

**CAPITAL STRUCTURE AND THE VALUE OF THE FIRM IN THE
PHILIPPINE TELECOMMUNICATIONS INDUSTRY**

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ABSTRACT

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The purpose of this study is to examine the relationship of capital structure to the value of the firm in the Philippine telecommunications industry for the period of 1997 to 2007. Highly capital intensive industries, like the Philippine telecommunications sector, need to be more cautious on their capital structure decisions but at the same time maximize their firm value to optimize shareholder returns. In their continued thrust to keep up with competition, support growth opportunities, and meet the demands for basic telecommunications as well as innovative technologies, the telecommunications companies expand their sources of funding by accessing capital markets through the issuance of debt securities and by increasing their capitalization in the equity market. Evidently, the dominant telecommunications companies maximized the financing facility available in the Philippine stock exchange.

Other than the firm-level decisions controlled by the telecommunications companies, the performance of the country's economy affect the financial position and the valuation of the telecommunications companies in the Philippines. Debt policies differ, also, among the telecommunications companies with DGTL being more aggressive than GLO and TEL. Meanwhile, current capital structure affects the value of the firm for DGTL and GLO, but behaves independently for TEL. This may

have been caused by TEL's corporate financial policy on adhering to a hierarchy of financing sources instead of targeting an optimal capital structure.

Notably, even when the stock price and the theoretical value of the business are largely dispersed, it shows that the marginal investors have other considerations in managing their investment portfolio. Perceived growth, cost leadership, and corporate strategies may influence the investors' selection of stocks to acquire. Expected returns, likewise, is influenced by the country's prevailing risk-free interest rates and movements in the market.

In this regard, further collective study in other industries can still provide more information to better understand the amount and degree of association between the value of the firm and the capital structure decisions. Moreover, availability of data and disclosure of more financial information may be improved to expand the knowledge on business valuation and increase confidence in the financial scorecard reported by the companies in the Philippines.

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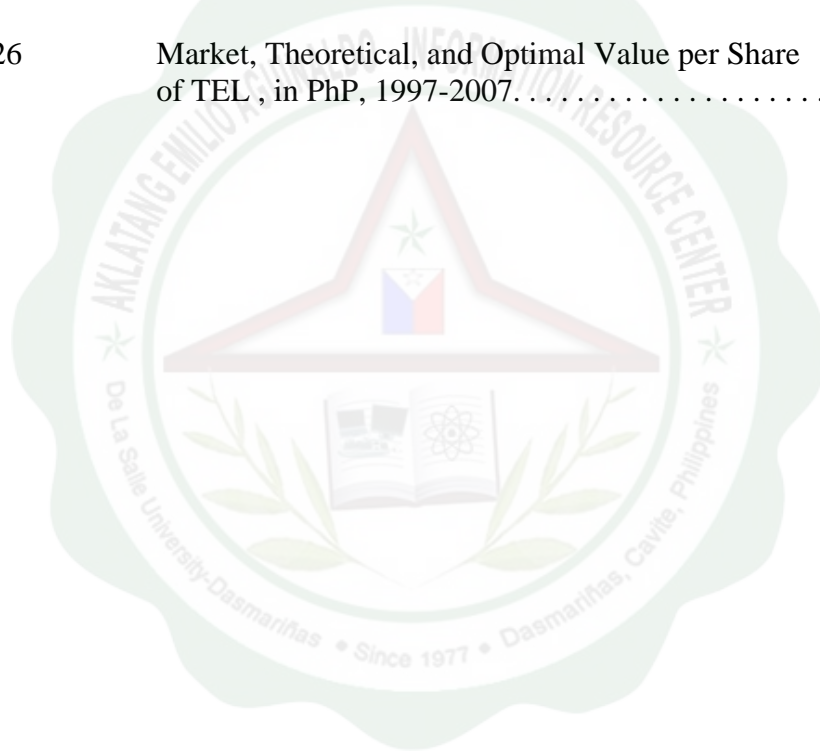
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