

ABSTRACT

Companies thrive when they create real economic value for their shareholders. Companies create value by investing capital at rates of return that exceed their cost of capital. Managers need to understand how cost of capital affects the valuation of the enterprise. The consequences of misunderstanding can be devastating. Correctly evaluating the cost of capital and thereby determining the value creation potential of investments in a business is imperative. Therefore, the purpose of this research study is to study the determinants of WACC for Thailand Communication Corporations listed on The Stock Exchange of Thailand (SET).

This research study identifies and analyses the factors affecting WACC of Thailand Communication Corporations listed on SET, by using multiple regression technique on the basis of the accounting data in financial statements for the years 1994 to 2001. The independent variables of this research are External factors (Inflation, GDP) and Company-Specific factors (Systematic risk or beta, Current ratio, Coverage ratio and Capital size). The dependent variable of this research is Weighted Average Cost of Capital or (WACC).

The results from the regression analysis show that, only four of seven variables are statistically significant at 5 % level. They are Inflation Rate, GDP Growth, Systematic Risk (Beta), and Capital Size. The first three variables are found to be positively related with WACC while the Capital Size is negatively related with WACC. The rest are Current Ratio, Debt to Equity Ratio, and Coverage Ratio. Even though these three variables failed to reject the null hypothesis at statistically significant 5 % level, based on the previous study these three variables still have impact on the WACC and in this study, the researcher found that the coefficient sign

for Current Ratio is positively related with WACC while Debt to Equity Ratio, and Coverage Ratio are negatively related with WACC.

