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CAPITAL STRUCTURE, FIRM SIZE AND MARKET VALUE OF SHARE PRICE - EMPIRICAL EVIDENCE FROM TRANSPORTATION & LOGISTICS SECTOR IN BURSA MALAYSIA

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Abstract

The main objective of this study to examine the impact of capital structure and firm size on firm value in the transportation and logistics sector in Bursa Malaysia. This study primarily puts its focus on investigating how the market value of share price of 25 logistics companies listed in the main board would respond to dynamic changes in capital structure and firm size (as measured by total assets). Methodologically, we deploy static panel data regression models to estimate the theoretical model within the context of capital structure and asset utilization theories. Our observation period spans over ten years starting from 2015 through 2024 involving yearly time series data. The statistical results from both Pooled Ordinary Least Squares (OLS) and Fixed Effect models show that firm size and sales exert significant influence on firm value but this does not apply to capital structure. Our findings suggest that total assets and sales are the primary indicators of firm's financial health that drive up the market value of share price (increased valuation). It is therefore evidential to us that the Modigliani-Miller and Signaling theories provide meaningful explanations on the relationship between firm size, sales and firm value in the transportation and logistics sector in Bursa Malaysia.

Keywords: Capital Structure; Firm Value; Firm Size; Transportation and Logistics Sector; Static Panel Data Models.

Abstrak

Tujuan utama penelitian ini adalah menguji pengaruh struktur modal dan ukuran perusahaan terhadap nilai perusahaan pada sektor transportasi dan logistik di Bursa Malaysia. Penelitian berfokus pada respons nilai pasar saham dari 25 perusahaan logistik yang tercatat di papan utama terhadap perubahan struktur modal dan ukuran perusahaan, yang diukur menggunakan total aset. Secara metodologis, penelitian ini menggunakan model regresi data panel statis untuk mengestimasi model teoretis berdasarkan teori struktur modal dan pemanfaatan aset. Periode pengamatan mencakup sepuluh tahun, yaitu 2015–2024, dengan menggunakan data tahunan. Hasil statistik dari model Pooled Ordinary Least Squares (OLS) dan Fixed Effect menunjukkan bahwa ukuran perusahaan dan penjualan berpengaruh signifikan terhadap nilai perusahaan, sedangkan struktur modal tidak berpengaruh signifikan. Temuan ini menunjukkan bahwa total aset dan penjualan merupakan indikator utama kesehatan keuangan perusahaan yang mendorong peningkatan nilai pasar saham. Dengan demikian, teori Modigliani–Miller dan teori sinyal dapat menjelaskan hubungan antara ukuran perusahaan, penjualan, dan nilai perusahaan pada sektor transportasi dan logistik di Bursa Malaysia.

Kata Kunci: *Struktur Modal; Nilai Perusahaan; Ukuran Perusahaan; Sektor Transportasi dan Logistik; Model Data Panel Statis.*

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INTRODUCTION

Sustaining profitability and future growth is crucial for every company, especially for those that operate in a highly competitive environment that requires high capital investment like transportation and logistics sector. This sector functions as distribution channels that support economic activities through movement of goods, port operations, shipping services, courier services, and integrated logistics solutions. Due to high fixed asset requirements, long project cycles, and exposure to economic fluctuations, companies in this sector face significant financial and operational risks. As such, sound financial management is essential to ensure long-term sustainability and value creation.

In Bursa Malaysia, the transportation and logistics sector emerged as a distinct sector following the reclassification exercise in 2015, which aimed to better reflect evolving global business structures and industry practices. Since then, the sector has attracted increasing attention from investors due to its strategic importance to trade, supply chain efficiency, and national economic growth. The financial sustainability of listed transportation and logistics companies is commonly reflected in their market value, particularly share prices. Companies with strong financial performance and efficient financing decisions are generally valued more favourably by market participants.

Understanding the factors that influence firm value is therefore important. In corporate finance, capital structure and growth in investment are widely regarded as the key determinants of firm value. Capital structure refers to the combination of debt and equity used by a company to finance its operations and investments. Equity financing involves issuing shares to investors, while debt financing is obtained through borrowings from financial institutions or capital markets. The selection of an appropriate mix of debt and equity is critical, as it affects the cost of capital, financial risk, and ultimately firm value. Growth in investment is equally important as it aims at building up business capacity and expanding market share.

The concept of optimal capital structure suggests that there exists a level of leverage at which a firm can minimize its overall cost of capital and maximize its market value. This idea has been widely discussed in financial literature and is supported by various capital structure theories. Among the most prominent theories are Modigliani–Miller theory, Trade-Off theory and Signalling theory. While the Modigliani–Miller theory provides a theoretical benchmark under perfect market conditions, the Trade-Off theory explains how firms balance the benefits of debt financing against the costs of financial distress in real-world market scenarios.

Research on capital structure and asset growth is not a new theme in finance literature and remains highly relevant, particularly in sectors that are asset-intensive, such as transportation and logistics. The reclassification of Bursa Malaysia sectors in 2015 provides a strong motivation for conducting latest empirical studies that focus specifically on the newly-defined sectors. Rapid changes in technology, market conditions, and regulatory environments over the last decade has reshaped the financial landscape of transportation and logistics sector in Malaysia. Existing studies on the impact of capital structure and asset growth on firm value have primarily focused on large firms, plantation and manufacturing companies in Bursa

Malaysia, creating a gap in understanding how this financing strategy may affect a front-line sector in the economy like transportation and logistics.

This study, therefore, aims at investigating the impact of capital structure and asset utilization on firm value in the transportation and logistics sector in Bursa Malaysia from 2015 to 2024. By employing static panel data estimation methods, this study seeks to provide empirical evidence as to how financing decision and asset growth may influence firm value in this sector. The findings are expected to help Malaysian transportation and logistics companies determine the right business strategy so as to fund future growth, optimize financial performance and balance risks.

This paper consists of five sections. Literature review on capital structure, firm size and firm value is presented in section 2, placing great emphasis on the Modigliani–Miller and Trade-Off theories. Section 3 explains the methodology and statistical methods used in the study. Section 4 highlights the empirical findings and discusses the pressing issues. Finally, Section 5 concludes the paper by underlining the implications of capital structure decisions on firm value in the transportation and logistics sector.

LITERATURE REVIEW

Modigliani and Miller (1958) are considered as the pioneers in the study of capital structure and they advocate two main propositions. The first proposition suggests that under perfect market conditions, the value of a firm is independent of its capital structure. This implies that a levered firm has the same value as an unlevered firm, regardless of the proportion of debt and equity used in financing. Under this assumption, corporate managers are free to choose any combination of debt and equity without affecting firm value.

The second proposition by Modigliani and Miller explains that as a firm increases its leverage, the cost of equity rises due to higher financial risk borne by equity holders. However, this increase in the cost of equity is exactly offset by the lower cost of debt, resulting in a constant weighted average cost of capital. In this framework, firm value remains unchanged despite changes in capital structure. Although the assumptions of a perfect market are unrealistic, the Modigliani–Miller theory provides an important theoretical benchmark for understanding capital structure decisions. Fundamentally, Modigliani-Miller study believes in the concept that assets and their earning potential would determine firm value.

In reality, firms operate under market imperfections that comprise of taxes, bankruptcy costs, and agency problems. These imperfections lead to the development of alternative capital structure theories that explain why capital structure matters in practice. One of the most influential theories is the Trade-off theory, formally introduced by Kraus and Litzenberger (1973) and later refined by DeAngelo and Masulis (1980). This theory suggests that firms determine their optimal capital structure by striking the balance between benefits of debt and financial distress costs. It is important to point out that the Trade-off theory is also related to tangibility or firm's total assets. Essentially, total assets function as a collateral for lenders and firms with higher total assets can secure loans more conveniently. This allows them to finance more projects, increasing their operating

capacity and overall market value (Myers, 1977). In other words, firms can leverage their market value via borrowing activities that help finance future investments, operations and acquisitions.

According to the Trade-Off theory, debt financing provides benefits such as tax shields, which can enhance firm value. However, excessive reliance on debt increases the probability of financial distress and bankruptcy costs. As a result, firms aim to operate at an optimal debt–equity ratio where the marginal benefit of additional debt equals its marginal cost (Groth et al., 1997). Harris and Raviv (1991) further highlight that factors such as taxes, costs of financial distress, and agency conflicts significantly influence capital structure decisions. Signaling theory (Spence, 1973) is another plausible capital structure theory which is directly related to asset investment. In particular, the theory advocates that investments in assets are a positive signal to the market. Any borrowing activity that helps finance future growth is deemed desirable. Acquisition of more tangible assets is a positive market signal to investors resulting in enhanced market confidence, higher stock price and greater firm value.

Several studies suggest that industry characteristics play an important role in determining capital structure. The nature of the industry, asset tangibility, and business risk can influence a firm's leverage level (Schwartz et al., 1967; Long et al., 1985; Smith et al., 1992). For asset-intensive industries such as transportation and logistics, firms often rely on debt financing to support large capital investments, while maintaining leverage at a manageable level to avoid excessive financial risk.

Empirical studies have also examined firms' adjustment toward target capital structures. Graham (1996) and Flannery et al. (2006) find evidence that firms tend to move toward an optimal debt ratio over time. Other studies observe a negative relationship between leverage and profitability, suggesting that firms with higher profitability may rely less on debt financing (Kester, 1986; Titman et al., 1988; Rajan and Zingales, 1995). Wald (1999) further finds that profitability is a significant determinant of capital structure across several developed markets.

Despite extensive research on capital structure, the relationship between capital structure and firm value remains inconclusive and may vary across industries and market conditions. Many studies suggest that the applicability of the Trade-off theory differs across countries and sectors (Delcoure, 2007). This highlights the importance of conducting sector-specific and country-specific studies.

A myriad of studies on capital structure and firm size in Malaysia suggest that these two variables significantly influences firm value and financial performance of a company. However, this result does not necessarily hold true across all sectors in the economy and may vary depending on study period and industrial sectors. Given the capital-intensive nature of the transportation and logistics sector and its importance to support economic growth, there is a need to find out to what extent that the capital structure theories and size factor are relevant to this critical sector. This study therefore develops the following two hypotheses to examine the theoretical relationships involving capital structure, firm size and market value in the transportation and logistics sector at Bursa Malaysia.

H1: Capital structure, as measured by the debt–equity ratio, influences firm value in the transportation and logistics sector.

H2: Firm size, as measured by the total assets, influences firm value in the transportation and logistics sector.

Following the methodological approach of earlier studies, static panel data regression analysis is mobilized to evaluate the relevance of the Modigliani–Miller theory, Trade-off theory and Signaling theory in explaining capital structure behavior and size effect on firm value within the Malaysian transportation and logistics sector.

To summarize, while Trade-off theory suggests the importance of balancing out the benefits of debt financing against the costs of financial distress, some recent studies on capital structure and asset growth offer somewhat controversial insights that contradict mainstream beliefs. Market timing theory (Baker and Wurgler, 2002) postulates that firms will opt for equity financing when their stock prices are overvalued (high market-to-book ratios) and may initiate stock repurchase or debt financing when their stocks are deemed undervalued. Myers and Majluf (1984) highlight the importance of profitability in sustaining a firm's future growth. Their Pecking Order theory emphasizes the hierarchy of financing, starting with internal financing, followed by debt financing, and resorting to equity financing as the last option.

RESEARCH METHODOLOGY

This study specifically puts its focus on investigating the effect of capital structure and firm size on firm value in transportation and logistics sector at Bursa Malaysia. In this context, both capital structure and firm size are designated as our variables of interest. Capital structure is measured by the debt–equity ratio (DE), while firm size is proxied by the firm's total assets. The year-end closing share price (CP) is used to represent firm value because it reflects the real-time consensus of all market participants concerning a firm's real worth. This CP also functions as a dynamic indicator of a firm's ability to generate future profits. Fama (1978) argues that firm value is best measured by the share price as higher share prices reflect higher investor confidence in firm's future performance. We employ a static panel data regression analysis, which combines both cross-sectional and time-series data. Specifically, a two-way static panel estimation strategy is employed, incorporating three competing econometric specifications: Pooled OLS, Fixed Effect Model (FEM), and Random Effect Model (REM).

The rationale for adopting a two-way specification lies in the possibility that unobserved heterogeneity may vary both across firms and over time, and may also be correlated with the explanatory variables. The Pooled OLS specification assumes full homogeneity across cross-sectional units, implying identical intercepts and slope coefficients across firms and time periods. In contrast, the FEM allows for firm-specific intercepts by treating unobserved heterogeneity as time-invariant firm effects. The REM, however, treats firm-specific effects as components of the stochastic error term, assuming they are randomly distributed and uncorrelated with the regressors. This static panel approach is selected due to its capacity to

accommodate larger datasets with greater variability, thereby improving estimation efficiency and robustness.

We also apply robust standard errors in the static panel data regression in order to derive valid statistical inference particularly when the underlying model assumptions are violated. In essence, the use of robust standard errors is considered best practice in panel data analysis, especially in addressing the issue of heteroscedasticity and autocorrelation in financial modelling (Gooris and Peeters, 2016). Furthermore, Karim et al. (2018) emphasise that the application of static panel data approach should be substantiated by a solid coherent theoretical framework, which underpins the motivation of this study.

The sample consists of 25 transportation and logistics firms listed on Bursa Malaysia, covering a ten-year period from 2015 to 2024. This period is selected due to a need in understanding the financing behaviour of firms following the sector reclassification by Bursa Malaysia in 2015. The panel dataset allows the study to observe variations across firms as well as changes over time, providing a more comprehensive analysis compared to purely cross-sectional or time-series methods. There are five selected variables in our empirical model and the following mathematical equation is employed to estimate their relationships:

$$CP_{it} = \alpha + \beta 1\mathrm{DE_{it}} + \beta 2\mathrm{TA_{it}} + \beta 3\mathrm{SALES_{it}} + \beta 4\mathrm{ROA_{it}} + \pi_i + \mu_{it} \quad \ldots (1)$$

Where:

α $= intercept\ of\ the\ regression\ model.$

it $= i\ and\ t\ are\ individual\ company\ and\ time\ specific\ effects\ respectively$

$CP_{it} = Year - end\ closing\ price$

$DE_{it} = Debt - Equity\ Ratio$

$TA_{it} = Total\ Assets$

$SALES_{it} = Net\ Sales$

ROA_{it} $= Return\ on\ Assets\ (\%)$

$\beta 1, \beta 2, \beta 3, \beta 4$ $= the\ coefficients$

π_i = the companies specific effect

μ_{it} : $the\ error\ term, assumed\ to\ be\ normally\ distributed.$

Designating control variables in financial modelling is important since it enhances the internal validity of our empirical study. This process allows researchers to isolate the specific effect of an independent variable on a dependent variable. By holding certain factors constant, control variables eliminate confounding effect and reduce omitted variable bias. Hence, Sales and ROA are designated as control variables in our model.

To determine the most appropriate estimation model, statistical tests such as the Breusch–Pagan test and Hausman test are employed. These tests help identify which estimator (among Pooled OLS, FEM, REM) provides the best parameter estimates for the given dataset. The results from the best model are then used to evaluate our stipulated hypotheses.

In the next section, the descriptive statistics, correlation analysis, and the results from panel regression analysis are presented and thoroughly discussed to provide useful insights in explaining the relationship between capital structure and firm value in transportation and logistics sector at Bursa Malaysia.

RESULT AND DISCUSSIONS

Table 1 presents the descriptive statistics for the transportation and logistics sector over the study period (N = 250). The closing share price (CP), which represents firm value, records a mean value of **RM 1.43**, with a minimum price of **RM 0.04** and a maximum of **RM 9.37**. The standard deviation of RM**1.90** indicates considerable variation in share prices among companies in the sector, which are characterized by different market capitalization and varying financial performance.

The debt–equity ratio (DE) shows a mean value of **146.49%,** with values ranging from **0%** to **4542.64%.** The high standard deviation of **587.45%** suggests significant variation in capital structure decisions across the logistics companies. This wide dispersion indicates that while some companies rely heavily on equity financing, others are highly leveraged, which is common in capital-intensive industries like transportation and logistics. Overall, the descriptive statistics indicate substantial heterogeneity in both firm value and leverage levels within the sector, justifying the use of panel data analysis that focuses on firm-specific effect.

Table 1: Descriptive Statistics of the Transportation and Logistics Sector

Variables	Mean	Mode	Median	Std Dev	Min.	Max.
TA (RM mill)	3378.89	555.64	653.97	10823.01	31.71	65060.07
SALES (RM mill)	1237.46	225.31	285.67	2468.27	5.00	14271.66
ROA (%)	6.17	-9.35	2.44	84.56	-70.76	1328.27
DE (%)	146.49	0	36.02	587.45	0	4542.64
CP (RM)	1.43	0.04	0.60	1.90	0.04	9.37

Table 2: Pearson Correlation Coefficients, N=250

Variables	TA	SALES	ROA	DE	CP
TA	1.00000	0.85533 (<.0001)**	0.00185 (0.9767)	0.00272 (0.9659)	0.71498 (<.0001)**
SALES	0.85533 (<.0001)**	1.00000	-0.00386 (0.99516)	0.00730 (0.9086)	0.78114 (<.0001)**
ROA	0.00185 (0.9767)	-0.00386 (0.99516)	1.00000	0.45250 (<.0001)**	-0.00297 (0.9627)
DE	0.00272 (0.9659)	0.00730 (0.9086)	0.45250 (<.0001)**	1.00000	-0.04534 (0.4754)
CP	0.71498 (<.0001)**	0.78114 (<.0001)**	-0.00297 (0.9627)	-0.04534 (0.4754)	1.00000

Note: **Significant at 1%, *Significant at 5%, Figure in () is p-value

Table 2 reports the Pearson correlation coefficients between the variables. Focusing on the main variables of interest, the correlation between debt–equity ratio (DE) and closing share price (CP) is –0.0453, which is negative but statistically insignificant (p-value = 0.4754). This negative sign indicates that capital structure

of companies in this sector and their CP move in opposite direction and their degree of association is considered relatively weak.

In contrast, CP shows a moderate and statistically significant positive correlation with TA at 0.715. High and significant correlation is also observed between CP and SALES at 0.781. Their correlation coefficients are all significant at the 1 percent level. These high and significant correlations could be a clue for us to investigate potential causality involving CP, TA and SALES.

Table 3 presents the statistical results obtained from Pooled Ordinary Least Squares (OLS) and static panel data models, with closing share price (CP) as the dependent variable. In addressing the issue of multicollinearity in our model, we present the VIF values. As shown in Table 3, the VIF values are between 1 and 4, indicating that there is no serious multicollinearity problem. From the test result in Pooled OLS, it clearly shows that capital structure, as measured by the debt–equity ratio, does not have any significant effect on firm value. Looking at the p-value from the Breusch and Pagan test (BP), it is obvious that the null hypothesis is rejected suggesting that the Pooled OLS model is not applicable. This empirical finding is not a surprise and it is consistent with the work of Phillips and Sipahioglu (2004). In their study on 43 hotel companies in U.K, they do not find any significant relationship between capital structure and financial performance.

Moving on to Hausman test, we find that it is significant at 5 percent level. From this statistical result, it is obvious that the Fixed Effect model (FEM) is preferred in this study. The test results from FEM clearly indicate that both TA and SALES are significantly related to CP. The positive association between CP and TA may suggest that any increase in the value of total assets could trigger potential increase in share price in the near future. As mentioned by Susi (2024) in her study on pharmaceutical sub-sector in the Indonesian Stock Exchange, a firm's total assets can significantly influence its share price, generally acting as a foundation to support financial sustainability and operational efficiency. This empirical finding is in line with Modigliani-Miller theory (1958) and Signaling theory (1973) that emphasize the role of asset management and acquisitions in determining firm value. Komariah et al. (2024) analyse 106 companies listed on the main board index of Indonesian Stock Exchange and their study reveals that firm size positively influences equity prices. As such, their study suggests that companies with larger asset bases have greater tendency to receive higher market valuations.

The results from the FEM also show the presence of significant relationship between SALES and CP. Similar to TA, there is a positive correlation between them and sales growth is an enabler that potentially capable of signalling operational success and ultimately lead to enhancing a firm value over time. Wang, Zhao & Zhao (2024) conduct their study on online marketplace in China and they reveal that online sales are an important determinant of stock price synchronicity. As mentioned earlier, SALES is our control variable and it is no surprise that it consistently influences the CP across all the three estimators. As for Pecking Order theory, our empirical findings fail to present any significant evidence to substantiate its relevance. It is quite a shock to find ROA remains insignificant across all three estimated models.

Our study follows a highly recommended econometric process flow, transitioning from Pooled OLS to static panel models. From the pooled OLS model,

our baseline analysis suggests that capital structure decision in the transportation and logistics sector does not influence firm value. As such, we cannot emphasize the importance of balancing the cost and benefit of debt financing in order to achieve optimal capital structure. The statistical results from our FEM highlight different perspectives. FEM shows that Modigliani-Miller and Signalling theories are relevant in explaining firm value in the real financial market conditions.

Table 3: Parameter Estimates of Pooled OLS and Static Panel Data Models

Variables	Pooled OLS	Random Effect	Fixed Effect	Variance Inflation Factor (VIF)
TA	0.000030 (0.0233)**	5.82866 (0.6898)	-0.00014 (0.0002)**	3.72656
SALES	0.000486 (<0.0001)**	0.000339 (0.0008)**	0.000479 (<0.0001)**	3.72697
ROA	0.000621 (0.5313)	0.000154 (0.5082)	-0.00004 (0.8809)	1.25782
DE	-0.000203 (0.1546)	-0.00021 (0.0016)**	-0.00011 (0.2276)	1.25780
Root Mean Square Error (RMSE)	1.1813	0.5542	0.5323	
R-Square	0.6239	0.1966	0.9334	
Breusch and Pagan Test (BP)		603.29 (<0.0001)**		
Hausman Test		10.31 (0.0355)**		

Note: **Significant at 5%, *Significant at 10%, Figure in () is p-value

It is equally important to address the issue of goodness of fit in our model. Here, we look at both R-squared and root mean square error (RMSE) as our key measures in fit statistics. In statistics, RMSE explains the average distance between the predicted values from our estimated model and the actual values in our dataset. A lower RMSE is preferred since it implies a good fitting of our model into a given dataset. From a fit statistics standpoint, the preferred FEM is undeniably the best estimator as it delivers the highest R-squared together with the lowest RMSE.

CONCLUSION

This study is driven by the motivation to look into the question as to how capital structure and firm size could exert some significance influence on firm value over time. The empirical findings from FEM indicate that capital structure has no significant influence on firm value in the transportation and logistics sector. This result may imply that high operating costs and asset intensity in transportation and logistics sector make capital structure decisions less significant to overall market valuation as compared to future earning potential. The statistical results from FEM clearly indicate a significant relationship between total assets and firm value,

implying that operational factors like asset intensity or sales growth may have a greater impact on company value than the financing strategy. For this reason, our study shows that sales significantly influence firm value over the observed study period.

Taken together, the findings of this study provide empirical support for the relevance of Modigliani–Miller theory and Signalling theory in explaining the relationship between total assets (or firm size) and firm value in the transportation and logistics sector at Bursa Malaysia. The Modigliani-Miller theory offers a theoretical foundation for understanding the importance of assets in influencing the market value of a firm, while Signaling theory posits that management of assets (both tangible and intangible) functions as signals of the company's financial health, investor confidence, and future profitability.

The findings of this study carry important implications for resource allocation decisions, operational efficiency, and risk management approaches among the corporate planners. Specifically, a large capital expenditure is seen as a positive signal that management expects strong future cash flows to justify the expansion of operational capacity. As a whole, our empirical findings are in line with the results from previous studies for both developed and emerging financial markets.

This study can be further improved by incorporating some proxies of agency cost like Asset Utilization ratio (AUR). Future research should also consider utilizing dynamic estimation methods like Generalized Method of Moments (GMM) for measuring the impact of capital structure and tangibility on firm value. Finally, it is also worthy for future researchers to consider incorporating ASEAN stock markets into their studies as diverse institutional environments may help researchers understand how different regulatory regimes and legal systems influence debt-equity financing decisions and firm value.

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