The Effect of Bonus Issue Announcement Date and Ex-Date on Stock Prices of The Kuala Lumpur Stock Exchange

Tan Kok Juan

Bachelor of Engineering
Monash University
Australia
1991

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ABSTRACT

The market reaction regarding the announcement date and ex-date of bonus issues had been shown to produce positive abnormal returns in the Malaysian and other stock markets over the world. However, in Malaysia, the studies done so far had been mostly aggregating all the various classes of the distribution ratios in total and more focused on the announcement date effect of the bonus issues. This study is undertaken to study the effect of the various classes of distribution ratios of bonus issues on the stock price returns about the announcement date and ex-date of bonus issues in the KLSE. The samples for this study include all companies declaring bonus issues (both announced and ex) from January 1997 to December 2001. The number of companies declaring such bonus issues during this period was 195 and after a screening exercise, the number was reduced to 126.

The empirical findings indicate that there were positive adjusted returns for bonus issues about their announcement date and ex-date. For the all bonus issues group, the cumulative market adjusted return increases before the announcement date, showing significant positive adjusted returns from Day -1 to Day +2. As for the ex-date effect, the all bonus issues group shows a similar pattern where the cumulative market adjusted return increases before the ex-date, then showing a significant increase in adjusted returns from Day -1 to Day 0, and then there is a gradual decline immediately after the ex-date.

An interesting characteristic found on the various bonus issues distribution ratios is that the cumulative adjusted returns for the high distribution ratio group is higher than that of medium distribution ratio group and which in turn is higher than the low distribution ratio group, for both the announcement date and ex-date. The market thus reacts more positively to bonus issues of higher distribution ratios than to those of lower distribution ratios.

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