THE IMPACT OF BOND RATINGS
ON EQUITY MARKET - MALAYSIAN EXPERIENCE

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Table of Contents

TABLE OF CONTENTS .................................................................................................................. 1

CHAPTER ONE  INTRODUCTION .............................................................................................. 2
  1.1 PURPOSE AND SIGNIFICANCE OF STUDY .................................................................... 2
  1.2 RESEARCH QUESTIONS .................................................................................................. 4
  1.2 SCOPE OF STUDY ......................................................................................................... 4
  1.4 LIMITATIONS OF THE STUDY .................................................................................... 6
  1.5 ORGANISATION OF THE STUDY .................................................................................. 8

CHAPTER TWO  THEORY DEFINITION ..................................................................................... 10
  2.1 CREDIT RATINGS ........................................................................................................... 10

CHAPTER THREE  LITERATURE REVIEW .................................................................................. 17
  3.1 MARKET EFFICIENCY ................................................................................................... 17
  3.2 BOND RATINGS ............................................................................................................ 21
  3.3 EVENT STUDY .............................................................................................................. 24

CHAPTER FOUR  METHODOLOGY ......................................................................................... 26
  4.1 RESEARCH HYPOTHESES ............................................................................................ 26
  4.2 SELECTION OF MEASURES ......................................................................................... 26
  4.3 SAMPLING DESIGN ....................................................................................................... 40
  4.4 DATA COLLECTION PROCEDURES .............................................................................. 43
  4.5 DATA ANALYSIS TECHNIQUES ................................................................................... 45

CHAPTER FIVE  DATA ANALYSIS ......................................................................................... 50
  5.1 SUMMARY STATISTICS OF RESPONDENTS .............................................................. 50
  5.2 ANALYSIS OF MEASURES/TESTING OF HYPOTHESES ............................................ 50
  5.2 SUMMARY OF RESEARCH RESULTS ........................................................................ 58
    5.2.1 Market Efficiency ................................................................................................ 58
    5.2.2 Impact on stock returns ....................................................................................... 59

CHAPTER SIX  CONCLUSION AND RECOMMENDATIONS .................................................... 61
  6.1 SUMMARY AND CONCLUSION .................................................................................... 61
  6.2 SUGGESTIONS FOR ADDITIONAL RESEARCH ........................................................ 61
  6.3 IMPLICATIONS ............................................................................................................ 62
Bibliography

APPENDICES

Appendix 1.0

1.1 Initial Assignment (year of rating announcement)
1.2 Initial Assignment (rating grade)
1.3 Reaffirmed (year of rating announcement)
1.4 Reaffirmed (rating grade)
1.5 Rating Upgrade (year of rating announcement)
1.6 Rating Upgrade (rating change)
1.7 Rating Upgrade (rating grade)
1.8 Rating Downgrade (year of rating announcement)
1.9 Rating Downgrade (rating change)
1.10 Rating Downgrade (rating change)

Appendix 2.0

2.1 Computation of Abnormal Returns - Initial Assignment
2.2 Computation of CAR and t-Values - Initial Assignment
2.3 Computation of Abnormal Returns - Reaffirmation
2.4 Computation of CAR and t-Values - Reaffirmation
2.5 Computation of Abnormal Returns - Upgrades
2.6 Computation of CAR and t-Values - Upgrades
2.7 Computation of Abnormal Returns - Downgrades
2.8 Computation of CAR and t-Values - Downgrades

Appendix 3.0

3.1 Chart- Initial Assignments
3.2 Chart- Reaffirmation
3.3 Chart- Upgrades
3.4 Chart- Downgrades
Abstract

This research will examine the impact of bond ratings on market efficiency and stock returns. The study covered rating announcements from 1996 to 2001. Four types of rating announcements were covered namely initial announcement, reaffirmation, upgrades and downgrades. Each rating is categorized into investment grade and speculative grade. The mean adjusted model was used to determine the abnormal returns. The findings showed insignificant movement in abnormal returns for all types of ratings and also the sub-category of speculative and investment grades. The result also revealed that the market is efficient in semi-strong form as far as Malaysian market is concerned. Market players cannot accrue abnormal returns in the market by using the rating announcements as new information. This is because the information is relayed to them after a significant time lag.