

# FPP BizNewz

December 2020 – May 2021

MANAGEMENT • INVESTMENT • ECONOMICS • ENTREPRENEURSHIP • TECHNOLOGY

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e-Bulletin of the Faculty of Business and Management, UiTM Cawangan Terengganu  
eISSN 2600-9811



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# M Re P Plac





# Market reaction to private placement

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As public-listed companies on Bursa Malaysia make announcements, either about the new issuance of stocks or other types of announcements that convey material details, stock prices will respond positively or negatively according to the announcements made. These depend on whether the market perceives the announcements as favourable or unfavourable news.

Regularly, good news will result in a rise in share prices or returns, resulting in a positive wealth effect, whereas unfavourable news has a negative impact on wealth. The wealth impact of different forms of event announcements has been well-established in the finance literature. Initially, event announcement studies have been conducted to see whether or not the market was efficient by focusing on the speed at which newly announced information was incorporated into the stock prices.

Theoretically, a private equity placement can be interpreted as both negative and positive news, depending on investors' assessment on the listed companies' financing values. In the United States, private equity placements are aligned with the positive market reaction according to Wruck (1989) and Hertz and Smith (1993). Kato and Schallheim (1993) have also found that share prices respond positively to private placements in Japan. However, a study done by Chen, Ho, Lee, and Yeo (2002) on private placements in Singapore from 1988 to 1993 has found negative announcement returns. In a study conducted by Nordin, Abdul Manab, and Zainuddin (2017) examining the Malaysian stock-market reaction to the announcement of private placements made by 127 publicly listed firms for a period from 2013 to 2015, it is discovered that there is a zero-announcement effect

in response to the announcements. They have concluded that the market is indifferent in response to private placement announcements in Malaysia. Recently, there has been a noticeable rise in private-placement activities in Bursa Malaysia as companies take advantage of the market's abundant liquidity to raise cash by selling shares to pre-identified investors. It is not surprising that the private placement is the preferred form of fundraising due to its quicker execution time as compared to other approaches.

Referring to the table attached below, it is found that there was an odd pattern in the movement of the stock prices of the companies involved in private placements in 2020, with 90% of them being penny stocks. In the months following their respective private-placement announcements, about half of the companies' stock prices reached new highs, with some even breaking records. The share prices of 23 companies have at least doubled. According to data compiled by Bloomberg, Bursa Malaysia saw 151 deals of private placements in the first nine months in 2020, compared with 76 in the same period in 2019.

It is evident that private placements

**Companies whose share price doubled since placement announced in 2020**

COMPANY	PLACEMENT (%)	RATIONALE	SHARE PRICE % GAIN (FROM PLACEMENT ANNOUNCEMENT TO YTD HIGH)	LAST CLOSE (RM)
Ho Weh Genting	10	Working capital	1,258	0.936
PDZ Holdings	30	Working capital	883	0.095
Niche Capital Emas	10	Working capital	567	0.275
XOX*	30	New vending machine biz	540	0.28
SMTTrack	30	Ongoing project	383	0.315
Ikhtesam Jaya	38.46	Ongoing project	377	0.24
Digistar	20	Fund security biz	338	0.10
Fintec Global*	30	Future investment	300	0.135
Rubberex	10	Expand manufacturing plant	287	5.15
Johan Holdings	35	Future investment	285	0.185
Lambo Group	30	Expand e-commerce, courier biz	275	0.045
Carapilus	10	Expand manufacturing plant	271	3.08
Trive Property*	10	Working capital	200	0.02
Prestariang	10	Working capital, pay debt	183	0.785
MLabs*	30	Market existing product	167	0.04
MicroLink Solutions	30	Ongoing project	161	1.63
Bioalpha Holdings	10	Future investment	159	0.275
Mega Sun City	10	Working capital	141	0.175
Iris Corp	10	Working capital	135	0.365
CN Asia	10	Ongoing project	131	0.58
Ecobuilt	10	New warehouse	118	0.18
BTM Resources	20	Working capital	110	0.18
Kumpulan Powernet	10	Working capital, future investment	100	3.11

\*Has placed shares since this year

Note: All countries have retreated from YTD high  
As at Sept 7, 2020

enable cash-strapped businesses to raise funds rapidly from investors. However, minority shareholders would face earnings dilution because they have not been included in the placement process. This would not happen if the companies chose other methods, such as right issuance. This is because a rights issue would not dilute the stake of the shareholders.

In April 2021, AMMB Holdings Berhad (AmBank) confirmed that its 300 million private placement shares were fixed at RM2.75 apiece to raise an estimated RM810 million. The shares were offered to institutional funds and high-net-worth-individuals, and were oversubscribed. It came just over a month after AmBank had reached an agreement with the Ministry of Finance to pay RM2.83 billion in settlement for transactions related to the 1MDB, in which the bank was involved. Thus, it is interesting to monitor the private placement activities in Malaysia due to increase of the raising capital methods development in the financial market.

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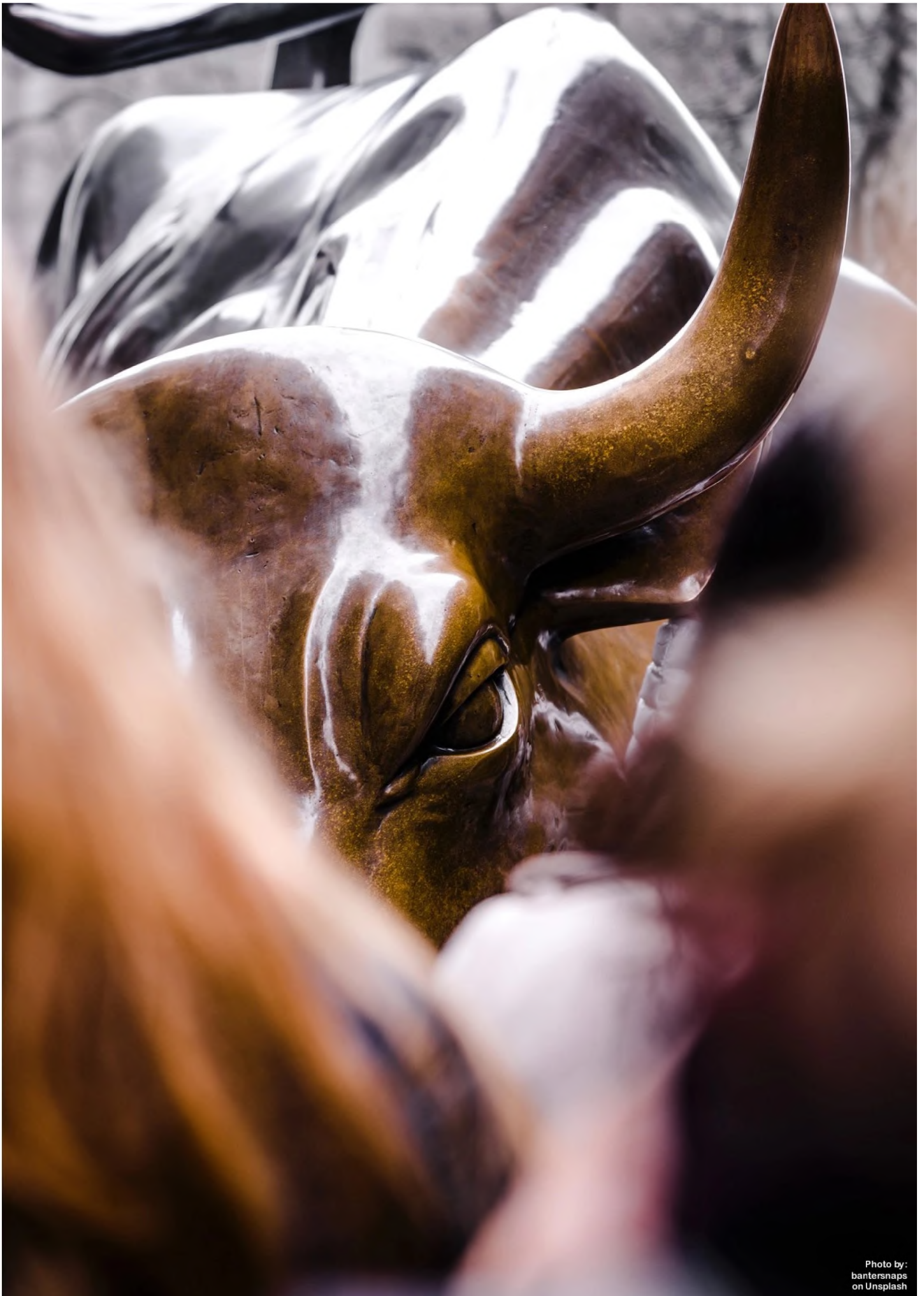


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