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The Conditionality of Financial Risk: A Comparative Analysis of High-Tech and Utility Companies Listed on the Shenzhen Stock Exchange (SSE)

Authors : Joseph Paul Chunga

Abstract : The investment universe is awash with a myriad of financial choices that investors have to opt for, which principally culminates into a duality between aggressive or conservative approaches. Howbeit, it is pertinent to emphasize that the investment vehicles with an aggressive approach tend to take on more risk than the latter group in an effort to generate higher future returns for their respective investors. This study examines the conditionality effect that such partiality in financing has on the High-Tech and Public Utility companies listed on the Shenzhen Stock Exchange (SSE). Specifically, it examines the significance of the relationship between capitalization ratios of Total Debt Ratio (TDR), Degree of Financial Leverage (DFL) and profitability ratios of Earnings per Share (EPS) and Returns on Equity (ROE) on the Financial Risk of the two industries. We employ a modified version of the Panel Regression Model used by Rahman (2017) to estimate the relationship. The study finds that there is a significant positive relationship between the capitalization ratios on the financial risk of Public Utility companies more than High-Tech companies and a substantial negative relationship between the profitability ratios and the financial risk of the former than the latter companies. This then spells an important insight for prospective investors with regards to the volatility of earnings of such companies.

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