

**THE ANNOUNCEMENT EFFECT AND
LONG RUN PERFORMANCE
OF EQUITY PRIVATE PLACEMENT IN MALAYSIA**

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**THE ANNOUNCEMENT EFFECT AND
LONG RUN PERFORMANCE
OF EQUITY PRIVATE PLACEMENT IN MALAYSIA**

By

NORHAFIZA NORDIN

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ABSTRACT

This study offers evidence concerning the announcement effect and long run performance of equity private placements in Malaysia for the period 1999 to 2007. Unlike public placements, previous studies document positive announcement effect but negative long run performance for private placements. Monitoring hypothesis and information hypothesis are two prevailing hypotheses that have been used to explain the positive announcement effect; while “windows of opportunity”, managerial entrenchment, and investors’ overoptimisms are used to explain the poor long run performance. Malaysian firms are governed by different regulations; therefore, the impact of issuing private placements might not be the same for Malaysian market. For example, issuance of private placement in Malaysia is limited to 10 percent of the firm’s issued and paid up capital with not more than two percent can be placed to one place. With only two percent of shares, the investor will not be able to influence management behavior through his or her voting power and becomes a passive investor. As a result of this, equity private placements in Malaysia might not increase monitoring as claimed by previous studies but instead solidify the managers’ and substantial shareholders’ control over the firm. This study fills the gap in current literature by investigating the impact of equity private placements in Malaysia using event study methodology to examine the announcement effect; while CAR and BHAR methods are used to examine the long run performance. Inconsistent with previous studies, zero announcement effect is found for Malaysian market. Nevertheless, similar to previous studies, the result reveals an evidence of long run underperformance of equity private placements in Malaysia using market index as a benchmark. In general, the results of this study contribute to the existing literature by providing evidence that equity private placement in Malaysia does not support monitoring hypothesis and information (certification) hypothesis.

Keywords: Private Placements, Announcement Effect, Long Run Performance

ABSTRAK

Kajian ini adalah mengenai kesan pengumuman dan prestasi jangka panjang tawaran persendirian ekuiti di Malaysia bagi tempoh 1999 hingga 2007. Tawaran persendirian mempunyai kesan pengumuman yang positif tetapi kesan jangka panjang yang negatif. Hipotesis pemantauan dan hipotesis maklumat seringkali digunakan untuk menerangkan kesan pengumuman positif, manakala “*windows of opportunity*”, pengukuhan pengurusan (*managerial entrenchment*), dan keyakinan melampau pelabur (*investors’ overoptimisms*) pula seringkali dikaitkan dengan prestasi jangka panjang yang tidak memberangsangkan. Persekitaran yang berbeza, memungkinkan kesan menerbitkan tawaran persendirian di Malaysia tidak sama dengan kesan di pasaran lain. Contohnya, penawaran adalah terhad kepada 10 peratus modal berbayar, dengan dua peratus saham dihadkan kepada seorang pelabur. Dengan hanya dua peratus saham, pelabur tersebut hanya akan menjadi pelabur yang pasif. Disebabkan itu, tawaran persendirian di Malaysia mungkin tidak meningkatkan pemantauan tetapi sebaliknya mengukuhkan kedudukan pengurus dan pemegang saham terbesar. Kajian ini mengisi jurang dalam kajian semasa dengan mengkaji kesan tawaran persendirian ekuiti di Malaysia menggunakan metodologi kajian peristiwa untuk mengkaji kesan pengumuman; manakala kaedah CAR dan BHAR digunakan untuk mengkaji prestasi jangka panjang. Tidak selaras dengan kajian terdahulu, pengumuman kesan sifar dijumpai untuk pasaran Malaysia. Walau bagaimanapun, seperti kajian terdahulu, keputusan kajian menunjukkan prestasi jangka panjang firma-firma Malaysia yang menerbitkan tawaran persendirian ekuiti adalah lebih rendah berbanding dengan indeks pasaran. Umumnya, kajian ini menunjukkan bahawa tawaran persendirian ekuiti di Malaysia tidak menyokong hipotesis pemantauan dan hipotesis pemantauan.

Kata kunci: Tawaran Persendirian, Kesan Pengumuman, Prestasi Jangka Panjang

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LIST OF ABBREVIATIONS/NOTATIONS/GLOSSARY OF TERMS

AAR	Average Abnormal Return
AGM	Annual General Meeting
AHPAR	Average Holding Period Return
AMEX	American Stock Exchange
BHAR	Buy-and-Hold Abnormal Return
CAR	Cumulative Abnormal Return
CAAR	Cumulative Average Abnormal Return
CDS	Central Depository System
CIC	Capital Issues Committee
IPO	Initial Public Offering
KLCI	Kuala Lumpur Composite Index
KLSE	Kuala Lumpur Stock Exchange
MAR	Market Adjusted Returns Model
MESDAQ	Malaysian Exchange of Securities Dealing and Automated Quotation
MM	Market Model
NASDAQ	National Association of Securities Dealers Automated Quotation
NDP	National Development Policy
NPV	Net Present Value
NYSE	New York Stock Exchange
NZSE	New Zealand Stock Exchange
OLS	Ordinary Least Squares
OTC	Over-The-Counter
SC	Securities Commission
SEO	Seasoned Equity Offering
UK	United Kingdom
US	United States
VIF	Variance Inflation Factor

CHAPTER 1 INTRODUCTION

1.0 Introduction

This chapter starts with Section 1.1 which provides the background of the study. Section 1.2 presents an overview of the development and regulatory requirements of private placements in Malaysia. Problem statement is then covered in Section 1.3, followed by research questions and research objectives in Sections 1.4 and 1.5 respectively. Section 1.6 explains the significance of the study while Section 1.7 covers the scope of the study. Finally, Section 1.8 illustrates the organization of the study and Section 1.9 summarizes the chapter.

1.1 Background of the Study

The effect of equity private placement has been extensively researched in the developed market especially in the US market but little has been done in Malaysian market. This study investigates the announcement effect and the long run stock price performance of firms which conduct equity private placements (seasoned equity offerings) in Malaysia from the year 1999 to 2007. In addition, this study also examines the determinants of the performance pattern. In particular, this study measures the average abnormal returns surrounding the event dates of equity private placement announcements, investigates the factors that could possibly explain the price behavior of

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