

# Anticipation Of The Stock Market And Future Operating Performance Of Firms Conducting Rights Offerings: Evidence From Bursa Malaysia

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## ABSTRACT

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Equity issue to existing stockholders is made through pre-emptive offering to enable them to maintain proportionate ownership in a firm. Through rights offering, firm will be able to obtain additional external financing either for the purpose of investment or for reduction of financial leverage. Due to the regulations set by Securities Commission for stock market, external financing obtained through rights issue is prevalent in Malaysia and play an important role in the capital formation process of the private sector.

This study examines both the short-term and long-term share price and operating performance of Malaysia rights issues. Employing data from 50 pure rights offering firms between 1999 and 2003, the stock market announcement effect of rights issue is analysed firstly, and documents that a statistically significant negative average abnormal stock return of -0.3018% on the announcement date of rights issue. Similar to the case of U.S experience, Malaysian investors appear to sell down the share if have any announcements of new equity. On the long run, rights issuing firms significantly underperform of firms matched on the net income, operating cash flow, earnings before interest and taxes and earnings before interest, taxes and depreciation and amortization. It was found that the post-rights issue operating performance of firms in Malaysia subsequently exhibits a statistically significant decline in their operating performance.

The finding of this research is analysed by using Hypothesis and financial ratio analysis, which will be used to further prove of view of the rights offering will affect a company's value and operating performance. Through the one sample T-test, it has successful found put that rights issuing will have negative affect corporation's performance. Furthermore, a comparison will be made before firms conducting rights issues and after following rights issue in terms of its performance by calculating the financial ratios, such as return on assets ratio, operating cash flow to total asset ratio, earnings before interest and taxes to total assets ratio and earnings before interest, taxes and depreciation and amortization ratio. Eventually, a conclusion and some recommendations will be provided to the interested parties.