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The relationship between the capital structure and stock returns of companies listed on the Yangon Stock Exchange (YSX)

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Abstract

This research aims to determine the relationship between capital structure and stock returns among companies listed on the Yangon Stock Exchange (YSX). The study employs data from 8 listed companies covering the period 2016 to 2024, totaling 54 firm-year observations. Data analysis was carried out using descriptive statistics and multiple regression models. The empirical results show that debt ratio is significantly associated with stock returns. Meanwhile, the debt-to-equity and long-term debt ratios are not significantly associated with stock returns. These findings suggest that the total levels of debt are a crucial factor to consider when comparing the YSX to other markets. The composition of debt and equity, along with the maturity of long-term debt, are key determinants of stock returns in the YSX.

Keywords: capital structure, stock returns, YSX, leverage

Background and significance

Capital markets development has a significant influence on economic growth, especially in emerging and frontier economies (Levine, 1997). In 2015, the launching of the Yangon Stock Exchange (YSX) was one of the milestone events to transition Myanmar into a modern financial system for equity funding, investment and corporate expansion. Despite this, the YSX has been small and relatively underdeveloped compared to regional peers with

insufficient liquidity, limited investment capacity, and evolving regulatory frameworks (Asian Development Bank, 2021). These structural constraints shape the YSX to be a frontier market whose financial operations might be unlike those seen in mature markets. In this light, one of the most important financial decisions for firms is when to have a capital structure. Capital structure, represented by the mix of debt and equity financing, has direct implications for firms' cost of capital, financial risk and performance (Modigliani & Miller, 1958). Theoretically, Trade-off and Pecking Order Theory imply that firms need to weigh the benefits of debt financing in terms of the tax benefits from a capital structure compared against the potential costs of financial distress and informational asymmetry (Myers, 1984). For investors, capital structure is a crucial signal of a firm's financial condition along with future prospects that could be translated in stock returns (Ross, 1977). While the relationship between capital structure and the performance of firms has been the basis of a plethora of literature, empirical research has predominantly been conducted and found in developed or global large emerging countries (Rajan & Zingales, 1995). By contrast the evidence from frontier markets like Myanmar is scant. Previous studies of YSX research has mostly focused on accounting based performance indicators and stock price determinants than market based indicators. For example, showed that earnings per share (EPS), dividends per share (DPS), and book value per share (BVPS) significantly affect stock prices, while return on equity (ROE) does not play a major role. Nevertheless, there is a lack of studies directly examining the impact of capital structure on stock returns in the YSX, particularly in recent years. This gap reflects the limited availability of empirical evidence on capital structure and stock returns in Myanmar's frontier market context. Given the unique institutional features of the YSX such as high information asymmetry, low market liquidity, and restricted access to external financing the relationship between leverage and firm value may deviate from classical theoretical expectations (Booth et al., 2001). Evidence from other regions suggests that firms adjust their capital structures in response to dynamic economic conditions and financial uncertainty (Pestonji, 2024), but such findings cannot be directly applied to Myanmar without careful examination. This study addresses the gap by examining the relationship between capital structure and stock returns in the Yangon Stock Exchange (2016–2024), using the debt-to-equity ratio and financial leverage as proxies. It contributes by providing new empirical evidence from a relatively unexplored frontier market, offering insights into the relevance of leverage for investors, and suggesting implications for managers and policymakers, particularly the Securities and Exchange Commission of Myanmar, to enhance market efficiency, transparency, and sustainable financial development.

Objectives

To investigate the relationship between capital structure and stock returns among companies listed on the Yangon Stock Exchange (YSX) during the period 2016 to 2024.

Literature reviews

Theoretical Foundations of Capital Structure

This study is primarily grounded in two major corporate finance theories: the Trade-Off Theory and the

Agency Cost Theory, to explain capital structure decisions and their impact on stock returns. The Trade-Off Theory suggests that firms should balance the benefits of debt (e.g., tax advantages) with the costs of financial distress to achieve an optimal capital structure (Kraus & Litzenberger, 1973). The optimal level of debt occurs where marginal benefits equal marginal costs. In contrast, the Agency Cost Theory explains conflicts between shareholders and managers (Jensen & Meckling, 1976). Managers may act in their own interests, leading to agency costs. However, debt can serve as a disciplinary mechanism by imposing financial obligations. Excessive reliance on debt may lead to underinvestment and risk-shifting problems. Capital structure refers to the mix of debt and equity used to finance operations (Modigliani & Miller, 1958). Key indicators such as the debt-to-equity ratio and leverage influence firm performance. Higher debt levels reflect increased financial risk. EPS indicates how leverage affects profitability and stock returns. Although widely applied, empirical evidence in the YSX during recent years remains limited. Previous studies mainly focus on accounting factors such as EPS, DPS, and BVPS affecting stock prices. Research in emerging markets shows that capital structure influences stock returns (Booth et al., 2001; Rajan & Zingales, 1995). However, findings may not fully apply to Myanmar due to liquidity, information asymmetry, and regulatory constraints. Thus, one key shortcoming of this research is the lack of recent empirical studies that utilize the Trade-Off Theory and Agency Cost Theory to explore the relationship between capital structure and stock returns in the YSX.

The Stock Return

Stock returns are the gains or losses earned by investors from a company's equity over a specified period. These return measures consist of two main parts: capital gains (or losses), which are results from stock price changes, and dividend income, which comes from the distributions of corporate profits to stockholders. Stock returns, as a stock-market-based return, are used in estimating the value, quality and success of firm stock prices which is a great indicator of business performance, also is one of the most powerful ways to establish corporate performance and also indicate the performance of corporate performance. Thus accurately measuring stock returns is critical for investors participating in portfolio allocation decisions and companies assessing their wealth maximization (Bodie et al., 2018). The stock returns have been calculated as follows in this study:

$$SR = \frac{P_1 - P_0 + D}{P_0}$$

where indicates the beginning stock price, ending stock price and dividend paid in that period. In many fields, there have been numerous empirical studies into the link that exists between capital structure and stock returns. Nevertheless, evidence specifically on stock returns especially in frontier markets such as Myanmar has been scarce. In developed markets, previous studies have linked decisions about capital structure indirectly to market outcomes. As an example, Stickney & McGee (1982) demonstrated impact of leverage on efficient corporate tax rates and after tax cashflows and subsequent returns of capital. Likewise Zimmerman (1983) also proposed that size of a firm and political cost-based accounting policies in turn affect the reported earnings and investors' perception in the stock returns. Most directly, studies on capital structure and stock returned provide theoretical and empirical evidence to justify the implications of this determinant on stock returns. In this sense, moderate levels of debt can boost firm performance, given tax advantages (Abor, 2005) whereas excessive leverage raises the risk of financial distress. In line with this perspective, Gill et al. (2011), Short-term debt, when managed well,

has a positive impact on profitability. In their seminal study, Salim & Yadav (2012) stated that companies with balanced financing decisions may contribute to improved firm value and market performance, which can ultimately influence stock returns. In contrast, Zeitun & Tian (2007) and Shubita & Alsawalhah (2012) found that the leverage leads to poor performance of firms, which reinforces the significance for proper debt to equity mix. Furthermore, evidence from regional markets, also provides evidence that profitability tends to become sensitive after firms make a capital structure decision, especially when debt financing was used excessively (Songjarean, 2022). However, the majority of work still focuses on developed countries or relatively advanced emerging markets. There is limited empirical evidence from frontier markets and, in particular, evidence that relates to the stock market performance of the Yangon Stock Exchange (YSX). Previous studies on the YSX have largely analysed those with stock price determinants and accounting based performance metrics such as earnings per share (EPS), dividends per share (DPS), and book value per share (BVPS), and not directly the effects of capital structure on stock returns. The lack of an empirical connection between the leverage ratios (debt-to-equity ratio and financial leverage) and market-based performance outcomes in Myanmar is also reflected in this constraint. In addition, the YSX is functioning to certain structural conditions such as scarce liquidity, less access to outside financing and changing regulatory factors, which may reshape the conventional association between the capital structure and stock returns of other markets (Asian Development Bank, 2021). Although the findings of other emerging market research also suggest that capital structure can have a powerful impact on the stock returns, they cannot be generalized as general to Myanmar without context-specific empirical evidence. This study, therefore, aims to fill this research gap by investigating the relationship between capital structure estimated through the debt-to-equity ratio and financial leverage and stock returns of companies listed on the Yangon Stock Exchange between 2016 and 2024.

Development of Research Hypotheses

Based on Trade-Off Theory and Agency Cost Theory and previous empiric, this study examines the relationship between the capital structure and stock returns of listed companies in the Yangon Stock Exchange (YSX). These hypotheses are developed based on the research objectives which are laid out in Chapter 1 as well as evidence obtained from developed and emerging market data. Because so little empirical research exists focusing on the YSX, and in recent years, this set of assumptions proposes to fill an identified gap in the literature while offering some locally relevant insights.

1) Debt Ratio and Stock Returns: Debt ratio is the proportion of total assets financed by debt and represents the firm-wide level of financial leverage. Based on the Trade-Off Theory, firms try to weigh the virtues of debt financing, such as tax shields, against the costs of financial distress (Modigliani & Miller, 1958). Though a firm's leverage may be moderate and thus add value, excessive debt will have detrimental effects in the form of financial risk and decrease investor confidence. The relationship between debt ratio and stock returns appears to be context dependent, especially in emerging markets (Booth et al., 2001) based on empirical studies. Higher debt ratios could become more a reflection of financial vulnerability in Myanmar where economic conditions are unstable and value enhancement may take a back seat. Frontier investors seek financial stability under uncertainty, possibly negating an expected positive impact of leverage on stock returns. Hence, the following hypothesis is established:

H1: Debt Ratio is significantly associated with stock returns.

2) Debt to Equity Ratio and Stock Returns: The debt-to-equity ratio captures the relative proportion of debt and equity used to finance a firm's operations and is considered to be an important determinant of a firm's risk and capital structure. Rising levels of debt and the tax benefit which accrue from such leverage can increase expected returns (Myers, 1977); it can also increase financial distress. Developing markets have shown using empirical data that the sensitivity of stock returns to leverage rises in times of economic uncertainty (Rajan & Zingales, 1995). Within the YSX setting particularly in the period post 2021, and especially in the emerging economy, rising debt-to-equity ratios should exert downward pressure on stock performance as investors become risk averse. This may indicate that the benefits associated with leverage risk outweigh potential problems of financial instability and limited access to external financing. Consequently, we formulate the following hypothesis:

H2: Debt to Equity Ratio is significantly associated with stock returns.

3) Long Term Debt Ratio and Stock Returns: The long-term debt ratio looks at a business's dependency on long-term borrowing to finance long-term operations and growth. For those investors who are planning capital spending, such debt tends to make an investment in long-term financing and expansion, but it also adds more fixed costs, increased risk over the long term. According to Agency Cost Theory, debt acts as a disciplinary tool for the firm by decreasing free cash flow and thus aligning managerial conduct with shareholders' expectations (Jensen & Meckling, 1976). However, in frontier societies such as Myanmar where formal financial systems and corporate governance structures are still in their infancy, the effectiveness of this mechanism will probably be limited. Instead, investors may attach greater importance to macroeconomic resilience, liquidity conditions and credit risk (Asian Development Bank, 2021). Therefore, potential benefits of longer-term borrowing in reducing agency costs can now be obscured or even nullified by wider economic uncertainties, leading to an ambiguous or possibly negative relationship with stock returns. The following hypothesis is therefore formed:

H3: Long Term Debt Ratio is significantly associated with stock returns.

4) Control Variables: This study includes control variables that may affect stock returns independently of capital structure decisions to enhance the analysis.

4.1) Firm Size (SIZE): Firm size is one frequent factor of risk and return of a firm. Higher size of firm generally enhances the ability of the firm to operate beyond its original operations, to gain access to capital markets and for the earnings to be consistent and predictable, and hence, leads to lower risk and more predictable stock returns (Fama & French, 1992). While small firms are believed to yield relatively higher returns if compared with large ones in prior literature, this relationship has now been redrawn. In Myanmar context investors have favored larger firms more because of their financial resilience and improved economic resilience. This "flight to quality" behavior implies that firm size also impacts the stability of stock return in the Yangon Stock Exchange (YSX).

4.2) Return on Assets (ROA): Return on Assets (ROA) is a measure of a firm's profitability and efficiency in utilizing its assets to produce profits. Investors are likely to appreciate the firms that have a better ROA, which may have a positive impact on the stock returns (Nissim & Penman, 2001). Over the past few years, ROA has become an even bigger indicator, especially under fluctuating economic conditions, since it helps categorize firms that are getting the most value out of their assets versus those that're lagging. As a result, a positively significant correlation

between ROA and stock returns is anticipated in the present study.

4.3) Net Profit Margin (NPM): NPM is a metric that shows the percentage of net income that comes from sales generated in relation to the total revenue, proving a company's success in converting sales into profit. A higher NPM implies superior cost management and efficiency, so investors trust in management as well as have positive correlation to stock returns (Brigham & Houston, 2019; Gitman & Zutter, 2012).

Conceptual framework

In this study, we develop a conceptual framework by examining the relationship between capital structure and stock returns of companies listed on the Yangon Stock Exchange (YSX). It is based on Trade-Off Theory and Agency Cost Theory, which describe the impact of financing decisions on firm value and market performance. Here we will explore the model between stock return with the variable SR as the dependent variable of this study. The independent variables comprise important capital structure measures: debt ratio (DR), debt-to-equity ratio (DE), and long-term debt ratio (LDR), all key indicators of the standardization of financial risk. According to the framework, in this study, capital structure decisions can influence stock returns in a variety of ways by their effect on financial risk and what the investor perception is. It is accordingly proposed that each leverage variable will affect a significant connection with stock returns.

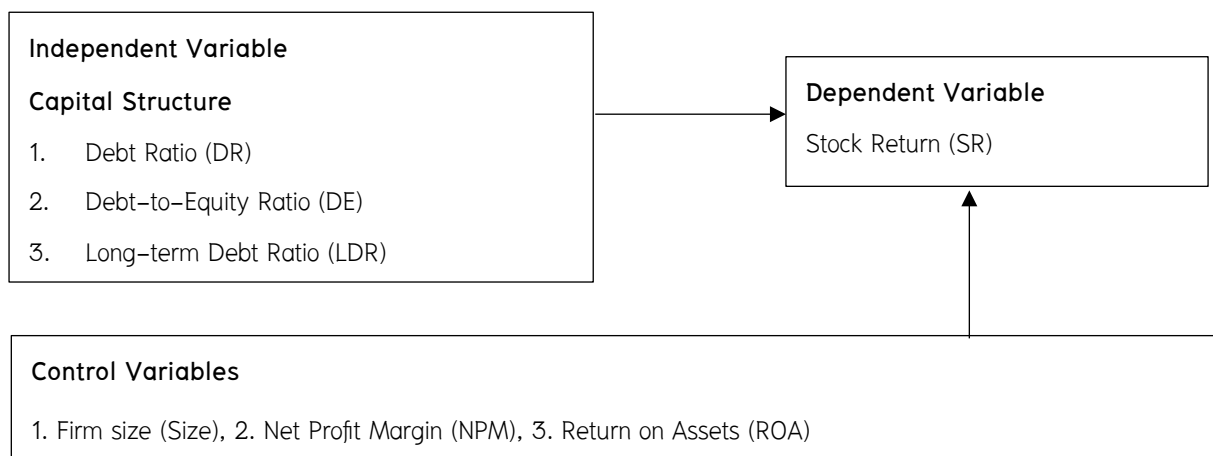


Figure 1 Conceptual framework

Methods

This study employs a quantitative research approach to examine the relationship between capital structure and stock returns among companies listed on the Yangon Stock Exchange (YSX). The research methodology is described as follows.

1. Populations and samples

All the companies in this study were listed on the Yangon Stock Exchange (YSX) with the current trading

date being 2015. The sample size for this study is all the companies listed on the YSX, which is the emerging and developing capital market in SE Asia. By analyzing all listed companies, we try to get full-picture view of capital structure and stock return response in the economy we discuss here. The sample is comprised of the YSX listed companies with full and robust financial and stock returns coverage from 2016 to 2024. Considering the small amount of listed firms, purposive sampling is used to select companies that show constant accounting integrity and that are in position to be more active in trading to allow reliable and comparable analysis. Following data screening, the final sample comprises 8 companies. The specific sample selection procedure is demonstrated in Table 1.

Table 1 Sample selection

Description	Number	Unit of analysis
Total population	8*	Firms
Total population size	72	Firm-year observations
Less: missing data	18	Firm-year observations
The sample size	54	Firm-year observations

* Data retrieved from the Yangon Stock Exchange as of 5 October 2025, available at <https://ysx-mm.com/main-board/listing/company/>

2. Data Analysis

To examine the relationship between capital structure and stock returns, this study employs several statistical techniques. Various statistical techniques are utilized in the study to investigate the association between capital structure and stock returns. Descriptive statistics (mean, standard deviation, minimum and maximum) describes the characteristics of the variables. Pearson correlation coefficients are computed to interpret between variables. Panel data regression analysis is considered. In particular, Pooled OLS model is used to investigate the linkage of capital structure to profitability of the firms within the sample over firms and years. Furthermore, multicollinearity is checked with the Variance Inflation Factor (VIF) to guarantee a similar relationship between independent variables. Then, research hypotheses are further tested using multiple regression analysis with the following empirical model.

$$SR_{i,t} = \beta_0 + \beta_1 DR_{i,t} + \beta_4 Size_{i,t} + \beta_5 NPM_{i,t} + \beta_6 ROA_{i,t} + \varepsilon_{i,t}$$

$$SR_{i,t} = \beta_0 + \beta_2 DE_{i,t} + \beta_4 Size_{i,t} + \beta_5 NPM_{i,t} + \beta_6 ROA_{i,t} + \varepsilon_{i,t}$$

$$SR_{i,t} = \beta_0 + \beta_3 LDR_{i,t} + \beta_4 Size_{i,t} + \beta_5 NPM_{i,t} + \beta_6 ROA_{i,t} + \varepsilon_{i,t}$$

The variables and their classifications used in the data analysis are presented in the following table.

Table 2 Variable and Measurement

Proxy	Abbreviation	Measurement	Description
Dependent Variable			
Stock Returns	SR	Price change + Dividends) ÷ Initial price	The difference is reflected as a capital gain or loss and takes income via dividends. Dividing by their initial price converts this total gain into a return rate that indicates the overall investment performance over the period.
Independent Variable			
Debt Ratio (DR)	DR	TotalDebt÷TotalAssets	Assesses the portion of total company assets funded by debt. A greater ratio implies a heavier reliance on external financing and potentially greater financial risk.
Debt-to-Equity Ratio (D/E)	DE	Total Debt / Total Equity	Shows how much debt a company uses versus shareholders' equity to fund its assets. A higher ratio suggests a more leveraged financial structure.
Long-Term Debt Ratio (LDR)	LDR	Long-TermDebt÷TotalAssets	It measures the portion of a firm's assets that is funded by long-term financial obligations. This is especially true for firms that are capital intensive.
Control Variable			
Firm Size	Size	ln (Total Assets)	Size of the company, measured by total assets
Net Profit Margin	NPM	Net Income / Total Revenue	The proportion of net income generated from total revenue,
Return on Asset	ROA	Net Income / Total Assets	Company's financial performance, measured by the ratio of net income to total assets
–	ϵ	–	Error Term
–	i, t	–	individual, time

Results

This study aims to examine the relationship between capital structure and stock return among companies listed on the Yangon Stock Exchange (YSX). The results of the analysis are presented as follows.

Table 3 Descriptive statistics of research variables

Variable	N	$\bar{X}$	S.D.	minimum	maximum
SR	54	.0239	.0699	– .0471	.4878
DR	54	.5242	.3639	.0235	1.000
DE	54	2.9993	3.8281	.0241	1.5727

Table 3 (Continued)

Variable	N	$\bar{X}$	S.D.	Minimum	Maximum
LDR	54	.0588	.1217	.0000	.6473
Size	54	25.8037	1.7172	23.4564	21.0693
NPM	54	– .5190	3.1290	–22.3473	.8546
ROA	54	.0005	.4966	– .0188	.1000

Table 3 includes the descriptive statistics about the research variables. The mean stock return (SR) is .0239 with a standard deviation of .0699, indicating moderate variation and relatively low average returns. SR ranges from – .0471 to 0.4878, suggesting that while some firms experience negative growth, others achieve substantially high positive growth. In the capital structure domain, the average debt ratio (DR) has a mean of .5242, indicating that more than half of total assets are financed by debt on average. The average values for debt-to-equity (DE) are 2.9993, although a high standard deviation (SD) reflects considerable differences in the leverage level between firms. Likewise the long-term debt ratio (LDR) with an average of .0588 indicates that long-term debt accounts for a low fraction of total financing, even though there varies greatly between the observations. In the form of firm characteristics, firm size (Size, log) averages 25.8037 indicating somewhat similar size of firms in the sample. Profitability indicators show good dispersion: net profit margin (NPM) has a negative mean (– .5190) with a large standard deviation, which indicates a large spread in profitability and the presence of losses. Return on assets (ROA) reveals a near-zero mean (.0005) for low overall profitability for the sample.

Table 4 Results of panel unit root tests

Variables	PP – Fisher Chi-square	Order of Integration
SR	48.924* (.000)	I(0)
DR	39.117* (.001)	I(0)
DE	31.054* (.022)	I(0)
LDR	54.281* (.000)	I(0)
Size	28.552* (.045)	I(0)
NPM	71.304* (.000)	I(0)
ROA	63.819* (.000)	I(0)

Note. * denotes statistical significance at the .05 level.

Table 4 presents the results of the panel unit root tests. It indicates that all variables in this study, including SR, DR, DE, LDR, Size, NPM, and ROA, reject the null hypothesis of having a unit root at the 5% significance level or better. This implies that all series are stationary at their levels, denoted as I(0). Consequently, the use of these variables in the subsequent regression model is appropriate and will not result in spurious regression, thereby ensuring the reliability of the estimated coefficients and statistical inferences.

Table 5 Correlation matrix and VIF results for each model specification

Panel A DR Model						
Variable	SR	DR	Size	NPM	ROA	VIF
SR	1.000					
DR	-.3313* (.0144)	1.000				2.40
Size	-.1582 (.2531)	.7612* (.000)	1.0000			2.45
NPM	-.0678 .6263	.0328 .8141	.1306 .3467	1.0000		1.93
ROA	-.1738 (.2089)	-.0184 (.8952)	.0448 (.7476)	.6853* .0000	1.0000	1.89
Panel B DE Model						
Variable	SR	DE	Size	NPM	ROA	VIF
SR	1.000					
DE	-.2253 (.1014)	1.000				2.17
Size	-.1582 (.2531)	.7331* (.000)	1.0000			2.18
NPM	-.0678 .6263	.0934 .5019	.1306 .3467	1.0000		1.92
ROA	-.1738 (.2089)	.0110 (.9371)	.0448 (.7476)	.6853* .0000	1.0000	1.90
Panel C LDR Model						
Variable	SR	LDR	Size	NPM	ROA	VIF
SR	1.000					
LDR	-.0410 (.7682)	1.000				1.22
Size	-.1582 (.2531)	-.0660 (.6354)	1.0000			1.02
NPM	-.0678 .6263	-.3756* .0051	.1306 .3467	1.0000		1.97
ROA	-.1738 (.2089)	-.3960* (.0030)	.0448 (.7476)	.6853* .0000	1.0000	1.99

* statistical significance at the .05 level.

Table 5 Correlation Matrix and VIF Results for Each Model Specification. Correlations of independent variables are weak to moderately strong. Panel A: The Debt Ratio (DR) exhibits a statistically significant negative correlation with stock returns (SR) ($-.3313$, $p < .05$). Although there is a strong correlation between Size and DR ($.76$), the corresponding VIF of 2.45 remains within the acceptable range. Panel B: The Debt-to-Equity Ratio (DE) shows a negative correlation with SR ($-.2253$), but it does not reach statistical significance at the .05 level. Panel C: The Long-term Debt Ratio (LDR) shows the weakest correlation with SR ($-.0410$, $p > .05$). Notably, NPM and ROA maintain a consistent positive correlation ($.6853$, $p < .05$) across all panels, as expected. The range VIF falls between 1.02 and 2.45, which is lower than the usual consensus threshold value of 10, meaning multicollinearity is not a big problem. All variables are therefore eligible for inclusion in the regression analysis.

Table 6 Results of the relationship between Capital Structure and Stock Return

Variable	Panel A DR Model Coefficient estimate (p-value)	Panel B DE Model Coefficient estimate (p-value)	Panel C LDR Model Coefficient estimate (p-value)	Statistically significant relationship
Constant	-.17015 (.397)	.2545	-.77	No
DR	-.9972* (.013)			Yes
DE		-.0045 (.222)		No
LDR		.1115	-.0730 (.406)	No
Size	.0096 (.252)	.0007 (.929)	-.0068 (.235)	No
NPM	.0021 (.594)	.0029 (.483)	.0023 (.595)	No
ROA	-.3665 (.152)	-.3710 (.167)	-.4048 (.143)	No
F statistic	2.57* (.0497)	1.21 (.3194)	.99 (.4231)	
N	54	54	54	
Adj. R ²	.1057	.0155	-.0009	

* statistical significance at the .05 level.

Table 6 presents the results of panel regression analysis examining the relationship between capital structure variables Debt Ratio (DR), Debt-to-Equity Ratio (DE), and Long-term Debt Ratio (LDR) and stock returns

across three separate models (Panel A, Panel B, and Panel C). The findings reveal that only the Debt Ratio (DR) shows a statistically significant relationship with stock returns. Specifically, in Panel A, DR has a negative coefficient of -0.9972 with a p -value of 0.013 , which is significant at the 5% level. This indicates that firms with higher debt ratios tend to experience lower stock returns. In other words, increased leverage is perceived negatively by investors, likely due to higher financial risk and potential default concerns in the market. In contrast, the other capital structure variables do not show statistically significant relationships. The Debt-to-Equity Ratio (DE) in Panel B has a coefficient of -0.0045 with a p -value of 0.222 , indicating no meaningful impact on stock returns. Similarly, the Long-term Debt Ratio (LDR) in Panel C is also statistically insignificant (p -value = 0.406), suggesting that long-term debt usage does not significantly influence stock performance in this sample. Regarding the control variables, firm size (Size), Net Profit Margin (NPM), and Return on Assets (ROA) all exhibit insignificant relationships with stock returns across all models. Although ROA shows a consistently negative coefficient, its p -values (all above 0.10) indicate that profitability does not have a statistically significant effect on stock returns in this context. The constant terms in all three models are also statistically insignificant, suggesting that there are no strong baseline effects when all independent variables are zero.

Discussion

The present research explores the relationship between capital structure and stock returns of corporates listed on the Yangon Stock Exchange (YSX). The objective outcome is to provide some partial evidence of proposed hypotheses with emphasis on hypothesis 1 (H1), that the relationship between DR and Stock returns is significantly negative. It shows that, in the emerging capital markets of Myanmar, greater debt is seen as a predictor of worse stock performance, reflecting that investors tend to focus on the costs of potential financial distress and interest burden over the tax advantages put forth in Trade-Off Theory (Modigliani & Miller, 1958). This risk-averse market sentiment reflects a change on the part of investors in interpreting leverage in an era of economic and political instability, where excessive debt is seen as a signal of instability that shrinks profit margins and erodes confidence. These conclusions are consistent with the work of Ibthia et al. (2024), whereby the debt structure (including short-term, long-term and total debt) has great impact on company performance. Collectively, these results highlight the impact negative debt management has on operational efficiency (Ibthia et al., 2024), which indirectly manifests itself through the equity market as decreased stock returns, implying that there are significant influence between debt-related variables on both corporate performance inside and market valuation outside.

Hypothesis 2 (H2) and Hypothesis 3 (H3) are not supported as neither the Debt-to-Equity Ratio (DE) and the Long-Term Debt Ratio (LDR) have statistically significant relationships with stock returns. In the context of Myanmar's capital market, it seems that investors do not see leverage structure with regard to equity or the maturity of debt as major determinants affecting stock price movement. This agrees with Nurwulandari & Wahid (2024) find nothing significant between the Debt-to-Equity Ratio (DER) and stock prices. These findings imply that investors in Myanmar put higher value on the cost of financial distress and interest cost compared to the trade-off advantage that is common in the traditional perspective (Modigliani & Miller, 1958).

In addition, the implication of the debt ratio is consistent with the Agency Theory (Jensen & Meckling, 1976), which argues that high levels of debt entail high agency costs and shareholder–creditor conflict of interest. In a time of increased political and economic uncertainty, too much debt can be viewed as a sign of instability that is squeezing profit margins and undermining investor confidence. This aversion to risk indicates that, by the time investors in YSX arrive at this point, the "monitoring costs of excessive leveraged positions have been taken so far far outweighing their benefit from funding on debt".

Finally, this study contributes to the literature by providing empirical evidence from emerging market. The findings confirm that capital structure plays an important role in stock returns in Myanmar and also serves as a signal of firm stability. Firms that maintain conservative debt levels and strong financial performance are more likely to gain investor confidence and achieve better stock performance. Therefore, the study highlights the importance of appropriate financial policies in emerging markets and the need to align theory with real-world context.

New Knowledge

This study contributes new evidence on the relationship between capital structure and stock returns in the underexplored context of the Yangon Stock Exchange (YSX). Unlike prior studies focused on developed markets, the findings show that debt particularly the debt ratio has a stronger impact on stock returns in emerging markets, reflecting heightened investor sensitivity to financial risk. The results suggest that investors in Myanmar prioritize financial stability over leverage benefits. Furthermore, the study extends Trade–Off Theory by demonstrating that its practical relevance depends on market maturity and transparency, thereby linking financial theory with real market behavior in a developing economy.

Suggestions

1. Suggestions for applying research results

Investors should carefully evaluate firms' capital structures, as high debt levels increase financial risk and may reduce stock returns. Managers are advised to maintain a balanced and sustainable financing strategy to support growth while preserving investor confidence. Policymakers should enhance financial transparency and disclosure to strengthen market stability and encourage informed investment decisions.

2. Suggestions for future research

Future studies should consider larger samples and longer time periods to improve reliability. Incorporating macroeconomic factors such as inflation and interest rates could provide deeper insights. Comparative studies across emerging markets and research on behavioral factors, including investor sentiment, are also recommended to better understand stock market dynamics.

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