LONG-RUN PERFORMANCE OF REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS (RCULS) AND IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS (ICULS)

A project paper (WFZ6019) submitted to the Faculty of Finance and Banking in partial fulfilment of the requirements for the degree Master of Science (Finance), Universiti Utara Malaysia

by

WAN MOHD YASEER BIN MOHD ABDOH

© Wan Mohd Yaseer Bin Mohd Abdoh, 2007. All rights reserved
Kami, yang bertandatangan di bawah, memperakuan bahawa

We, the undersigned, certify that

WAN MOHD YASEER BIN MOHD ABDHO (MATRIC NO: 84156)

(nama penuh/full name)

calon untuk ijazah
candidate for the degree of MASTER OF SCIENCE (FINANCE)
etelah mengemukakan tesisnya yang bertajuk
has presented his/her thesis with the following title:

LONG RUN PERFORMANCE OF REDEEMABLE CONVERTIBLE UNSECURED
LOAN STOCKS (RCULS) AND IRREDEEMABLE CONVERTIBLE UNSECURED
LOAN STOCKS (ICULS)

(seperti yang tercatat di muka surat tajuk dan kulit tesis)
as it appears on the title page and front cover of thesis

dan tesis tersebut boleh diterima dari segi bentuk serta kandungan, dan meliputi bidang ilmu
dengan memuaskan.
the thesis is acceptable in form and content, and that a satisfactory knowledge of the field is
covered.

AJK Tesis/Thesis Committee

(i) Nama/Name : DR. KAMARUN NISHAM TAUFIL MOHD
(Penyelia Utama/Principal Supervisor) Tandatangan
Signature: ______________________

(ii) Nama/Name : __________________________
Tandatangan
Signature: ______________________

(iii) Nama/Name : __________________________
Tandatangan
Signature: ______________________

Tanggal/Date: 3 DECEMBER 2007
PERMISSION TO USE

In presenting this project paper in partial fulfilment of the requirements for the post graduate degree from Universiti Utara Malaysia, I agree that the Universiti Library may make it freely available for inspection. I further agree that permission for copying of this project paper in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor(s) or, in their absence, by the Dean of the Faculty of Finance and Banking. It is understood that any copying or publication or use of this project paper or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from my project paper.

Request for permission to copy or to make other use of materials in this project paper, in whole or in part, should be addressed to:

Dean of Faculty of Finance and Banking
Universiti Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman
ABSTRACT

This study examines the long-run performance of Redeemable Convertible Unsecured Loan Stocks (RCULS) and Irredeemable Convertible Unsecured Loan Stocks (ICULS). Using the monthly data on corporations listed on the Main Board, Bursa Malaysia, that issued the RCULS and ICULS; buy-and-hold abnormal returns (BHAR) and cumulative abnormal returns (CAR) methods are conducted to examine the long-run performance of the two instruments. The findings and analysis of this thesis were made based on the data collected from Bursa Malaysia Bloomberg and Investor’s Digest and Datastream. The results indicate that overperformance exists on the issuing firms’ stock returns for all one-year, two-year and three-year periods, regardless whether buy-and-hold abnormal returns (BHAR) or cumulative abnormal returns (CAR) is applied. Although, the results do contra with Gompers and Lerner (2003), Ritter and Welch (2002), Loughran and Ritter (1995) and Loughran (1993), the argument is based on the sample size being used in the study.
ACKNOWLEDGEMENTS

All praise to Allah the Almighty for His blessing, giving me the strength, idea and patience in completing this project paper. This study was prepared to fulfill the graduation requirement of Master of Science (Finance) by the Universiti Utara Malaysia.

My special appreciation to my honoured and understanding advisor, Dr. Kamarun Nisham Taufil Mohd and my helpful lecturer Dr. Rohani Md Rus, for their kind cooperation in giving resourceful assistance, critics and comments.

My deepest appreciation then goes to my father Mr. Mohd Abdoh Zainal Abidin, my mother Mrs. Sharifah Hanifah Bt. Syed Mohd Jamalullail and my wife Mrs. Azilawaty Bt. Ahmad for their love, support and patience.

Last but not least, thanks and gratitude are conveyed to all my lecturers especially to Dr. Nur Adiana Hiau Abdullah, Dr. Yusnidah Ibrahim, Dr. Nor Hayati Ahmad, Dr. Che Ani Mad and Mr. Abmalek F Abubakar and also those who are directly or indirectly involved in completing this project paper and to all staff of Sultanah Bahiyah Library; I wish all of you a thousand thanks.
TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permission to Use</td>
<td>i</td>
</tr>
<tr>
<td>Abstract</td>
<td>ii</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>iii</td>
</tr>
<tr>
<td>List of Tables and Figures</td>
<td>iv</td>
</tr>
<tr>
<td>List of abbreviations</td>
<td>v</td>
</tr>
<tr>
<td>Definition of Terms</td>
<td>vi</td>
</tr>
</tbody>
</table>

CHAPTER 1

1.0  *INTRODUCTION*                  1
1.1  BACKGROUND OF STUDY            4
1.2  PROBLEM STATEMENT              6
1.3  OBJECTIVE OF THE STUDY         7
1.4  SIGNIFICANCE OF THE STUDY      7
1.5  SCOPE OF STUDY                 8

CHAPTER 2

2.0  LITERATURE REVIEW              9
2.1  LONG-HORIZON EVENT STUDIES     12
    2.1.1  Cumulative Abnormal Return (CAR)  12
    2.1.2  Buy-And-Hold Abnormal Return (BHAR)  13
2.2  CAR Vs BHAR                    14
CHAPTER 3
3.0 DATA and SAMPLE SELECTION 17
3.1 CUMULATIVE ABNORMAL RETURNS 17
3.2 BUY-AND-HOLD ABNORMAL RETURNS 18

CHAPTER 4
4.0 EMPIRICAL RESULT 19
4.1 PERFORMANCE OF RCULS AND ICULS, ONE YEAR
   4.1.1 Performance of RCULS and ICULS 20
   4.1.2 Trend of RCULS and ICULS 21
4.2 PERFORMANCE OF RCULS AND ICULS, TWO YEAR
   4.2.1 Performance of RCULS and ICULS 22
   4.2.2 Trend of RCULS and ICULS 23
4.3 PERFORMANCE OF RCULS AND ICULS, THREE YEAR
   4.3.1 Performance of RCULS and ICULS 24
   4.3.2 Trend of RCULS and ICULS 25

CHAPTER 5
5.0 CONCLUSION 27
5.1 RECOMMENDATION 29

REFERENCES 31

APPENDICES 34
LIST OF TABLES AND FIGURES

**TABLES**

<table>
<thead>
<tr>
<th>TABLE</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>TABLE 1</td>
<td>ICULS and RCULS issued within the time frame.</td>
<td>6</td>
</tr>
<tr>
<td>TABLE 3</td>
<td>BHAR and CAR for ICULS and RCULS for one year.</td>
<td>20</td>
</tr>
<tr>
<td>TABLE 4</td>
<td>BHAR and CAR for ICULS and RCULS for two year.</td>
<td>22</td>
</tr>
<tr>
<td>TABLE 5</td>
<td>BHAR and CAR for ICULS and RCULS for three year.</td>
<td>24</td>
</tr>
</tbody>
</table>

**FIGURES**

<table>
<thead>
<tr>
<th>FIGURE 1</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIGURE 1</td>
<td>Trend of BHAR and CAR for one year.</td>
<td>21</td>
</tr>
<tr>
<td>FIGURE 2</td>
<td>Trend of BHAR and CAR for two year.</td>
<td>23</td>
</tr>
<tr>
<td>FIGURE 3</td>
<td>Trend of BHAR and CAR for three year.</td>
<td>25</td>
</tr>
</tbody>
</table>
LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>KLCI</td>
<td>Kuala Lumpur Composite Index</td>
</tr>
<tr>
<td>BHAR</td>
<td>Buy-and-Hold Abnormal Returns</td>
</tr>
<tr>
<td>CAR</td>
<td>Cumulative Abnormal Returns</td>
</tr>
<tr>
<td>RCULS</td>
<td>Redeemable Convertible Unsecured Loan Stocks</td>
</tr>
<tr>
<td>ICULS</td>
<td>Irredeemable Convertible Unsecured Loan Stocks</td>
</tr>
<tr>
<td>RSLS</td>
<td>Redeemable Secured Loan Stocks</td>
</tr>
<tr>
<td>RGLS</td>
<td>Redeemable Guaranteed Loan Stocks</td>
</tr>
<tr>
<td>RULS</td>
<td>Redeemable Unsecured Loan Stocks</td>
</tr>
<tr>
<td>BMB</td>
<td>Bursa Malaysia Berhad</td>
</tr>
<tr>
<td>CLS</td>
<td>Convertible Loan Stocks</td>
</tr>
</tbody>
</table>
DEFINITION OF TERMS

a) Stock prices

Stock prices are set by a combination of factors that no analyst can consistently understand or predict, the researcher uses closing price as the data in this study.

b) Redeemable Convertible Unsecured Loan Stocks

The holder has two options upon their maturity. They could convert the loan stocks into ordinary shares or alternatively, they could sell them back to the issuing company which is obligated to redeem these securities at par value plus interest upon its maturity.

c) Irredeemable Convertible Unsecured Loan Stocks

ICULS will, upon maturity, be converted into ordinary shares. (the holder must convert the instruments into ordinary shares)

d) Conversion Period

The initial period is followed by period, often of several years, during which the convertible loan stocks can be converted into the company's ordinary shares.

e) Stock Market

A concept for the mechanism that enables the trading of company stocks (collective shares), other securities, and derivative.
The contents of the thesis is for internal user only
REFERENCES


