



THE POST-ISSUE PERFORMANCE OF RIGHTS ISSUES IN MALAYSIA

by

NORAINI BINTI AZLAN

800737

A Dissertation Submitted in Partial Fulfillment of the Requirements for the Degree of
Master of Science in Finance at the Graduate School of Management,
Universiti Utara Malaysia

DECLARATION

I hereby declare that the project paper is based on my original work except for quotations and citations that have been duly acknowledge. I also declare it has not been previously or concurrently submitted for any other Master's programme at Universiti Utara Malaysia or other institutions.

NORAINI BINTI AZLAN

Date: 1 NOVEMBER 2009

PERMISSION TO USE

In presenting this dissertation as a partial fulfillment of the requirements for a postgraduate degree from Universiti Utara Malaysia, I agree that the university's library may take it freely available for inspection. I further agree that permission for copying of this dissertation in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor or in other absence by the Dean, Postgraduate Studies, and College of Business. It is understood that any copying or publication or use of this dissertation or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due to recognition shall be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from my dissertation.

Request for permission to copy or to make other use of materials in this dissertation, in whole or in parts should be addressed to:

Dean, Postgraduate Studies

College of Business

Universiti Utara Malaysia

06100 Sintok

Kedah Darul Aman

ABSTRACT

This study focuses on the performance of rights issues in Malaysia from December 1999 to 2008. This study finds that after the announcement of rights issues, positive abnormal returns are observed using both CAR and BHAR approaches. However, the results are not significant. This finding is contradictory from findings in US and UK where underperformance is observed after rights issues. This study also demonstrates that the companies prefer to issues rights when the share price is increasing.

Keywords: Right issues; long-run performance; CAR; BHAR

ACKNOWLEDGEMENT

In the name of Allah, most Gracious and the most merciful. All my praises and gratitude to Allah, for meeting me with many wonderful people who, with His Grace, have had helped me tremendously in the successful completion of this research.

This research would not have been possible without the positive comments, suggestion and support received from my supervisor who has assist in this research. In particular, I would like to acknowledge my debt to Dr. Kamarun Nisham Taufil Mohd who had guided me until the end of this project.

I am also deeply indebted the staff of UUM Library, to all the lecturers of College of Business for their kindness and willingness in assessing in any way possible that contributed in completing this task.

I also would like to thank my parents, who have been a continuous source of inspiration and encouragement. In addition, thanks to all my friends that helped, support and provided insight and useful ideas, constructive comments, criticism and suggestion throughout the duration of completing this research.

Thank you.

TABLE OF CONTENTS

DECLARATION	
PERMISSION TO USE	
ABSTRACT	i
ACKNOWLEDGEMENT	ii
TABLE OF CONTENTS	iii
LIST OF TABLES	vi
LIST OF ABBREVIATIONS	vii

CHAPTER 1: INTRODUCTION

1.1	Introduction	1
1.1.1	Definition of rights issues	2
1.1.2	Price effects on the announcement of rights issue	2
1.1.3	Rights issues in Malaysia	4
1.2	Problem Statement	6
1.3	Research Objective	6
1.4	Significance of the Study	6
1.5	Limitation of the Study	7
1.6	Conclusion	8

CHAPTER 2:LITERATURE REVIEW

2.1	Introduction	9
2.2	Announcement Returns	9
2.3	Long-run performance	12
2.4	Conclusion	15

CHAPTER 3: METHODOLOGY

3.1	Introduction	16
3.2	Data sources	16
3.3	Methodology	17
3.3.1	Cumulative Average Abnormal Return (CAAR) approach	18
3.3.2	Buy-and-hold Average (BHAR) Approach	21
3.4	Conclusion	21

CHAPTER 4: RESULTS AND ANALYSIS

4.1	Introduction	22
4.2	Pre-issue performance of rights issues	22
4.3	Cumulative average abnormal returns	23
4.4	Buy-and-hold average returns	25
4.5	Conclusion	27

CHAPTER 5: CONCLUSION AND RECOMMENDATION

5.1	Introduction	28
5.2	Overview of the Research Process	28

5.3	Summary of Findings	29
5.4	Direction for Further Studies	29
5.5	Conclusion	30
REFERENCES		31
APPENDICES		

LIST OF TABLES

Table 1.1: Number of rights issues in Malaysia

Table 4.1: AAR and CAAR before the announcement of rights issues

Table 4.2: AAR and t-value following rights issues

Table 4.3: CAAR and t-value for CAR model

Table 4.4: BHAR and t-value following rights issues

LIST OF ABBREVIATIONS

AR: *Abnormal return*

AAR: *Average abnormal return*

BHAR: *Buy-and-hold average return*

CAR: *Cumulates average return*

CAAR: *Cumulative average abnormal return*

CIC: *Capital Issues Committee*

IPO: *Initial Public Offerings*

SC: *Securities Commissions*

SEO: *Seasoned Equity Offering*

US: *United States*

UK: *United Kingdom*

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

An organization may employ a variety of methods for the purpose of financing its business. These can be categorized into equity financing, debt financing or even a combination of both. For equity sales the most popular method in Malaysia is through rights issues.

In Europe, Canada, Australia, New Zealand and Asia, a large part of equity issues are sold through rights issues¹. Many studies have been done in U.S on rights issues even though according to Kothare (1997) less than 10% of U.S. firms issue equity through rights offerings. This study will focus on Malaysia and will be concerned with the long-run performance stock price of the rights issues in an emerging share market.

1.1.1 Definition of rights issue

¹ See Marsh, (1979, 1980) (UK); Loderer and Zimmerman (1988) (Switzerland); Eckbo and Masulis (1992) (US); MacCulloch and Emanuel (1994) (New Zealand); Bøhren, Eckbo and Michaelsen (1997) (Norway); Ferris, Noronha and McInish (1997) (Japan); Hansson (1999) (Finland).

The contents of
the thesis is for
internal user
only

REFERENCES

Abhay Abhyankar, Keng-Yu Ho (2007), ‘Long-horizon event studies and event firm portfolio weights: Evidence from U.K. rights issues re-visited’, *International Review of Financial Analysis* 16, pp. 61– 80.

Alastair Marsden (2000), ‘Shareholder wealth effects of rights issues: Evidence from the New Zealand capital market’, *Pacific-Basin Finance Journal* 8, pp 419–442.

Ariff, M., Finn, F.J. (1989), ‘Announcement effects and market efficiency in a thin market: an empirical application to the Singapore equity market’. *Asia Pacific Journal of Management* 6 (2), pp 243–265.

Asquith, P., Mullins, D.W., (1986), ‘Equity issues and offering dilution’, *Journal of Financial Economics* 15 (1/2), 61–89.

Balasingham Balachandran, Robert Faff, and Michael Theobald (2008), ‘Rights offerings, takeup, renounceability, and underwriting status’, *Journal of Financial Economics* 89, pp 28–346.

Cahit Adaoglu (2006), ‘Market reaction to “unsweetened” and “sweetened” rights offerings in an emerging European stock market’, *Journal of Multinational Financial Management*. 16, pp. 249–268.

Cai, J. (1998), ‘The Long-Run Performance Following Japanese Rights Issues’, *Applied Financial Economics*, Vol. 8, No.4, pp. 419–34.

Chao Chen and Xiao Chen (2007), ‘The information content of rights offerings in China’, *Research in International Business and Finance* 21, pp 414–427.

Chen, N., (1991), 'Financial investment opportunities and the macro economy', *Journal of Finance* 46 (2), pp. 529–554.

Hung-Gay Fung (2008), 'Rights Issues in the Chinese Stock Market: Evidence of Earnings Management', *Journal of International Financial Management and Accounting* 19:2.

Jo-Ann Suchard (2007), 'The impact of rights issues of convertible debt in Australian markets', *Journal of Multinational Financial Management*. 17, pp. 187–202.

Kim, E.H., Lee, Y.K., (1990), 'Issuing stocks in Korea', In: Rhee, S.G., Chang, R.P._Eds., *Pacific-Basin Capital Markets Research*. Elsevier, North Holland, Amsterdam.

Levis, M. (1993), 'The Long-Run Performance of Initial Public Offerings: The UK Evidence 1980-1988', *Financial Management*, Vol. 22, pp. 28–41.

Mariá Jesu´s Pastor-Llorcaa,, Juan Francisco Martín-Ugedo (2006), 'Long-run performance of Spanish seasoned equity issues with rights', *International Review of Financial Analysis* 13, pp. 191–215.

Marco Bigelli (1998), 'The quasi-split effect, active insiders and the Italian market reaction to equity rights issues', *European Financial Management*, Vol. 4, No. 2, pp.185–206.

Norhana Salamudin, Mohamed Ariff, Annuar Md Nassir (1999), 'Economic influence on rights issue announcement behavior in Malaysia', *Pacific-Basin Finance Journal* 7, pp.405–427.

Phoon, M.K., (1990), 'Rights issue and its effect on security prices'. *Malaysian Management Review* (3) 25, 41–48.

Prem G. Mathew (2002), 'Long-horizon seasoned equity offerings performance in Pacific Rim markets', *Review of Financial Economics* 11, pp. 17–333.

Proches Ngatuni, John Capstaff and Andrew Marshall (2007), 'Long-Term Performance Following Rights Issues and Open Offers in the UK', *Journal of Business Finance & Accounting*, 34(1) & (2), 33–64, January/March 2007.

Seth Armitage (1998), 'Seasoned equity offers and rights issues: a review of the evidence', *The European Journal of Finance* 4, 29-59.

Simon Harris (2004), 'The long-term performance of UK stocks after making rights issues', *Journal of Asset Management* Vol. 4, 5, 308–317.

Srinivasan, B.S., See, Y.K., (1990), 'Rights issues and market efficiency in the Singapore Stock Exchange'. In: Saw, S.H., Lim, C.P. _Eds., *Investment Analysis and Management*. Longman Publishers, Singapore.

Stephen A.Ross, Randolph W.Westerfield and Bradford D.Jordan (2003), 'Fundamentals of Corporate Finance', *Mcgraw Hill*, Singapore.

Vijaya B. Marisetty, Alastair Marsden, Madhu Veeraraghavan (2008), 'Price reaction to rights issues in the Indian capital market', *Pacific-Basin Finance Journal* 16, pp. 316–340.