Do Cash Holding and Debt Covenant Affect Accumulated Earnings in Technology Companies Listed on the ASEAN?

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The digital economy grows, retained profits shrink

- Private funding for tech firms hit a six-year low in 2023
- High burn rates and debt service eat into retained earnings
- Gap: no cross-country ASEAN study of tech firms that tests cash holding and debt covenant together, post-pandemic



Agency theory gives two predictions

H1

Cash holding raises accumulated earnings

Internal cash eases underinvestment: managers fund R&D and expansion without costly external finance.

H2

Debt covenant lowers accumulated earnings

Covenant pressure cuts managerial flexibility and forces cuts in capex and R&D.

Aim: test each effect, and their joint effect, among ASEAN-listed technology firms.

Panel regression on 132 technology firms

132

firms, purposive sampling

2022–2024

annual financial reports

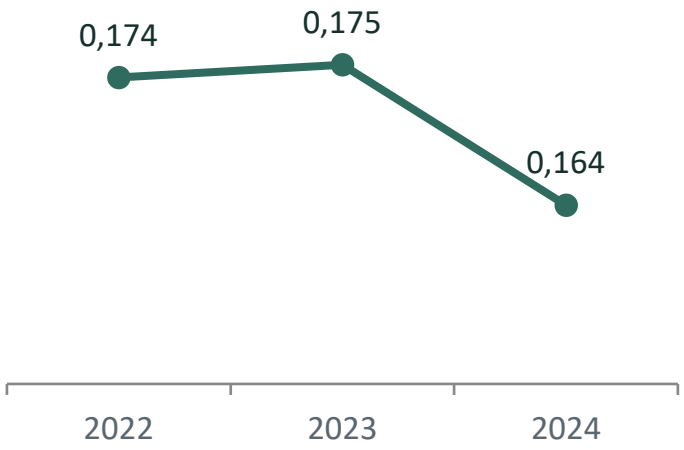
FEM

chosen by Chow and Hausman tests, EViews 12

Variable	Measurement
Accumulated earnings (Y)	Ln(accumulated earnings)
Cash holding (X1)	Cash and equivalents / total assets
Debt covenant (X2)	Total liabilities / total equity

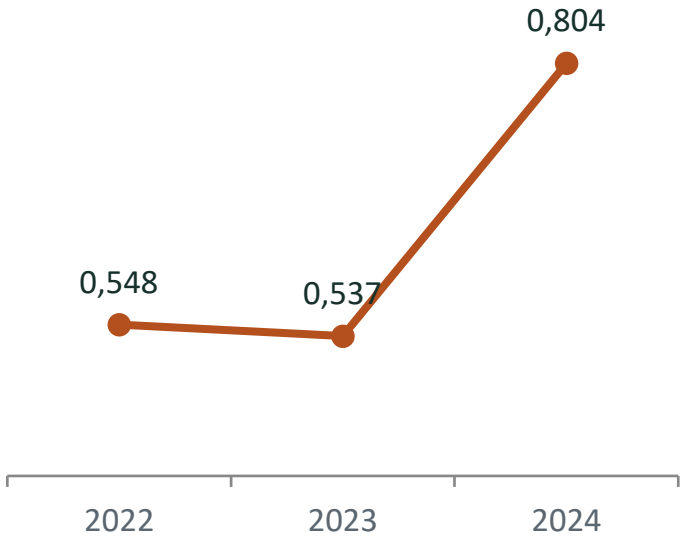
Cash held steady; leverage jumped in 2024

Cash holding



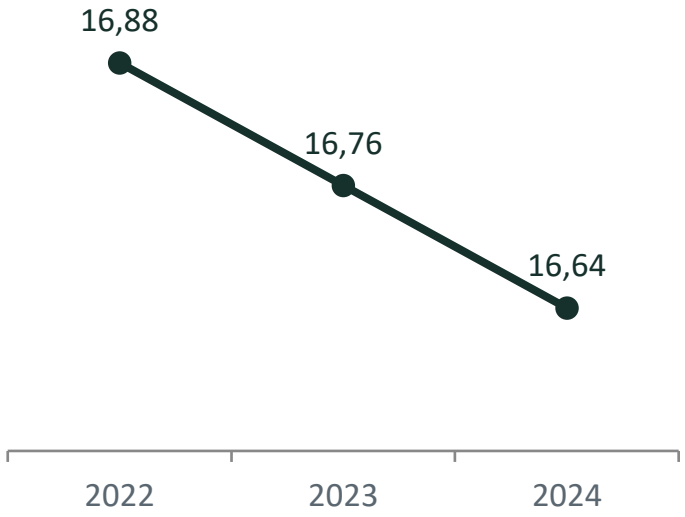
Cash used for expansion and AI spending in 2024.

Debt covenant (DER)



Deleveraging in 2023, then debt-financed expansion.

Ln(accumulated earnings)



Losses and interest costs outweigh efficiency gains.

What drove the 2022–2024 pattern

USD 8.5B

Cash at Sea Limited, end-2023. Layoffs and marketing cuts of up to 57% built cash buffers (Yahya, 2023; CNBC, 2024).

80.7%

ASEAN corporate debt to GDP by March 2023, so 2023 was a year of deleveraging (AMRO Asia, 2024).

+78.2%

High-yield issuance in Asia-Pacific ex-Japan in 2024, as digital investment doubled to USD 16B: liabilities outgrew equity (White & Case, 2025; ASEAN Secretariat, 2025).

–USD 485M

Grab's 2023 net loss, while Sea reported its first profit. Past losses were not yet offset (The Diplomat, 2024).

Cash helps, covenants hurt

Variable	Coef.	t	p
Cash holding	0.272	4.888	< 0.001
Debt covenant	−0.025	−2.928	0.0037

Fixed Effect Model; F = 1875.189 ($p < 0.001$). H1 and H2 accepted.

+0.272

Cash holding effect

−0.025

Debt covenant effect

99.84%

Adjusted R^2

H1: cash gives firms room to invest

$$\beta = +0.272$$

$t = 4.888$, $p < 0.001$. H1 accepted.

In an industry with high information asymmetry, internal cash removes the need for costly outside funding. More R&D and expansion lifts profit, and retained earnings build up.

Consistent with

- Jensen & Meckling (1976) and Opler et al. (1999): cash eases underinvestment
- Juliana & Budiono (2024): cash buffers uncertainty in six ASEAN countries so productive investment continues
- Bates et al. (2009): R&D-intensive firms hold more cash, with better investment quality

Contribution: direct evidence on accumulated earnings of ASEAN tech firms

H2: covenants squeeze investment

β = −0.025 · t = −2.928 · p = 0.0037 · H2 accepted

Covenant pressure rises → **Managers cut or delay capex and R&D** → **Profit and retained earnings weaken**

- Nini et al. (2012), Roberts & Sufi (2009): creditor control rights cut investment and weaken profitability
- James et al. (2024), Dyreng et al. (2022), Akdogu & Atilgan (2021): violations hurt efficiency and long-term performance, especially in downturns
- Same direction in our data: DER rose from 0.548 to 0.804 in 2024 while accumulated earnings fell to 16.64

What it means

For firms

Keep cash reserves disciplined. Deleverage gradually and diversify toward equity or hybrid funding.

For investors

Read cash holding and leverage together with profitability when screening ASEAN tech firms.

For researchers

Add moderators, measure covenants directly (distance-to-violation), extend the period.

Thank You