



THE POST-ISSUE PERFORMANCE OF RIGHTS ISSUES IN MALAYSIA

by

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Master of Science in Finance at the Graduate School of Management,  
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## **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

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## 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 Malaysian is through rights issues.

In Europe, Canada, Australia, New Zealand and Asia, a large part of equity issues are sold through rights issues<sup>1</sup>. 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**

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<sup>1</sup> 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 McNish (1997) (Japan); Hansson (1999) (Finland).

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