opción

Revista de Antropología, Ciencias de la Comunicación y de la Información, Filosofía, Lingüística y Semiótica, Problemas del Desarrollo, la Ciencia y la Tecnología

Año 35, 2019, Especial N° 20

Revista de Ciencias Humanas y Sociales

ISSN 1012-1587/ ISSNe: 2477-9385

Depósito Legal pp 198402ZU45

Universidad del Zulia

Facultad Experimental de Ciencias

Departamento de Ciencias Humanas

Maracaibo - Venezuela

Opción, Año 35, Especial No.20 (2019): 1389-1405
ISSN 1012-1587/ISSNe: 2477-9385

The Cost of Equity Field in the Market Projection Companies

Jasim Mohammed Hussein[1]
[1]Department of Finance and Banking, college of Administration & Economics, university of Babylon, Iraq
bus.jasim.mohammed@uobabylon.edu.iq

Mahdi Atiyah mohi[2]
[2]Department of Industrial Management, college of Administration & Economics, university of Babylon, Iraq
bus.mahdi.atiyah @ uobabylon.edu.iq

Abdulrasool Abaulabbas Sahib[3]
[3]Department of Accounting, college of Administration & Economics, university of Kerbala, Iraq
[3]acc.rasool@mail.ur

Abstract

The aim of the study is to investigate determinants of the cost of Equity Field study in sample from the companies graduated in market projection for the papers financial via Capital Asset Pricing Model (CAPM) to calculate the cost of equity. As a result, share market price and times interest earned have significant impact on cost of equity. In conclusion, this indicates that financial markets in sultanate of Oman are more volatile with respect to any information.

Keywords: Cost of Equity, Capital Asset, Market.

Recibido: 10-03-2019 •Aceptado: 15-04-2019

El campo del coste del capital en las empresas de proyección de mercado

Resumen

El objetivo del estudio es investigar los determinantes del costo del estudio de Equity Field en una muestra de las empresas graduadas en proyección de mercado para los documentos financieros a través del Modelo de valoración de activos de capital (CAPM) para calcular el costo del patrimonio. Como resultado, el precio de mercado de las acciones y los tiempos de intereses ganados tienen un impacto significativo en el costo del patrimonio. En conclusión, esto indica que los mercados financieros en el sultanato de Omán son más volátiles con respecto a cualquier información.

Palabras clave: Costo del Patrimonio, Activos de Capital, Mercado.

1. INTRODUCTION

The majority of studies indicate different determinants of the cost of property rights. Most of the previous studies conducted in developed countries focused on capital structure decisions in the industrial sector and no study was conducted regarding the capital structure determinants of the industrial sector in Oman. Applied studies of these determinants. This study was conducted in the Omani industry sector as a natural laboratory to verify the impact of various variables on the cost of ownership of companies' equity, how to grow net profits, retention of funds, interest rates, financial leverage, coverage of fixed assets, long-term debt, taxes and market capitalization. The study consists of the first subject of the research methodology, the second topic is conceptual and intellectual framing of the research variables and the third topic: presentation and analysis of the results of the research and testing hypotheses, and the fourth section conclusions and recommendations.

2. METHODOLOGY

The problem of the study

The problem of the study is the following questions: Is there a significant relationship between (net profit growth, retention of funds, interest earned, leverage, fixed assets increase, long-term debt increase, tax, market share price) and cost of equity.

Study Objectives

The aim of this research is to answer the following questions:

1. Does the gap between theory and practice bridge the determinants of the cost of property rights? Although many studies have been conducted on the determinants of the structure of property rights, they have not paid adequate attention to the cost determinants of equity in emerging markets in the Sultanate of Oman. The cost of

property rights is an important issue in corporate finance, and it is still very little known in emerging markets

2. What are the determinants of the capital structure of the industrial sector in the Sultanate of Oman?

3. Does capital market conditions and financial policy variables affect property rights in the industrial sector?

The importance of the study

The importance of this study in answering the following questions is how the company determines its capital structure and financing operations? What are the factors affecting the company that affects these decisions? It also measures economic growth by providing real results for the cost of shares in the industrial sector. Net income takes into account the cost of debt, ie, the income statement as an expense, but does not represent the cost of equity, so that companies can make net profits that are still unprofitable in the economic sense if the profit is less than their cost of equity.

The hypothesis of the study

Based on the questions raised in the study problem, the hypotheses were formulated as follows:

1. The first hypothesis: There is a significant relationship between the growth of net profit and the cost of property rights.

2. The second hypothesis there is a significant relationship between the retention of funds and the cost of property rights.

3. The third hypothesis: There is a significant relationship between the interest earned and the cost of property rights.

4. The fourth hypothesis: There is a significant relationship between leverage and the cost of property rights

5. Fifth hypothesis: There is a significant relationship between the consolidation of fixed assets and the cost of property rights

6. Sixth hypothesis: There is a significant relationship between the increase in long-term debt and the cost of property rights

7 - The seventh hypothesis: There is a significant relationship between the tax and the cost of property rights

8. The eighth hypothesis: There is a significant relationship between the market share price market and the cost of ownership rights.

3. CONCEPTUAL FRAMEWORK OF THE STUDY

Return the company must make to pay the money to extend it further and equal the cost of opportunities to investors and increase worldwide the money used to evaluate an investment in business ventures is the lowest. Cost of the concept of ownership rights in the project site. In order to decide to invest in this project, it must achieve at least a return on the so-called achievement of this return, not less than what can be named without any fatigue or risk by investing in government bonds, which are called return on risk-free return, and investors build their expectations second: Net Profit Growth (Net Profit Growth). Is a term often used by senior executives when describing their company's strategic goal and profitable growth is the combination of profitability and growth and more precisely is the combination of economic profitability and free cash flow growth? Wiki 20/8/2018.

The relationship between net profit growth and the cost of equity is strong. According to Bazley and Hancock (2004), the investor assumes all risks in ownership and is ultimately entitled to the rewards. In the same context, the growth in profits will lead to a higher cost of shares (Fama & French, 1998). Earnings are vital to shareholders. General disclosure of profits is linked to the cost of capital. Botosan et al. (2004) the disclosure at the country level have an impact on the realized returns and the cost of capital (Core et al., 2015). It is also alleged that the increase in profits will increase the share price in the market, which will lead to capital gains and thus increase the cost of shares. Companies with high growth potential will generate high profits and companies with low growth opportunities have low profits?

Is part of the profits of the previous period not distributed to the shareholders or partners and the purpose of re-employment to obtain a greater return on investment? The debate over the preferred method of financing needs to be considered in particular for the Sultanate of Oman. The general trend is that companies choose the method of financing as retained earnings are the preferred source of funding for equity. Debt financing is better when compared to equity financing. Users prefer to disclose the financial statements associated with share prices that affect the cost of capital while discussing the proposal to reduce the cost of shares as internal financing and the costs of (Mayers, 1984).

Is the amount of money held from the profits of the economic unit distributable to achieve certain objectives such as strengthening the financial position or to implement administrative policy or implementation of the public policy of the state and the reserve is a distribution of profit and therefore depends on the composition of the condition of profit? Profit rate before interest and tax to interest paid. The company's ability to bear debt can be seen through interest earned and coverage of fixed expenses. Gibson (1998) if the receipt of interest earned is insufficient, the company will not be able to meet its obligations and failure to meet interest obligations may lead to legal action and bankruptcy Brigham & Ehrhardt (2002) and interest coverage will reduce financial risk. Investors are demanding a high return on high risk and thus growth in profits leads to an increase in interest rate coverage, which reduces risk and ultimately affects the cost of equity (Horne & Wachowicz, 1998).

Financial leverage refers to the extent to which the economic unit relies on borrowing from financial and banking institutions to meet its financial needs, ie the degree of its dependence on financing its assets from sources of finance with fixed income, whether loans or bonds, etc., through conventional financing, which is reflected in the profits obtained by the owners. Reflected on the degree of risk they are exposed to the impact of using the money of others. In order to achieve the largest possible return of the shareholders and measure the leverage total long-term and short-term liabilities to the total assets and financial leverage linked to the structure of funding the economic unit the more external sources of funding increased leverage and leverage becomes effective if the economic unit could invest the proposed funds at a rate higher than the cost of borrowed money and vice versa, Risk and achieve losses (Indriastuti, 2019; Dawood & Malik, 2017; Afriyani et al., 2018).

The use of fixed operating costs by the company is called the (Horne & Wachowicz, 1998). The leverage is the ratio of total liabilities to equity, also called the capital structure ratio. The capital structure depicts the company's long-term solvency (Change, 1990). There is a strong correlation between leverage and cost of ownership. The high dividend ratio will lead to debt financing and increase financial risk and will increase the expected return of the shareholder who claims a return Higher against high risk and therefore the cost of equity will rise. On the other hand, in developing countries, the use of short-term financing is higher than long-term financing (Booth et al., 2001).

The fair market value of assets is the most common criterion for valuation and represents the highest available price in the labor market between parties with good knowledge and prudent and free to deal. The strengthening of fixed assets allows companies to increase debt at low prices, enabling companies to pledge their fully depreciated assets with a market value. Total assets have a negative relationship to the cost of property rights and the lower cost of property rights due to an increase in fixed assets may result (Turner, 2010). The sample of the study consisted of 25 industrial companies in the industrial sector. The number of its companies reached 42 companies, ie nearly 60% of the industrial companies listed on the Muscat Securities Market from January 2011 to December 2016. The annual financial statements were collected from the market (Brennan et al., 2015; Oliveira et al., 2018).

Despite the intense debate over the appropriateness of the capital asset pricing model (CAPM). In the method of calculating the cost of property rights, and that there is no strong consensus on this method, Nasr et al. (2012) has been adopted as a measure for the calculation of the cost of property rights. Other methods are also available to monitor the behavior of the market, but the advantage of the capital asset pricing model is that it is simple and applied in practice (Horne & Wachowicz, 1998).

This system provides and explains some of the risk implications. It is also influential in practice and plays a key role in the cost of property rights. The Capital Asset Pricing Model is the first model developed by Graham & Harvey (2001), a highly appealing and rational model on the intellectual and logical level. Anyone can use and accept it if it is understood and acted upon by (Brigham & Ehrhardt, 2002). A survey conducted by Bruner et al. (1998) found that the capital asset pricing model is usually preferred by practitioners. The present study, therefore, used this system to estimate the cost of property rights (Yang et al., 2019; Soo et al., 2019).

Use regression analysis that is consistent with Hall et al., 2004, as follows:

Keit = β0 + β1 (NEGit) + β2 (RFit) + β3 (TIEit) + β4 (GRit) + β5 (FAit) + β6 (LDit) + β7 (TXit(

When:

Ke = cost of property rights

NEG = Net profit growth

RF = retention of funds

TIE = Number of times revenue is earned

GR = leverage

FA = Fixed asset enhancement

LD = long-term commitments

T = Tax

Market value MC=

e = error

Table 2 shows the correlation matrix between the variables of the study. Net profit growth is positively correlated with the cost of equity of 0.025. Positive net profit growth is associated with the cost of equity, which means increasing net profit, which stimulates shareholders' expectations that increase the cost of financial value. The intrinsic correlation between the cost of equity and reserves and retained earnings of 0.57 (*), retention of funds was also a significant correlation with the cost of equity. The assumption that reserves and retained earnings have a negative impact on the cost of shareholders' equity is not acceptable, although reserves and retained earnings have a significant relationship to the cost of equity. Interest acquisition times are positively correlated with the cost of shares at a value of 0.016. Although positive correlation is not significant between interest earned and cost of ownership.

The leverage is associated with a positive cost of equity of 0.058, which indicates the positive impact on the cost of equity, if not. The relationship of strengthening the fixed assets shows the moral and positive relationship with the cost of ownership rights of 0.092 **. Fixed asset support does not reduce and the cost of stock instead of fixed asset support increasing the cost of shares. The results showed that the support of fixed assets has a significant and positive effect on the cost of shares. Long-term liabilities are positively correlated with the cost of property rights at a value of 0.041.

Which are consistent with the results of the correlation of the hypothesis that long-term liabilities have a positive impact on the cost of equity. The current study showed that the taxes have a negative correlation with the cost of shares (0.021), while the relationship of market value is negative with the cost of property rights. There is a significant correlation between the market value and the cost of ownership rights of -0.221 **. Which means that the increase in the value of the company will reduce the cost of shares and the decrease in the value of the company will increase the cost of equity and therefore the assumption that the market value has a significant negative impact on the cost of equity.

	Ke	NEG	RRE	NFA	TIE	G	FAB	L	T	MC
Ke	1									

NEG	0.025	1								
RRE	0.057*	0.006	1							
TIE	0.016	0.214**	0.006	0.007						
G	0.0 58	0.004	0.002	0.008	0.002	1				
FAB	0. 092**	0.149**	0.25	0.007	0.091**	0.009	1			
L	0.41	0.026	0.028	0.002	0.042	0.038	0.205	1		
T	0.21	0.055	0.042	0.055	0.003	0.009	0.021	0.066	1	
MC	(0.221)**	(0.062)*	0.041	(0.049)*	(0.162)**	0.011	0.263**	0.173**	0.021	1

Table 1: The correlation between cost of ownership and independent study variables.

Mode	R	R square	Adjusted R Square	Std. Error of the Estimate
1	0.456(a)	0.107	0.093	6.30603

Table 2: Summary of the regression model

The results of the regression between the study variables in the table show that the beta value of the net revenue growth amounted to 0.058 with a positive value of 1.708 that it represents a positive but not very significant relationship which means an increase in profits An increase in the cost of equity that the increase in net profits means increase In the cost of shares, but this increase does not equal the increase in the cost of ownership rights to reject the first hypothesis of the hypotheses of the study. In terms of the relationship between the cost of equity and reserves and retained earnings, the value of t in the retention of funds was 1.405 compared to the t-value of 1.708. Therefore, the assumption of retention of funds has a negative impact on the cost of property rights and therefore rejects the second hypothesis. On the number of times, the interest was obtained, the calculated value of t is 1.949, compared to the t tabular value of 1.708 which is accepted by the third hypothesis.

The calculated t value of the leverage reached 1.044 against the tabular value of 1.708 and the negative impact on the cost of ownership is based on the fourth hypothesis. Studies have been conducted on the determinants of the cost of property rights in developed countries that are long-term debt with a specific percentage of the capital structure. Banks in Oman lend to companies for long-term periods. The calculated t value of fixed asset support t 1,574 compared to t-value 1.708 is rejected by the fifth hypothesis. Fixed assets are fully financed in terms of ownership in the Sultanate of Oman and in developed countries. They are financed by long-term debt as well. The value of t for long-term liabilities is 0.146 compared to the value of t-1.708 t, which rejects the sixth hypothesis.

The tax is valued at t0215 and the value of Beta 1.708. The seventh hypothesis is rejected. The tax is charged in the Sultanate of Oman to the audited financial statements. Therefore, the final tax liability is due, which may cause differences in taxable income according to the financial statements and taxable income. Calculation of the General Secretariat for Taxes in accordance with the Tax Law No. 47/81 of 1981. The market value was -9.259 compared to the t-value 1.708. Therefore, accept the eighth hypothesis proved that with the increase in the value of the company will reduce the cost of shares and vice versa, the hypothesis of the stock market price has a negative impact on the cost of equity on the eighth hypothesis is accepted.

T tabular value	The coefficient of determination	Variables independientes
14.346	23.13672	Intercept
1.708	0.058	Net revenue growth (NEG)
1.708	1.405	(RRE) Reserves and retained earnings
1.708	1.949	(TIE) Interest acquisition times
1.708	1.044	Leverage (G)
1.708	1.574	Strengthening fixed assets (FAB)
1.708	0.146	(LTD) Long-term debt
1.708	0.215	(T) Tax
1.708	(9.259)	Market value (MC)
	0.71	R Square
	0.68	Adjusted R Square

Table 3: Effect of Independent Variables on Cost of Ownership (Variable Approved Cost of Equity)

4. CONCLUSIONS

1- There is strong evidence that market value has a significant impact on the cost of equity and the results of the study are in line with expectations and prove that net profit growth, retention of funds, number of times of interest acquisition, leverage, support of fixed assets, long-term debt and taxes have an impact On the cost of property rights.

2- Due to the fact that Omani companies listed on the Muscat Securities Market are subject to a sound governance system, the Board of Directors is not executive and elected and subject to the supervision of the Capital Market Authority.

3- Despite the good results, the theoretical and practical understanding of the cost of property rights is still early in relation to the Sultanate of Oman.

4- The results of the present study provide to some extent a shortage of existing studies and can be conducted a comprehensive analysis using data impact of global variables of the capital market and trade can also consider the future opening up.

REFERENCES

Afriyani, D., Sa'dijah, C., Subanji, S., & Muksar, M. 2018. **Characteristics of Students' Mathematical Understanding in Solving Multiple Representation Task based on Solo Taxonomy.** International Electronic Journal of Mathematics Education, 13(3), 281-287. https://doi.org/10.12973/iejme/3920

BAZLEY, M., & HANCOCK, P. 2004. **Contemporary accounting**. Cengage earning Australia Pty Limited. Melbourne, Australia.

BOOTH, L., AIVAZIAN, V., DEMIRGUCKUNT, A., & MAKSMIVOC, V. 2001. **Capital structure in developing countries**. Journal of Finance. Vol. 56, Nº 1: 87-130. USA.

BOTOSAN, C., PLUMLEE, M., & XIE, Y. 2004. **The role of information precision in determining the cost of equity capital**. Review of Accounting Studies. Vol. 9, Nº 2-3: 233-259. Germany.

BRENNAN, M., HUH, S., & SUBRAHMANYAM, A. 2015. **Asymmetric effects of informed trading on the cost of equity capital**. Management Science. Germany.

BRIGHAM, E., & EHRHARDT, M. 2002. **Financial management theory and practice**. South-Western, Thomson Learning, Inc. USA.

BRUNER, R.., EADES, K., HARRIS, R., & HIGGINS, R. 1998. **Best practices in estimating the cost of capital: survey and synthesis**. Financial Practice and Education. Vol. 8, pp. 13-28. USA.

CHANGE, R. 1990. **The impact of personal taxes on corporate dividend policy and capital structure decisions**. Financial Management. Vol. 19, Nº 2: 21-31. USA.

CORE, J., HAIL, L., & VERDI, R. 2015. **Mandatory disclosure quality, inside ownership, and cost of capital**. European Accounting Review. Vol. 24, Nº 1: 1-29. UK.

Dawood, M., & Malik, K. S. 2017. **POLITICAL PARTIES IN PAKISTAN: A CASE STUDY OF PAKISTAN PEOPLES PARTY.** UCT Journal of Social Sciences and Humanities Research, 5(3), 25-31.

FAMA, E., & FRENCH, K. 1998. **Taxes, financing decisions, and firm value**. The Journal of Finance. Vol. 53, Nº 3: 819-843. USA.

GIBSON, C. 1998. **Financial statement analysis, using financial accounting information**. NJ: Prentice-Hall, Inc. New Jersey.

GRAHAM, J., & HARVEY, C. 2001. **The theory and practice of corporate finance: Evidence from the field**. Journal of Financial Economics. Vol. 60, Nº 2: 187-243. Netherlands.

HORNE, J., & WACHOWICZ, J. 1998. **Fundamentals of financial management**. NJ: Prentice-Hall, Inc. New Jersey.

INDRIASTUTI, H. 2019. **Entrepreneurial inattentiveness, relational capabilities and value co-creation to enhance marketing performance.** Giap journals. Vol 7. Nº 3. India.

MAYERS, S. 1984. **Corporate financing and investment decisions when firms have information investors do not have**. Journal of Financial Economics. Vol. 13, Nº 2: 187-222. Netherlands.

NASR, H., BOUBAKRI, N., & COSSET, J. 2012. **The political determinants of the cost of equity: Evidence from newly privatized firms**. Journal of Accounting Research. Vol. 50, Nº 3: 605-646. USA.

Oliveira, F. K. D., Oliveira, M. B. D., Gomes, A. S., & Queiros, L. M. 2018. **Identifying User Profiles from Statistical Grouping Methods.** Journal of Information Systems Engineering & Management, 3(1), 06.

SOO, M., SHELBY, R., & JOHNSON, K. 2019. **Optimizing the patient experience during breast biopsy.** Journal of Breast Imaging. wbz001, https://doi.org/10.1093/jbi/wbz001. UK.

TURNER, J. 2010. **Business Risk and the Tradeoff Theory of Capital Structure**. Health Services Organization and Policy in the University of Michigan Ann Arbor, MI. USA.

YANG, Y., PAN, T., & ZHANG, J. 2019. **Global optimization of Norris derivative filtering with application for near-infrared analysis of serum urea nitrogen.** Scientific Research Publishing. Vol 10. Nº 5. China.

UNIVERSIDAD

DEL ZULIA

opción

Revista de Ciencias Humanas y Sociales

Año 35, N° 20, (2019)

Esta revista fue editada en formato digital por el personal de la Oficina de Publicaciones Científicas de la Facultad Experimental de Ciencias, Universidad del Zulia.
Maracaibo - Venezuela

www.luz.edu.ve

www.serbi.luz.edu.ve

produccioncientifica.luz.edu.ve