a positive or negative way. According to Tunggal (2016), high liquidity is not always good because too high liquidity results in redundant capital due to opportunity cost. It leads to the blocking of funds in inventories and the inability to exploit opportunities as the accumulation of idle funds that do not make any profits for the company. It also increases the possibility of unemployed funds that should have been used to invest in more profitable projects.

Therefore, the liquidity ratios are being utilized because it allows an organization to assess how liquid their company is (Mohammad, 2020). According to Ahmad (2016), liquidity can be measured by various liquidity methods such as working capital, Acid-test ratio, current ratio, payables turnover, inventory turnover, and average collection period. Arkan (2016) believes that the current and acid-test ratios are critical in measuring liquidity.

Mohd. Heikal et al. (2014) used the Current Ratio to measure liquidity in their study of the effect of ROA, ROE, Net Profit Margin, Debt to Equity Ratio, and Current Ratio on growth income on automotive companies listed on the Indonesia stock exchange, either simultaneously or partially.

Rudin M. et al. (2016) also used the Current ratio to measure liquidity in their research of the effect of liquidity and leverage on the profitability of real estate companies in the Indonesian stock exchange. Nugi M. et al. (2020) also used the same current ratio in their studies of leverage and liquidity on the profitability of the company's sub-sector in Indonesia. As well as Zahoor et al. (2015), where the current ratio has been used to study the effect of financial leverage of the firms in Pakistan.

### *2.2. Leverage*

Financial leverage is a corporate finance approach in which a company uses borrowed funds to produce revenue in order to maximize returns on investment. (Akinbola, O.A. and Otokiti, B.O., 2012). According to T. Afza and A. Hussain (2011), investors can use debt as a trusting tool to evaluate a company's performance. Leverage has been often used in studies of measuring capital structure of companies that have a reliance on debt in financing their business (DeMarzo, P. and Berk, J., 2013).

The Debt to Asset Ratio is a ratio that measures the ratio of total debt to total assets. (Brigham, E.F. and Houston, J.F., 2011). DAR is used to figure out how much debt a company uses to finance its assets and how debt affects asset management (Vatansever, M. and Hepsen, A., 2013).

According to Zachary (2019), leverage is a component of a company's financial structure that focuses on the long-term debt-to-total-net-assets ratio.

### *2.3. Profitability*

Profitability is the strong association between profitability and value produced by using a company's current and fixed assets in constructive things (Gitman, 2012). According to Husnan and Pudjiastuti (2012), a company is a business that operates with the goal of profiting from the sale of goods or services to its consumers.

The ROA ratios metric shows how profitable the company's assets are (Nugraha, 2020). According to Heikal (2014), ROA, ROE and NPM is a financial measurement that determines how well assets have been utilized to generate profits. As it just indicates the profitability among all assets within management's authority, ROA is an intuitively accessible measure of performance (Waqas Bin Khidmat and Mobeen Ur Rehman, 2014).

ROE ratios show how well organizations manage their own resources and evaluate the profitability of funds invested from their own equity owners or shareholders. Ang (2001) stated that, the higher the ROE margin, the greater the overall profitability. Return on equity is a metric that measures the profitability of own capital, also referred to as financial profitability (Sawir, 2005).

### *2.4. Liquidity, Leverage and Profitability*

Numerous scholars have looked at the effects of financial liquidity and leverage on the financial performance of businesses. Hazaratul et al. (2021) study the impact of debt financing on the profitability of Malaysian manufacturing firms. The data was collected from 2010 to 2018, and it focused on 23 companies. The debt ratio, short-term debt, and long-term debt were independent variables, while the ROE was the dependent variable. The findings reveal that debt financing has a strong but negative association with corporate profitability.

Hamidah (2020) investigates the effect of leverage and liquidity on the company's performance. In this study, liquidity and leverage were discovered to have a high relationship with profitability.

Mohammed Zaiton and Hamza Alqudah (2020), liquidity has a significant and positive impact on profitability. In contrast, financial leverage has a negative impact on profitability, according to the research of the impact of liquidity and financial leverage on profitability in Jordanian industrial firms.

According to research by Wan et al. (2021), when liquidity ratios, financial leverage ratios, and a COVID-19 dummy variable were used to examine the impact of COVID-19 on the financial performance of pn17 and gn3 status firms during the COVID-19 pandemic, the current ratio, net working capital, and debt ratio were found to have significant effects on financial performance.

Hamidah R. et al. (2018), In Malaysia, researchers looked into the relationships between liquidity, leverage, and profitability. The illustration size for this study from 21 firms was taken from Bursa Malaysia from 2010 to 2014 and the data has been analysed by using SPSS. The empirical findings suggest that profitability has the most significant impact on a company's success, while liquidity and leverage have a significant impact.

### *2.5. Hypothesis of the study*

Based on the above literature review, the following hypothesis are derived:

1. H0: There is no impact between leverage and the company's performance  
H1: There is an impact between leverage and the company's performance
2. H0: There is no impact between liquidity and the company's performance  
H1: There is an impact between liquidity and the company's performance

## **3. Research Methodology**

The main goal of Chapter 3 is to briefly explain the methodology adopted in order to finish this research in detail. The necessary data was collected during the research process. Following the data collecting methodology, this part described the method of data collection, Research design, data sampling, variable description, data collection method, data analysis technique, and theoretical framework will all be presented and described in the research methodology.

### *3.1. Research Design*

A quantitative research design was adopted in this study. It is a technique for collecting and evaluating numerical data. It may be used to spot trends and averages, make projections, assess causal relationships, and extrapolate results to broader groups (Bhandari, 2020). In addition, this approach is more able to generalize. This is due to the project's ability to broaden concepts, forecast future consequences, and analyze causal linkages.

### 3.2. Data Collection

Data gathering is necessary for research because data is used to have a better grasp of the theoretical environment (Bernard, 2002). Secondary data was employed in this investigation. The real data for this study came from the income statement of selected property companies listed on Bursa Saham Malaysia over a 5 period (from 2016 to 2020). Return on Assets (ROA), Return on Equity (ROE), Current Ratio (CR), and Debt-Asset Ratio (DAR) were the variables examined in this study.

### 3.3. Sample of Data

In the early of this study, 81 property companies were chosen as samples of data, but after things have been sorted out, only 63 companies are available as those data are complete. The data review is from 2016- 2020.

### 3.4. Data Analysis Method

The data analysis process summarizes the information gathered. It generally includes the application of analytical thinking to evaluate data to find patterns, correlations, or trends (Pretoria, 2021).

For this research, the data collected will be tested by using statistics program SPSS. This study uses regression analysis. It is one of the most widely known modeling techniques. Economists use regression analysis to make quantitative estimates of previously completely theoretical economic relationships (Studenmund, 2016).

A set of quantitative procedures for identifying the relationship between the dependent variables and one or more independent variables is known as regression analysis (Thomas, 2012). The analysis' findings are used to establish how strong the association between the variables is. It can also demonstrate the possibility of a variable-to-variable link.

### 3.5. Model Specification

The choice of which control variables are included or removed from a regression equation is referred to as model specification. The following is the model specification for this study.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + e$$

Where:

Y	=	Profitability (ROA/ROE)
X <sub>1</sub>	=	Leverage Ratio
X <sub>2</sub>	=	Liquidity Ratio
β <sub>0</sub>	=	Intercept which indicates profitability
β <sub>1</sub> /β <sub>2</sub> /β <sub>3</sub>	=	Coefficients of Leverage Ratio and Liquidity Ratio
e	=	Error

3.6. Theoretical Framework

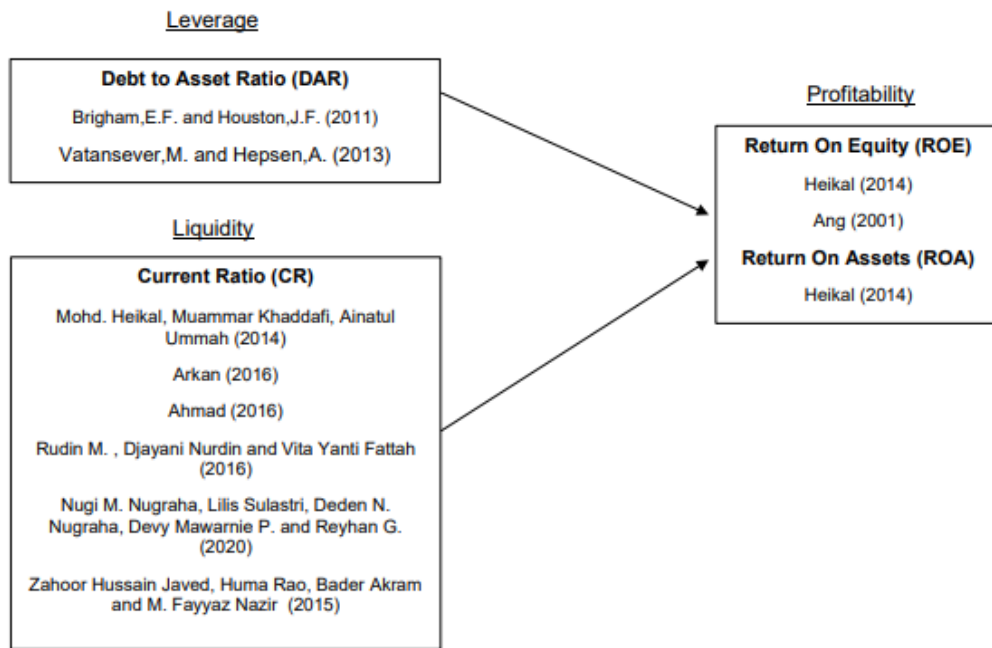


Figure 1. Theoretical framework

4. Data Analysis

The dependencies ROA and ROE were used to analyse the results from the analytical data acquired by the Statistical Package for Social Sciences (SPSS) in this chapter.

4.1. Regression Analysis

According to Ghozali (2006), the number of significances is accepted less than 0.05. There is evidence that the mean is different from the hypothesised value if the p-value related with the t-test is small which is 0.05 is used as the target level. The null hypothesis is not rejected if the p-value attributed with the t-test is not small like  $p > 0.05$ , and it can be deduced that the average is not different from the hypothesised value (stats.oarc.ucla.edu, 2021).

4.1.1. Return on Assets

**Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.975	.631		7.879	.000
	CR	.096	.117	.047	.823	.411
	DR	-4.483	2.046	-.124	-2.191	.029

Figure 2. Coefficients for dependent variable: ROA

Regression analysis was used to observe the impact of debt financing on company’s performance of property companies listed on Bursa Malaysia. Current Ratio and Debt Ratio used to measure liquidity and leverage while Return on Asset as dependent variable.

Based on the table, Current Ratio has no impact and positive relationship on the profitability since the p-value is 0.411 which is more than 0.05. Although the t-value show a positive relationship, but the p-value is not significant, then ROA is not really a solid indicator. Current Ratio did not give any impact to the company’s performance in property’s industry.

H0: There is no impact between liquidity ratio and profitability (ROA)

The results of Debt Ratio from the table have shown a negative relationship with the t value -2.191. The p value is 0.029. Debt Ratio has an impact on company's performance because the p-value is less than 0.05. For every 1% increase in Debt Ratio, ROA will decrease by -4.483%. According to Dakua (2019), supported that debt ratio have a significant impact on company performance. Increased in company's debt will reduce company's profitability in property industry.

H1: There is an impact between debt ratio and profitability (ROA).

Therefore:

$$ROA = 4.975 + 0.096 X1 - 4.483 X2 + e$$

#### 4.1.2. Return on Equity

		Coefficients			
		Unstandardized Coefficients		Standardized Coefficients	
Model		B	Std. Error	Beta	T
1	(Constant)	7.320	.890		8.225
	CR	-.016	.165	-.006	-.099
	DR	-4.149	2.884	-.082	-1.439
					Sig.
					.000
					.921
					.151

Figure 3. Coefficients for dependent variable: ROE

Based on the table, Current Ratio has a negative relationship and did not give any impact to the company's performance. Increased or decreased company liquidity will not impact the industry's performance.

H0: There no impact between current ratio and profitability (ROE).

The Debt Ratio also has a negative relationship and no impact on company's performance. Leverage also did not give any impact to the industry's performance.

H0: There is no impact between debt ratio and profitability (ROE).

Therefore:

$$ROE = 7.320 - 0.016 X1 - 4.149 X2 + e$$

#### 4.2. Result Summary

	ROA	ROE
Current ratio	No Impact	No Impact
Debt ratio	Has Impact	No Impact

Figure 4. Result summary of this study

### 5. Discussions and Conclusion

This chapter's main objective is to explain and comment on the study's discussion and findings. The study's suggestions, future research, and limitations are all included in this chapter.

#### 5.1. Discussion on Findings

##### 5.1.1. Impact of Leverage and Liquidity on ROA

According to table 1, Current Ratio is not significant since the p-value > 0.05. Thus, the findings implying that liquidity had no bearing on the industry's performance. This can be proved, in the research Nalurita (2015) encountered Current Ratio has no significant on Return on Asset of property industry. This is also consistent with Susilowati (2011) and Asmi (2014) that ROA has no significant effect on Current Ratio. From the findings, we

can say that liquidity is not important to this industry since it is not giving any impact to the industry's performance measured by ROA.

However, Debt Ratio is significant with Return on Asset since the p-value is 0.029 which is less than 0.05. In other words, leverage may have an impact on industry's performance. This statement proved from Harelimana (2017), discovered impact on Return on Asset has a statistically significant impact by level of debt. Alarussi (2017) also concluded that a high debt-to-income ratio had a detrimental influence on profitability.

Property's Industry must give attention towards company's level of debt since increased in leverage will decreased the company's performance measured by ROA. In line with Charumathi (2012) and Batchimeg (2017) stated that Debt Ratio has a significant negative impact on profitability.

### *5.1.2. Impact of Leverage and Liquidity on ROE*

Based on table 2, the findings reveal that Current Ratio and Debt Ratio has no impact on company's performance measured by Return on Equity. This is because the p-value is more than 0.05. The results are supported by the research findings of Chandra and Sari (2017) demonstrated that the Current Ratio had no significant impact on Return on Equity. However, it is contra with the findings of Borhan et al. (2014) implying that the Current Ratio has a substantial impact on financial success measured by ROE.

Debt Ratio has shown a negative relationship and also not significant between profitability. The ROE would decrease by 4.149% with every 1% Debt Ratio rise. The results are supported by the research findings of Allozi et al. (2016), that stated there are no impact between Debt to Asset Ratio with ROE. However, Sambora et al. (2014) reveals that Debt to Total Asset Ratio has an impact on profitability of Food and beverage firms listed on the Indonesia Stock Exchange (IDX) from 2009 to 2012.

In conclusion the property's industry performance measured by ROE did not influence by leverage and liquidity. It is clear that leverage and liquidity does not influence industry's financial performances.

### *5.2. Recommendations*

This paper contributes to the literatures that suggest the preference of debt finance could have an impact on company performance. The above research results could have at least the following policy implications.

Firstly, a company should maintain appropriate financial leverage, which could not only reduce the financial risks that the company should bear, but also promote a company's performance.

Secondly, for listed companies that does not have easy access to equity finance, they could reduce the level of operating leverage to promote company performance indirectly.

Thirdly, for real estate enterprise, since they could get more benefits from high debt finance, it might be costly to control the drawbacks of debt just by adjusting operating leverage.

Furthermore, while making investment selections in property companies, investors should evaluate the liquidity ratio, leverage, and profitability ratio, since these elements have a somewhat important impact on stock returns.

### *5.3. Impacts on Industry*

In the property industry, measured on liquidity and leverage, companies have a negligible impact on ROE. On the other hand, liquidity does not have a substantial impact on ROA, although leverage does. Because of the nature of the property industry, which is an illiquid as it can take times for the business to sell property at a price agreed on by both parties, the measurement of liquidity in the property industry will have no bearing on ROA and ROE. It is critical for companies in the business to have a greater emphasis on leverage, since this will have an impact on ROA. As property consider as low liquidation, leverage play an important role for ensuring the company going concern in the long run.

### *5.4. Limitations of studies*

There are a few limitations correlated while conducting this study. In the early of this study, there are 81 property companies that has been chose as samples of data, but after things has been sort out, only 63 companies are available as those data are complete. If those incomplete data areas are revealed, the study's findings will be more detailed.

This study only implements regression analysis as a method, which is, the understanding of the impact between liquidity, leverage and company profitability will undoubtedly improve if multiple performance metrics are employed.

The findings of this research are only limited to the property industries, by mean, the other industry should also be included as a study sample because this issue occurs in other industry as well.

### 5.5. Recommendations For Future Research

Future researchers should look at additional variables like other market sectors, sales growth, or business size that might conceivably affect the company's profitability. Moreover, other researchers should also look at the Vulnerability of Earnings for Ordinary Shareholders and the leverage ratio, which reflect how much financial risk a company is exposed to.

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