

Equity Private Placements: The Malaysian Experience 1999 – 2007

Norhafiza Nordin and Kamarun Nisham Taufil Mohd*

Abstract

This study offers evidence concerning the announcement effect of equity private placements by examining the stock market reaction to the announcements made by Malaysian firms for the period 1999 to 2007. This study is motivated by empirical findings that unlike public placements, private placements are associated with positive announcement effect. Two prominent hypotheses used to explain the positive market responses are information and monitoring hypotheses. However, inconsistent with previous studies, we find zero announcement effect for Malaysian market. The result suggests that equity private placement in Malaysia does not convey positive signal as it does in other countries.

Keywords: Private placements; Announcement effect.

Field of Research: Finance

* Norhafiza Nordin, College of Business, Universiti Utara Malaysia. norhafiza@uum.edu.my
Kamarun Nisham Taufil Mohd, College of Business, Universiti Utara Malaysia. kamarun@uum.edu.my

1. INTRODUCTION

This study examines the announcement effect of firms which conduct equity private placements for the period 1999 to 2007 in Malaysia. Private placement refers to the sale of shares directly to a restricted number of current or new investors. As suggested by its name, the transactions are done privately rather than publicly where the buyers can have direct negotiations with the issuer. Private placement is a good alternative for firms that do not want to go through the hassle of issuing other methods of raising capital such as rights issue. It usually requires less regulatory compliance and takes less time to complete.

It is reported by Bank Negara that raising capital via private placement had increased tremendously from RM17.7 million in 1970 to RM838 million in 2004. In 1994, a total of RM782¹ million of funds was raised through private placement of shares as a result of more flexible submission requirements of application introduced by Securities Commission (SC). This amount represents for about nine percent of the new issues of shares. Due to the less stringent submission requirements, more firms are attracted to raise funds via private placement because it is faster to implement. For comparison, to issue rights firms need to get the shareholders' approval before the issuance can be made but to issue private placements they do not need to get the shareholders' approval. Prior approval from the shareholders is usually obtained during the Annual General Meeting (AGM) which allows the firms to issue up to 10 percent of the issued and paid-up capital. On top of that, there is no rule imposed on when another issue can be made after the last issue. In general, an application should provide key information such as the background information of the applicant firm; historical financial performance; pricing methodology; proposed utilization of proceeds; amount of securities to be issued; underwriting commitment; and the identity of the persons to whom the securities will be placed.

Previous studies document significant positive abnormal returns surrounding the private placements announcements (Wruck, 1989; Hertzal and Smith, 1993; Kato and Schallheim, 1993; Hertzal and Rees, 1998; Ferreira and Brooks, 1999; Goh et al., 1999; Hertzal et al., 2002; Tan, Chng and Tong, 2002; Brooks and Graham, 2005; Cronqvist and Nilsson, 2005; Krishnamurthy et al., 2005). The results contradict the results of public equity issues which are associated with negative announcement effects (Myers and Majluf, 1984). Hertzal and Smith (1993), attribute the positive market reaction to the release of favorable information about the firm's true value. They claim that private placement can be used to reduce underinvestment problem illustrated by Myers and Majluf (1984). Managers always act in the best interest of current shareholders. Assuming that information asymmetry exists between the managers and potential investors, a firm will choose to issue common stock when it is overvalued. Consequently, firms without financial slack often forgo positive net present value investment projects in order to avoid issuing new shares as it conveys a negative signal to the market. Private placement investors are usually individuals and institutions that have enormous capacity and resources to assess the firm's true value. The willingness of the investors to buy the shares sends a signal to the outside investors that the shares have been priced at a fair value. Indirectly, private placements investors offer quality certification from which the market infers favorable information about the firm's prospects. Earlier, Wruck (1989), investigates the announcement effects of private placements from 1979 to 1985. She finds positive announcement period abnormal returns of 4.4 percent and claims the positive effect is due to change in ownership concentration. Ownership concentration leads to an increase in monitoring which subsequently reduces the agency cost. Both the information hypothesis and monitoring hypothesis have been widely used to explain the positive phenomenon.

This study is motivated in part by the lack of research on private equity offerings in Malaysia. Most of the previous studies were carried out in the United States (see for example, Wruck, 1989; Hertzal and Smith, 1993; Hertzal and Rees, 1998; Ferreira and Brooks, 1999; Goh et al., 1999; Hertzal et al., 2002); and they showed consistently significant positive announcement effect. Other studies carried out in Japan, Singapore, Sweden and New Zealand (see for example Kato and Schallheim, 1993; Tan, Chng and Tong, 2002; Cronqvist and Nilsson, 2005; Anderson, 2006) also yielded the same result. The effect might not be the same for Malaysian market, for Malaysian firms are governed by different regulations and surrounded by different factors that could influence the investors'

reaction to the announcements. For instance, in the United States no restriction is imposed on the maximum number of shares to be issued. On the contrary, equity private placements issued in Malaysia must not exceed 10 percent of the firm's issued and paid-up capital. In addition, securities placed with any single investor must not exceed 20 percent of the total placement. In the event the total placement size exceeds 10 percent or the placement shares placed to one placee exceed 20 percent of the total placement shares, the affected placees are restricted from selling their securities within six months from the date of listing. Since such regulations limit the number of shares per placee, the impact and effectiveness of private placements as a monitoring mechanism through ownership concentration as has been illustrated by Wruck (1989) is doubtful. Malaysian investors might not perceive announcements of private placements as good news, thus will not react positively as reported in the earlier studies. This is because with only two percent of shares, the purchasers will not be able to provide the monitoring benefit which leads to agency cost reduction. Instead, private placements might promote managerial entrenchment by diluting the ownership concentration.

As expected, the announcements of equity private placements in Malaysia do not result in the same positive effect on stock prices as they do in other countries. For a sample of 209 private placement announcements from 1999 to 2007, we find non-statistically significant announcement period returns. The three-day cumulative abnormal returns (CARs) is 0.37 percent, yet it is not statistically significantly different from zero.

The remainder of this paper is organized as follows. **Section 2** presents literature review on the announcement effect of private placement. **Section 3** discusses the data and methodology used. **Section 4** presents the findings, and **Section 5** concludes the paper.

2. LITERATURE REVIEW

Previous studies on private placements show that private issues are associated with positive announcement effects. For example, Wruck (1989) finds positive announcement period abnormal returns of 4.4 percent, and Hertz and Smith (1993) report abnormal returns of 1.7 percent for 106 firms from 1980 to 1987. Similar results are reported by Kato and Schallheim (1993). A significant 5 percent of abnormal returns are observed around the announcement of private placements in Japan. Other studies that show positive announcement period returns include studies by Hertz et al. (2002), Hertz and Rees (1998), Goh et al. (1999), and Ferreira and Brooks (1999). They report statistically significantly abnormal returns of 2.4 percent, 1.3 percent, 2.4 percent and 3.0 percent respectively. All of these studies investigate the impact of share prices surrounding the announcement of private placements in the United States. Also in the United States, Krishnamurthy et al. (2005) report positive announcement returns of 2.2 percent for 397 firms placing equity privately from 1983 to 1992; and Brooks and Graham (2005) report abnormal returns of 2.5 percent. Similar results are also revealed by Cronqvist and Nilsson (2005) who find positive three-day cumulative abnormal returns (CAR) of 7.3 percent for Swedish public firms. Tan, Chng and Tong (2002), report positive announcement effects of private placements issued in Singapore for the period 1987 to 1996; where the abnormal returns are positively related to the placement price. Nevertheless, the announcement return is not significant on the announcement date. They report a significant positive 21-day average holding period return (AHPAR) of 6.27 percent.

One of the major hypotheses used to explain the positive announcement effect of private placements is the monitoring hypothesis. As a matter of fact, monitoring, agency cost, and managerial entrenchment are three closely related theories that have been used in explaining the impact of private placements on stock price reactions. Extant literature demonstrates private placements can be employed to reduce agency cost. This is because private placement investors are usually well informed. Hence, they may provide expert advice and efficient monitoring. Consequently, the firm's value might increase as reflected by the positive market reaction to private placement announcements. Yet, private placements may also lead to decrease in firm's value by increasing agency problems through managerial entrenchment.

Wruck (1989) argues private placements help to enhance a firm's value by increasing ownership concentration. This ownership concentration then leads to reduction in agency costs as a result of increased monitoring provided by the private placement investors. Ownership concentration is defined as percentage holdings of the largest shareholders who include: (i) managers, (ii) directors and (iii) 5 percent or greater beneficial owners. Results of the study show that the relationship only holds when the ownership concentration is at a low (0 to 5 percent) or high level (more than 25 percent), but shows opposite direction at middle concentration level (5 to 25 percent). Empirical findings provide evidence that ownership concentration may increase firm's value only if it increases monitoring of management or serves to align managers and shareholders interest. Nevertheless, change in ownership concentration may also decrease the firm's value if it promotes managerial entrenchment instead of reducing agency cost problem. Hertz and Smith (1993) support findings by Wruck (1989) that private placements serve as a monitoring mechanism for the issuing firms as long as the management team is not part of the investors. Correspondingly, Ferreira and Brooks (1999) find fraction of shares placed is positively related to abnormal returns. Measured by the number of shares issued divided by total shares outstanding; they conclude larger fraction means higher ownership concentration. Thus, it supports the view that private placements increase monitoring.

Monitoring hypothesis might be one of the main motives for firms to place equity privately. However, managerial entrenchment could also be another possible motive for firms to do so. Barclay, Holderness and Sheehan (2007), for example, argue private placements are often made to passive investors, thus strengthening management control of the issuing firm. They provide evidence which shows that 83 percent of the private placements purchasers are passive investors. Only 12 percent of them are active and the other 5 percent are managerial investors. This view contradicts Wruck (1989) who states private placements are made to active investors who actively monitor the use of corporate resources. Likewise, a study by Wu (2004) finds private placement investors do not engage in more monitoring activities than public offering investors. A study by Tan, Chng and Tong (2002) reveals no statistically significant relation between change in the level of ownership concentration and the abnormal returns surrounding the announcement of private placements in Singapore.

Hertz and Smith (1993); Hertz and Rees (1998); and Goh et al. (1999) attribute the positive market reaction to the release of favorable information about firm's true value. Asymmetric information refers to a situation where one party has superior information over the other party. As a result, the one with superior information can take advantage of the other party. It is a common view that information asymmetry exists between management of a firm and potential investors regarding the true value of the firm. According to Myers and Majluf (1984), if managers act in the interest of current shareholders, then a firm that issues equity publicly to new shareholders conveys management's belief that the firm is overvalued. This is due to the perception that managers have better information about firm's value. For that reason, to avoid such negative perception managers of undervalued firms with profitable investment opportunities but lacking financial slack are reluctant to issue new equity. Ritter (1991) argues that managers tend to time the stock issuance when the stocks are overvalued to take advantage of a window of opportunity.

Private placement offers an alternative solution to the information asymmetry problem. It can be achieved because private placement investors are usually individuals and institutions that have enormous capacity and resources to assess the firm true value. In addition, since private placements are placed to a small number of investors, there is a possibility that the investors can assess the firm true value through negotiations with the management. A study by Hertz and Smith (1993) provides empirical evidence that supports the belief that private placements can mitigate the underinvestment problem proposed by Myers and Majluf (1984). Findings of the study reveal that the positive announcement effect for private placements is partly explained by the information asymmetry hypothesis. The willingness of the private placement investors to purchase the shares conveys to the market that the stock is undervalued and private placement discounts reflect costs by those investors in acquiring information about the firm's value. According to Hertz and Rees (1998), the firm's earnings increase significantly following the equity issuance and the earnings changes are positively correlated with announcement returns. Similarly, Goh et al. (1999) find positive relationship between announcement period abnormal returns and analysts upward revisions of earnings forecasts. Brooks and Graham (2005) argue that smaller firms with less financial slack earn positive announcement

period return due to the enhancement of firms' liquid assets. They conjecture the results are caused by the willingness of private placement investors to provide additional liquidity to the firms. Given the assumption that these investors have greater knowledge of inside information, market reacts positively to the announcement.

Ferreira and Brooks (1999) conclude the positive announcement effect is due to investors' expectations that the firms' performance will improve in the future. This is consistent with the result of the study that shows significant positive abnormal returns for firms which subsequently go out of business. In the same way, Hertz et al. (2002) suggest the announcement effect is due to the investors' overoptimism at the time the announcements are made. They find that private equity offerings follow periods of relatively poor operating performance and investors are over confident that private placements will improve the firm's current operating performance. Likewise, Anderson (2006) reports prior to the private placement announcements the issuing firms exhibit negative earnings and excessive values of book-to-market equity ratio.

In conclusion, nearly all studies show firms that issue private placements experience positive announcement effects. Regardless of the place and the period under study, the studies yield similar results; with monitoring effects and information effects seem to partly offer some explanation of the positive effects.

3. METHODOLOGY

3.1 Data

Tests are conducted using a sample of announcements from 1999 to 2007. Sample is gathered by identifying announcements of the equity private placements from Bursa Malaysia's website. The event date is identified by the first official announcement made by the issuing firms. In this case, the event date is the date when the news is officially released by Bursa Malaysia² in its official website in the "announcement" section. Announcements by finance and finance-related firms are excluded because they have different statutory requirements. Daily share prices and market index prices are collected from the DataStream database. We first gathered 308 announcements made by firms listed on main board and second board³ of Bursa Malaysia. However, to avoid confounding effects, only "clean" announcements are taken into consideration, which means announcements of private placements with other contemporaneous announcements are excluded. This procedure resulted in a sample of 167 announcements. To increase the sample size, we gathered more announcements by including those made by MESDAQ⁴ (Malaysian Exchange of Securities Dealing & Automated Quotation) firms. The total announcements made by main board, second board and MESDAQ firms are 368. Nevertheless, only 209 are clean announcements. For robustness we also identify the firms that make announcements more than once. From the 209 sample, 173 announcements have been identified as the first time issuance announcements. See **Table 1**. **Table 2** presents the distribution of the sample by year. Year 2007 has the highest number of announcements while year 2001 has the lowest number of announcements.

Table 1: Private placement announcement sample

<i>Description</i>	<i>Number</i>
Initial announcements (main board, second Board and MESDAQ)	368
Clean announcements (main board, second Board and MESDAQ)	209
Clean (first time issuance announcements)	173
Clean announcements (main board)	83
Clean announcements (second board)	84
Clean announcements (MESDAQ)	42

Table 2: Private placement announcements by year

<i>Year</i>	<i>Number</i>
1999	15
2000	17
2001	10
2002	19
2003	15
2004	26
2005	24
2006	33
2007	50
Total	209

3.2 Methodology

The announcement effect is measured using the standard event-study methodology. Previous studies that have used this method include Wruck (1989), Hertz and Smith (1993), Kato and Schallheim (1993), and Tan, Chng and Tong (2002). To measure the abnormal returns, we estimate the market model using daily stock returns and the Kuala Lumpur Composite Index (KLCI). In addition, for robustness we also measure the abnormal returns using the market adjusted returns model. The abnormal return is calculated by the following equation:

$$AR_{it} = R_{it} - E(R_{it}|X_t)$$

where AR_{it} , R_{it} and $E(R_{it}|X_t)$ are the abnormal, actual and normal returns for firm i on day t respectively. X_t refers to the conditioning information for the normal return model. The equation for market model is:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \epsilon_{it}$$

where R_{it} and R_{mt} are the period- t returns on security i and the market portfolio respectively. ϵ_{it} refers to the zero mean disturbance term while α_i and β_i refer to the parameters of the model. The parameters of the market model (α_i and β_i) are estimated using ordinary least squares (OLS) method. The estimation period for the market model parameters is 140 days which starts from day -200 to day -61 before the announcement day. A long period of estimation windows helps to remove the additional variance due to the sampling error in α_i and β_i (MacKinlay, 1997). The reason for using the period prior to the event window as the estimation window is to provide unbiased parameters for the model which are not influenced by the event.

The cumulative average abnormal returns (CAR_i) over the specified period T are calculated as follows:

$$CAR(\tau_1, \tau_2) = \sum_{t=\tau_1}^{\tau_2} AR_{it}$$

To test the null hypothesis that the cumulative abnormal returns (CAR_i) over the specified period T is equal to zero or the private placement announcements have no impact on the share prices; the following t-statistics is employed:

$$\theta_1 = \frac{\overline{CAR}(\tau_1, \tau_2)}{\left[\text{var}(\overline{CAR}(\tau_1, \tau_2)) \right]^{\frac{1}{2}}} \sim N(0,1)$$

where,

$$\overline{CAR}(\tau_1, \tau_2) = \sum_{t=\tau_1}^{\tau_2} \overline{AR}_{it}$$

$$\overline{AR} = \sum_{i=1}^n AR_{it}/n$$

and,

$$\text{var}(\overline{CAR}(\tau_1, \tau_2)) = \sum_{\tau=\tau_1}^{\tau_2} \text{var}(\overline{AR}_{\tau})$$

where for large estimation window, the variance is,

$$\text{var}(\overline{AR}_{\tau}) = \frac{1}{N^2} \sum_{\tau=1}^N \sigma_{\tau}^2$$

4. FINDINGS AND DISCUSSIONS

On the contrary to the findings reported in other countries, the results of this study reveal zero announcement effect. The findings are consistent with our prediction that announcements of equity private placements in Malaysia will not have the same impact as those in the developed countries. Specifically, the announcement effect of equity private placements on the announcement day, $t = 0$, is not significant. Likewise, the cumulative average abnormal returns (CARs) around the announcement date are also not statistically significantly different from zero. Thus, the results are inconsistent with previous studies that find positive abnormal returns following private placements announcements (Wruck, 1989; Hertz and Smith, 1993; Kato and Schallheim, 1993; Hertz and Rees, 1998; Ferreira and Brooks, 1999; Goh et al., 1999; Hertz et al., 2002; Tan, Chng and Tong, 2002; Brooks and Graham, 2005; Cronqvist and Nilsson, 2005; Krishnamurthy et al., 2005).

Overall, the average abnormal return (AAR) on the announcement day, $t = 0$ is not significant (see **Table 3**). The returns on the announcement day for all the three groups (main board and second board firms; main board, second board, and MESDAQ firms; first time announcements firms) are not statistically significantly different from zero. On day, $t=0$, the returns of main board and second board firms; main board, second board, and MESDAQ firms; first time announcements firms are 0.06 percent, 0.09 percent and 0.21 percent respectively. **Table 4** presents the AARs measured using the market adjusted returns model. Once again, the results give the same answers in term of statistical significance. The results hold for all groups.

Table 3: Average abnormal returns (AARs) using market model over 7-day period

Market Model (MM)						
	Main Board & Second Board		Main Board, Second Board & MESDAQ		Main Board, Second Board & MESDAQ (First Announcements)	
	N = 167		N = 209		N = 173	
Day (t)	AAR (%)	p-value	AAR (%)	p-value	AAR (%)	p-value
-3	-0.09	0.16768	-0.16	0.58872	-0.25	0.44400
-2	0.13	0.15507	0.46	0.13024	0.47	0.15449
-1	0.22	0.13422	0.23	0.44981	0.06	0.85250
0	0.06	0.13083	0.09	0.77067	0.21	0.51776
1	0.02	0.13240	0.13	0.65646	0.10	0.76251
2	0.09	0.12665	-0.13	0.66877	-0.17	0.61314
3	-0.22	0.15296	0.33	0.26987	0.50	0.13230

***Significant at 1 percent level, **Significant at 5 percent level, *Significant at 10 percent level

Table 4: Average abnormal returns (AARs) using market adjusted returns model over 7-day period

Market Adjusted Returns Model (MAR)						
	Main Board & Second Board		Main Board, Second Board & MESDAQ		Main Board, Second Board & MESDAQ (First announcements)	
	N = 167		N = 209		N = 173	
Day (t)	AAR (%)	p-value	AAR (%)	p-value	AAR (%)	p-value
-3	-0.18	0.42022	-0.29	0.15561	-0.36	0.11772
-2	0.12	0.59858	0.42	0.21331	0.48	0.22799
-1	0.26	0.37344	0.24	0.46820	0.09	0.80577
0	0.06	0.82748	0.00	0.99093	0.18	0.61775
1	-0.05	0.81823	0.13	0.58366	0.10	0.68363
2	-0.05	0.85262	-0.21	0.45113	-0.30	0.32289
3	-0.24	0.28019	0.38	0.27899	0.50	0.18688

***Significant at 1 percent level, **Significant at 5 percent level, *Significant at 10 percent level

Similar results are observed for the cumulative average abnormal returns (CARs) around the announcement date. Despite the positive figures, non-statistically significant abnormal returns are found for the three-day (-1,1), five-day (-2,2) and seven-day (-3,3) windows. See **Table 5**. The returns for 209 samples are 0.45 percent, 0.78 percent and 0.95 percent over the stated period respectively. Not much difference is observed when market adjusted returns model (MAR) is used to measure the abnormal returns. The MAR employed in this study serves as a test of the robustness for the findings found in market model (MM). Once again, the zero announcement effect holds for all groups. See **Table 5**.

The insignificant returns on the announcement date might be due to the maximum number of shares imposed to one investor. Given the fact that not more than two percent of the new equity can be placed to one investor, the investor will not be able to influence management behavior through their voting power. As a result, instead of enhancing monitoring, private placement may lead to managerial entrenchment. This is true especially when Malaysia is among one of the countries in world with high concentrated ownership (Claessens et al., 2002). Fazilah (2002) based on the ownership data as at 31st December 1998 indicates that on average, 58.8 percent of total equity in Malaysian firms are held by the five largest shareholders. As a matter of fact, half of the companies in Malaysia are controlled by five largest shareholders who own more than 60 percent shares. Report on the Observance of Standards and Codes of Corporate Governance by World Bank (2005) presents further evidence on this matter. It is reported that the case of concentrated shareholdings is very prominent in Malaysia in contrast to the case of dispersed shareholdings which is rare. Consequently, the issuance of two percent new shares to any investors will not give any significant impact to the firm's value. This is because the investors will not be able to actively involved in the firm's affairs in general and monitoring activities in particular. Therefore, the market does not infer announcement of private placement as good news and does not react positively to it. In other words, the changes in ownership subsequent to private placements are so trivial and might not have any effect on the share prices. Another plausible explanation is firms will only sell shares when they are overvalued. However, investors will only buy if they perceive the shares as undervalued. Since private placement investors are small in number, they have the accessibility to assess the firm's true value. Definitely, they will only purchase undervalued or fair valued shares. As a result, only fair valued shares will be issued. Consequently, zero abnormal returns are realized

Table 5: Summary of cumulative average abnormal returns (CARs) using market model and market adjusted returns model for firms that announce private placements in Malaysia from 1999 to 2007

	<i>Main Board and Second Board</i>	<i>Main Board, Second Board and MESDAQ</i>	<i>First Announcements</i>
	<i>N=167</i>	<i>N=209</i>	<i>N=173</i>
Market Model (MM)			
CAR % (p-value)			
Event Windows -60,-5	2.80 (0.23937)	0.10 (0.96415)	1.28 (0.60608)
-3,3	0.20 (0.81123)	0.95 (0.23530)	0.93 (0.29116)
-2,2	0.51 (0.46972)	0.78 (0.24906)	0.68 (0.35851)
-1,1	0.29 (0.59267)	0.45 (0.38900)	0.38 (0.51231)
Market Adjusted Returns Model (MAR)			
CAR % (p-value)			
Event Windows -60,-5	2.00 (0.31448)	-0.69 (0.71280)	0.21 (0.91884)
-3,3	-0.80 (0.90208)	0.67 (0.29281)	0.70 (0.32169)
-2,2	0.34 (0.50915)	0.58 (0.27875)	0.56 (0.35606)
-1,1	0.27 (0.49131)	0.37 (0.33875)	0.37 (0.39063)

***Significant at 1 percent level, **Significant at 5 percent level, *Significant at 10 percent level

No significant abnormal returns are detected for the period prior to the announcement date (refer **Table 5**). The findings are inconsistent with Tan, Chng, and Tong (2002) and Hertz and Smith (1993). Tan, Chng, and Tong (2002) report a positive average holding period abnormal return of 8.63 percent from day -30 to day -1. Hertz and Smith (1993) show significant cumulative abnormal returns of 4.99 percent from day -29 to day -10. Similarly, Kato and Schallheim (1993) report a significant run-up in the stock price prior to the announcement. Plausible explanation for such findings is that firms time to issue seasoned equity issues after a period of share price increases. Besides that the positive returns might be due to information leakage prior to the announcement. Since this study shows no significant abnormal returns, the results might suggest that firms do not time equity issues in order to take advantage of “windows of opportunity.” In other words, they do not time the announcements to issue overvalued equity. The results may also be implied as there is no information leakage prior to the announcements. Consequently, there is no evidence to conclude that abnormal returns are obtained using inside or superior information. However, for the period of 56 days (-60,-5), the cumulative unadjusted returns are 4.68 percent which suggests that the firms do issue the shares when the price is high.

5. CONCLUSION

This study provides further evidence concerning the announcement effect of equity private placements by examining the market responses to equity private placements announcements in Malaysia during the period 1999 to 2007. The results are inconsistent with observations of positive abnormal returns surrounding private placements in the other countries such as in the United States (Wruck, 1989; Hertz and Smith, 1993; Hertz and Rees, 1998; Ferreira and Brooks, 1999; Goh et al., 1999; Hertz et al., 2002; Brooks and Graham, 2005; Krishnamurthy et al., 2005), Japan (Kato and Schallheim, 1993), Singapore (Tan, Chng and Tong, 2002) and Sweden (Cronqvist and Nilsson, 2005).

There is also no presence of significantly positive or negative abnormal returns prior the announcement date. Even though there is a possibility for firms to time the placement to maximize wealth as the shares cannot be sold to directors or existing substantial shareholders, there is no evidence to support it. Thus does not support Myers and Majluf (1984) that firms only time to issue the stocks when they are overvalued. To conclude, private placements in Malaysia show zero announcement effect.

REFERENCES

- Anderson, H. D. (2006). Discounted Private Placements in New Zealand: Exploitation or Fair Compensation? *Review of Pacific Basin Financial Markets and Policies*, 9, 533-548.
- Brooks, L. D. and Graham, J. E. (2005). Equity Private Placements, Liquid Assets, and Firm Value. *Journal of Economics and Finance*, 29, 321-336.
- Claessens, S., Djankov, S., Fan, J. P. H., & Lang, L. H. P. (2002). Disentangling the Incentive and Entrenchment Effects of Large Shareholdings. *Journal of Finance*, 57, 2741-2771.
- Cronqvist, H. and Nilsson, M.(2005). The Choice between Rights Offerings and Private Equity Placements. *Journal of Financial Economics*, 78, 375-407.
- Fazilah Abdul Samad. (2002). Ownership Structure in the Malaysian Corporation Sector: Its Impact on Corporate Governance Performance, Financing and Investment Patterns. In *Working Paper Series 23*, Centre on Regulation and Competition Institute for Development Policy and Management, University of Manchester, UK.
- Ferreira, E. J. and Brooks, L. D. (1999). Evidence on Equity Private Placements and Going-out-of Business Information Release. *Journal of Economics and Business*, 51, 377-394.
- Goh, J., Gombola, M. J., Lee, H. W. and Liu, F.-Y. (1999). Private Placement of Common Equity and Earnings Expectations. *Financial Review*, 34, 19-32.
- Hertzel, M., et al. (2002). Long-Run Performance Following Private Placements of Equity. *Journal of Finance*, 57, 2595-2617.
- Hertzel, M. and Rees, L. (1998). Earnings and Risk Changes Around Private Placements of Equity. *Journal of Accounting, Auditing and Finance*, 13, 21-35.
- Hertzel, M. and Smith, R. L. (1993). Market Discounts and Shareholder Gains for Placing Equity. *Journal of Finance*, 48, 459-484.
- Kato, K. and Schallheim, J. S. (1993). Private Equity Financings in Japan and Corporate Grouping (Keiretsu). *Pacific-Basin Finance Journal*, 1, 287-307.
- Krishnamurthy, S., Spindt, P., Subramaniam, V. and Woidtke, T. (2005). Does Investor Identity Matter in Equity Issues? *Journal of Financial Intermediation*, 14, 210-238.
- MacKinlay, A. C. (1997). Event Studies in Economics and Finance. *Journal of Economic Literature*, 35, 13-39.
- Myers, S. C. and Majluf, N. S. (1984). Corporate Financing and Investment Decisions When Firms Have Information That Investors Do Not Have. *Journal of Financial Economics*, 13, 187-221.
- Ritter, J. R. (1991). The Long-Run Performance of Initial Public Offerings. *Journal of Finance*, 46, 3-27.

Report on the Observance of Standards and Codes (ROSC) of Corporate Governance. (2005). *Corporate Governance Country Assessment: Malaysia. The World Bank*. Retrieved October 21, 2009, from http://www.worldbank.org/ifa/rosc_cg_malaysia.pdf.

Tan, R. S. K., Chng, P. L. and Tong, Y. H. (2002). Private Placements and Rights Issues in Singapore. *Pacific-Basin Finance Journal*, 10, 29-54.

Wruck, K. H. (1989). Equity Ownership Concentration and Firm Value: Evidence from Private Equity Financings. *Journal of Financial Economics*, 23, 3-28.

¹ Source: "Private Placement of Shares Popular Way to Raise Funds." New Straits Times 19 January 1996: 27

² Prior to 1st May 2004, Bursa Malaysia was known as Kuala Lumpur Stock Exchange (KLSE).

³ On 8th August 2009, Main and Second Boards have been merged into a single unified board, called the Main Market.

⁴ On 8th August 2009, MESDAQ Market, which is for technology-based and high growth companies, is known as the ACE Market.