SHARE PRICE REACTION DUE TO THE DISPOSAL OF EQUITY INTEREST ANNOUNCEMENTS

by

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ABSTRACT

Disposal of equity interest is part of the immediate publicly announcements require by the KLSE Listing Requirement. The scope of study involves all the disposal of equity interest announcements made by the public listed companies on Bursa Malaysia throughout year 2003. Two commonly event studies model, which are MAR model and market model were employed in the process to identify the average abnormal returns, cumulative average abnormal returns and finally to determine the trend of the cumulative returns.

No significant statistical result was found for the daily average abnormal returns. However, it was found that there was significant evidence showing the presence of cumulative share prices reactions for 3 consecutive days immediately after the disposal of less than 50% equity interest announcements were made. Thus, under such disposal based on this study, it implies that signaling theory apply in such circumstances which is consistent with other event studies. As such, investors treat such announcement as good news with the expectation that the cash proceed from the disposal to be invested in profitable project.

CHAPTER ONE

INTRODUCTION

1.0 INTRODUCTION

Stock price maximization is a prevalent issue being studied by most corporate finance researchers. Even though much similar studies had been accomplished in this area of interest, the results and findings vary from one another at a different time frame and also at a different stock market. Brigham and Ehrhardt (2002) and also Khoon and Gupta (2002) had fundamentally discussed the same issue on the continuality of challenges faced by the stock market in the new millennium, which develop from the rapid changes in technology and globalization. In fact, the changing of information technology mechanisms can be one of the factors affecting the impacts of the different finding occurrences. As such, continuous research in relation to stock prices needs to be accomplished in updating findings on the stock market behavior.

Damodaran (2001) had pointed out that stock price maximization in an ideal world would not impair any parties and that a stock price would reflect stockholders' wealth. Due to this issue on stock price maximization, various dimensions of studies have emerged, primarily with the intention to explore other elements that might attribute to stock price reaction.

Event studies established by Fama et al. (1969) somehow had initiated more research to focus on the implication of new information on the stock price in