

Dynamic Model of Islamic Hybrid Securities: Empirical Evidence From Malaysia Islamic Capital Market

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Abstract

Capital structure selection is fundamentally important in corporate financial management as it influence on mutually return and risk to stakeholders. Despite of Malaysia's position as one of the major players of Islamic Financial Market, there are still lack of studies has been conducted on the capital structure of shariah compliant firms especially related to hybrid securities. The objective of this study is to determine the hybrid securities issuance model among the shariah compliant firms in Malaysia. As such, this study is to expand the literature review by providing comprehensive analysis on the hybrid capital structure and to develop dynamic Islamic hybrid securities model for shariah compliant firms. We use panel data of 50 companies that have been issuing the hybrid securities from the year of 2004- 2012. The outcomes of the studies are based on the dynamic model GMM estimation for the determinants of hybrid securities. Based on our model, risk and growth are considered as the most determinant factors for issuing convertible bond and loan stock. These results suggest that, the firms that have high risk but having good growth prospect will choose hybrid securities of convertible bond. The model also support the backdoor equity listing hypothesis by Stein (1992) where the hybrid securities enable the profitable firms to venture into positive NPV project by issuing convertible bond as it offer lower coupon rate as compare to the normal debt rate

Keywords : Capital structure; Islamic hybrid securities; Panel data, GMM

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