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The Effect of Capital Raising Goal Announcement on Stock Price Changes around the E.G.M Dates[1]

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Research Paper

INTRODUCTION

The purpose of this study is to investigate the effect of capital raising on equity price changes around the extraordinary general meetings (E.G.M) dates. In this study, the price effects of 4 capital raising methods including stock right, stock dividend, the combination of stock right and dividend and assets reevaluation surpluses, and in terms of separating three goals from the capital raising including corporate development plan, financial structure reform and participation in raising capital by capable firms were examined.

This research aims to calculate the returns due to capital raising to form price changes around the E.G.M dates.

According to the price pressure hypothesis, the capital raising resulted in a decrease in the stock price. According to this hypothesis, the stock price will decrease after the E.G.M temporary date. According to the price pressures hypothesis, the stock price is not affected by capital-raising announcement dates. Masoislise and Kervar (1986) demonstrated that there is no significant relationship between the return due to capital raising announcements and issue percentage for industrial firms. The research of Barclay and Ilitzenberger (1988) demonstrated that capital raising

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percentage was not affected by stock return. The research of Mackleson and parch (1986) demonstrated that the decreased mean of the stock price was less while the firms' goals are investing expenditures financing the repayment of debts. Results of the study Panahiyan (1386) demonstrated that the stock price after a capital raising plan is more than the theoretical price. Malakoty's research (1392) demonstrated that stock return after capital raising due to the stock dividend was 0.27/44. Results of studies by Vadiee and Razavirad (1387) show that capital raising due to retained earnings resulted in market-added value. But capital raising due to stock right decreased market-added value. Findings of Kashirnokandeh (1385) demonstrated that the firms' goal of capital raising for development plans had increased return mean for 3 years after capital raising.

MATERIALS AND METHODS

The statistical population in this study was 287 industrial firms in the Tehran stock exchange including 73 firms for stock dividends, 154 firms for stock rights, 28 firms for the combination of right and stock dividends, and 32 firms for assets revaluation surplus from the 2015 to 2019. The research methodology is event analysis which is measured by the descriptive statistics of theoretical price and adjusted returns by the TEPIX index.

RESULTS AND DISCUSSION

1. The difference between the theoretical price means from the trading day first ending price mean after the capital raising for 4 methods of capital raising to separate in terms of the firm’s goals are positive. The results of the test showed that the differences mean is positive.
2. The mean of theoretical return in 4 methods of capital raising and terms of the goals on the first day after E.G.M. is positive. Results show that the theoretical return percentage in all of the cases except for the combination of stock right and stock dividend while the firms' goal was a development plan and financial structure reform is negative.
3. The difference between the theoretical price mean and price mean of the trading day first after E.G.M for 4 methods of capital raising were increased with an increase of capital raising percentage. The Results show that the upper capital raising percentage resulted in the most price return except for the combination of stock right and stock dividend.
4. There is a direct relationship between the theoretical return mean and capital raising percentage in 4 methods of capital raising. The

results show that the theoretical return means upper percentages of capital raising than other percentages except for the combination of stock right and stock dividend resulting in higher returns.

5. Daily return adjusted to total index in 4 methods of capital raising and separated in terms of the firms' goals in days around E.G.M is not zero. This hypothesis is confirmed. It means that the stockholders gain daily return over than market total return after E.G.M. dates.
6. View of rating higher theoretical return means is related to assets reevaluation 30%, stock dividend 6%, stock right 2%, combination of a stock dividend and stock right -8%. This result is consistent with the findings of Rahimzadeh Tabrizi's (1384) and malakoty's (1392) research.
7. The difference between the theoretical price mean and trading day first price mean after E.G.M and also the theoretical return means with upper capital raising percentage was increased. This result is consistent with Jahankhani and Abbasi's (1379) research.

CONCLUSION

The result of this study shows that the difference between the theoretical price average and closing price mean after the E.G.M dates for stock dividend, stock right, and assets revaluation surplus is positive. The highest average theoretical return belongs to the participation goal in capital-raising capable firms for a combination of stock right and stock dividend, financial structure reform for reevaluation, and development of the firm in stock dividend.

In the case of a stock dividend and assets reevaluation, the difference between the theoretical average price and closing price mean after E.G.M and also the average theoretical return is increasing when the capital raising percentage goes up. In addition, the daily return adjusted by TEPIX on the four ways of capital raising and separating firms' goals are not zero around the E.G.M dates.

Suggestions

1. Stockholders are suggested to invest in firms that increase capital to the method of assets reevaluation and stock dividend as well as firms whose goal is financial structure reforms before E.G.M dates.
2. The stockholders are suggested to invest in a stock with a higher capital raising percentage firstly on the assets reevaluation method and secondly on stock dividend and so on stock rights.
3. The firms that have announced the combination of stock rights and stock dividends with higher percentages resulted in negative returns.

4. The stockholders had better invest in those firms that increase capital due to the combination of stock rights and stock dividends with a lower percentage so as to create upper theoretical returns.
5. The stockholders are suggested to invest in firms that increase the capital by assets reevaluation and to hold several days after the opening of the stock name to create adjusted positive returns by total index.

Keywords: Stock Return, Capital Raising, Stock Right, Stock Dividend, Assets Reevaluation Surplus.

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