

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

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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.

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LIST OF ABBREVIATIONS

KLCI	: Kuala Lumpur Composite Index
BHAR	: Buy-and-Hold Abnormal Returns
CAR	: Cumulative Abnormal Returns
RCULS	: Redeemable Convertible Unsecured Loan Stocks
ICULS	: Irredeemable Convertible Unsecured Loan Stocks
RSLs	: Redeemable Secured Loan Stocks
RGLS	: Redeemable Guaranteed Loan Stocks
RULS	: Redeemable Unsecured Loan Stocks
BMB	: Bursa Malaysia Berhad
CLS	: Convertible Loan Stocks

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.

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