

Liquidity and Profitability Trade off-Evidences from UAE's Real Estate And Construction Companies

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Abstract-

This paper is a pioneer attempt to explore the relationship between the liquidity and the profitability of UAE companies. As companies enhances the liquidity position, the profitability starts decreasing because the funds which could have been employed in more profitable assets are tied up in liquid assets. So firms have to make a very important tradeoff between the liquidity and profitability. This trade off / the relationship between liquidity and the profitability has been well researched and documented in the developed countries but there are very few studies in the GCC (Gulf countries) and hardly any work has been done in UAE. This paper adds to the existing body of knowledge by empirically chalking out the relationship between the liquidity and the profitability of UAE real estate and construction companies. The study investigates this relationship over a period of 5 years from 2006-2010. All real estate and construction companies listed on Abu Dhabi stock exchange have been included in the study. The total number of companies under study are 13, three from real estate and 10 from construction industry. Current ratio, absolute liquid ratios have been taken as the measure of the liquidity of the concern and ROA has been taken as proxy for the profitability. The Size, leverage have been used as control factors. The study uses correlations and regression analysis and draw important revelations' regarding the relationship and the extent profitability has been influenced by the liquidity of UAE companies.

Value addition- *This paper adds to the existing body of knowledge by empirically chalking out the relationship between the liquidity and the profitability of UAE real estate and construction companies.*

Field of Research: Finance

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