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Pecking Order and Market Timing Theory in Emerging markets: The case of Egyptian firms

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Abstract

Using a unique dataset of 1270 Egyptian listed firm-year observations over 2003 to 2014, we investigate whether the basic premise according to the pecking order or market timing theories provide an explanation for the capital structure mix of Egyptian firms. Current work has provided mixed evidence in regard to these capital structure theories in the Egyptian context. Our results show that the most profitable firms are less likely to resort to external financing. However, in case where financial deficits exist then equity issued appears to track the deficit rather than debt. Moreover, issuances appear to track deficit periods instead of market timing attempts. Results obtained support notion that the typical Egyptian firm follows revised pecking order theory, with the importance of the four conventional determinants, profitability, tangibility, size effect and growth opportunity in debt holdings.

Keywords: *capital structure; ; ; , pecking order theory, market timing theory, Egypt.*

Abstract