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The Effects of Right Offering Announcements on Returns of Shares of Deposit Banks Traded in İstanbul Stock-Exchange

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Abstract. In this study, the impacts of right offerings announcements on the returns of shares are analysed. Right offerings means to have the rigth of receiving new shares in proportion to shares on hand when the corporation issues new shares for outsourcing capital increase. In this study, before and after the right issue announcements, the abnormal returns (AR) of shares of the banks in Istanbul Exchange Market-100 calculated and the return changes are analysed.

Keywords: 2 **RIGHT ISSUE, EVENT STUDY, ABNORMAL RETURNS.**

JEL Codes: D53, G23, G24, E22

Introduction Companies which traded on the Stock Exchange, announces important events and changes that affect their investment decisions. These statements cause to increase or decrease in the value of the shares due to the effects to the investor’s decisions.

One of these announcements is the right issue announcement. Right issue defined here as having the right of receiving new shares in proportion to shares on hand when the corporation issues new shares for outsourcing capital increase. Prior to the issuance of new shares, companies make an announcement in the case of right issue and these announcements affect the decisions of investors.

The study consists of four parts. In the first part of the paper, after a definition of the right issue, it will be held the definition of the right issue will be defined and state specified in the new Turkish Commercial Law. In the second part, a literature review about the studies regarding the impact of the rights issue announcements to stock prices will be conducted. In the third section, methods of analysis will be reported; the last part of the study is about the findings of research.

Right Issue Definition Right issue can be defined as the right of existing shareholders that entitles them to buy new shares at a specific price in order to protect the interest rates. With right issue shareholders can buy new shares in proportion to their existing holdings (Adıgüzel, 2014: 4).

Companies generally increase their capital by ensuring assets in cash or in kind from external resources. On the other hand, in capital increase from internal resources, shareholders do not pay any cash or in kind resource, capital increase is fully met with internal resources. Therefore, internal capital increase does not provide an additional financial source, does not increase the assets of the company and does not affect the total market value. However, capital increase from internal resources facilitates to increase in the reputation of company, to strengthen the financial structure and to update the capital in addition to some tax advantages (Yavuz, 2013: 129).

Shares that are issued with a new commitment or payment, meanly, right issue may be issued in the establishment or public offering phase. Right issue is a right related to shares in hand, can only be used by shareholder. It is also a subjective and proportional right. However, it is not a vested right because of the fact that it can be restricted or eliminated. The aim of this right is to protect the number of shares of existing shareholders after capital increase. Thus, it prevents the reduction of financial and administrative rights such as vote in plenary session and participation in profits. The removal or restriction of this right is possible only in certain circumstances (Adıgüzel, 2014: 3).

The restriction of right issue can be in the form of limiting a portion of shares that they deserved to get; limiting of the rights of some shareholders; prohibiting the transfer of rights to others and inhibiting shareholders from getting some categories of shares. The removal of right means to prohibit the right to buy new shares completely (Adıgüzel, 2014: 7).

In the new Turkish Commercial Law, capital increase can be implemented in three ways. These are capital increase with capital commitment, internal resources capital increase and contingent capital increase. Right issue is analysed as a type of contingent capital increase in that law. With the regulations in new Turkish Commercial Law has intended to solve various problems related to right issue and to answer the requirements of Article 29 of European Union No.2 Company Law. The provisions about right issue in Turkish Commercial Law is as (New Turkish Commercial Law Article.461):

“(1) Every shareholders has the right of receiving new shares in proportion to shares on hand.

(2) If there are justifiable reasons, the right issue can be limited or removed with the affirmative vote of at least sixty percent of equity holders in board of directors. Especially, initial public offerings, acquisitions of company sections and affiliates and the joining of workers of company are the justifiable reasons. With the limitation and elimination of right issue, no one can be given advantage or taken a knock. This article is valid for register capital system and board decision except quorum. Board of directors explain with a report the reasons of limitation or elimination of right issue; causes of issuance of new shares with or without premium; the calculation method of premium. This report is registered and announced.

(3) The board of directors sets the essentials of right issue with a ruling and allows time to shareholders at least fifteen days for issuing in that ruling. This ruling is registered and

published in a national newspaper that has at least fifty thousand circulations. Moreover, it is put on the website of company.

(4) Right issue can be transferred.

(5) Company cannot prevent the right issue with suggestion that transfer of registered shares is limited by articles of association."

Literature Review

There is wide range of studies about the impacts of announcements such as company mergers and transfers, dividend, capital changes, macroeconomic data on the returns of shares. In the same way, there are several studies about the impacts of right issue announcements on the share prizes in different countries.

3 **HANSEN (1989) AND ECKBO &MASULIS (1992) REPORTED A STOCK PRICE DECLINE IN US. IN UNITED KINGDOM 2-DAY EXCESS RETURNS A REDUCTION OF 1.3% (LEVIS, 1995) AND 1.88% (SLOVIN ET AL., 2000) HAS BEEN DISCOVERED. A DECREASE ON STOCK PRICES HAS ALSO BEEN OBSERVED IN FRANCE (GAJEWSKI AND GINGLINGER, 1998), NEW ZEALAND (MARSDEN, 2000), NETHERLANDS (KABIR AND ROOSENBOOM, 2003) AND HONG KONG (CHING ET AL., 2001).**

HOWEVER, AN INCREASE ON STOCK PRICES HAS BEEN REPORTED IN JAPAN (KANG AND STULZ, 1996), GREECE (TSANGARAKIS, 1996) AND SINGAPORE (TAN ET AL., 2002). ON EMERGING MARKETS SUCH AS KOREA (KANG, 1990 AND DHATT ET AL., 1996), MALAYSIA (SALAMUDIN ET AL., 1999) AND CHINA (SHEN AND XIAO 2001) A SIGNIFICANT RISE ON STOCK RETURNS HAS BEEN STATED. V.B. 3 **MARISETTY ET AL.** (2008) ,however, observed insignificant increase on stock prizes in Indian firms reported insignificant positive abnormal returns in Indian firms (cited by Shahid et al., 2010: 163).

C. Chen, X. Chen (2007, cited by Shahid et al., 2010: 163) analysed 205 right issue announcements in China. They observed an decrease on stock returns around the announcements and an increase during post-announcement period (in +10 to +20 days expiration period).

Suresh and Gajendra,(2012) analysed the right issue announcement effect on share returns, by using event study methodology for Nifty stocks from 1995 to 2011. They reported a statically insignificant negative abnormal return (ARR of -0.048) on announcement day. The event has also reported that there is no significant change in trade volume of analysed stocks during announcement period. In the study, it was concluded that right issue announcements have a negative effect on Indian market (Ramesh and Rajumesh, 2014: 154).

Adnan Bashir (2013), in his study that analysed the effects of right issue announcement in Karachi Stock Exchange Market from 2008 to 2011 found positive abnormal returns on announcement day. However, the study concluded that the right issue announcements have no effect on Karachi Stock Market and shareholders' wealth (Ramesh and Rajumesh, 2014: 154).

Even if the right issue is not widely utilized in US, a negative impact of approximately 2% has been observed in studies. There are few studies about the right issue announcement effect on emerging markets. Corporate characteristics of emerging markets are: (1) Companies use right issue in only second issue of shares; (2) there are no organized secondary markets; (3) property is not widespread; (4) commercial stock market is weak; (5) there are limited financial alternatives. With these characteristics Istanbul Stock Exchange is also an emerging market of Europe (Adaoğlu, 2006: 250).

Cahit Adaoğlu (2006: 250) analysed the effects of "unsweetened" (plain) and "sweetened" (with simultaneous distribution of bonus issues) rights issues on the Istanbul Stock Exchange Market. He reported in that study that there is a significant negative return (-7.1%) in "unsweetened" right issues while there are positive returns (2%) in "sweetened" right issues.

The studies about the impact of right issue on share returns are shown in the table below Table-1):

Table-1: The studies about the impact of right issue on share returns

Hansen 1989 US Negative Impact on Stock Prices

Eckbo and Massulis 1992 US Negative Impact on Stock Prices

Levis 1995 UK A reduction of 1.3% on 2-day excess returns

Slovin et al.

2000 UK A reduction of 1.88% on 2-day excess returns

Gajewski and Ginglinger 1998 France Negative Impact on Share Prices

Marsden 2000 New Zealand Negative Impact on Share Prices

Kabir and Roosenboom 2003 Holland Negative Impact on Share Prices

4 **CHING ET AL.**

2001 Hong Kong Negative Impact on Share Prices

Kang and Stulz 1996 Japan Positive Impact on Share Prices

Tsangarakis 1996 Greece Positive Impact on Share Prices

Tan et al.

2002 Singapore Positive Impact on Share Prices

Kang 1990 Korea Significant Positive Returns

Dhatt et al.

1996 Korea Significant Positive Returns

Shen and Xiao 2001 China Significant Positive Returns

Salamudin et al.

1999 Malaysia Significant Positive Returns

Marisetty ve Diğ.

2008 India Insignificant Positive Returns

C. Chen and X. Chen 2007 China Increase During Post-announcement Period

Suresh andGajendra 2012 India Negative Returns From 1995 to 2011

Adaoglu 2006 Turkey Significant negative return in “unsweetened” right issues -positive returns (2%) in “sweetened” right issues

The Impacts of Right Issue Announcements

4.1. Method of Study

In this study, the data is analysed with the method of event study. Event study is used in the measurement of unusual response of market when an event occurs. Event study examines the changes on corporate value caused by a specific event (Mutan and Topçu, 2009: 1).

Event study determines the impact of an event on firm value by using specific data from financial market. The effects of an event impact rapidly the share prices, thus it is possible to test these effects by the prices of stocks (MacKinlay, 1997: 14).

In the case study, event window is defined; the criterion is selected; normal and abnormal returns are calculated; hypotheses are developed; estimation window is determined and the results are interpreted respectively. With the assumption that abnormal returns reflect the response of stock prices to events, abnormal returns are calculated as: (Koçyiğit ve Kılıç, 2008: 170):

ARi = Rit – Rmt

ARi: abnormal return of share i in the day t, Rit: actual return of share i in the day t, Rmt: expected return of share I in the day t.

Getting the average effect of the announcements of all companies rather than evaluating each company separately provides a better result. 5 **BECAUSE "AVERAGING ACROSS ALL COMPANIES SHOULD MINIMIZE THE EFFECT OF OTHER EVENTS"(PRAKASH, 2013:** 11). Average abnormal returns (AAR) are calculated by taking abnormal returns of different companies in the same time period.

5 **IN THIS STUDY CUMULATIVE ABNORMAL RETURNS AND CUMULATIVE AVERAGE ABNORMAL RETURNS AROUND EVENT ARE CALCULATED AS:**

CAR (t1, t2) = ΣAR

5 **CAAR (T1, T2) = CAR (T1, T2) / N**

N IS THE SAMPLE SIZE.

For testing the significance of AAR and CAR t test is used.

Basic evaluation period is the day of announcement (0). Price performance of before and after the announcement (20,-20) and the changes in returns of each share will be analysed.

4.2. Empirical Evidence

In this study, impacts of right issue announces on the share price of trade banks traded in Istanbul Stock Exchange Market. These trade banks are Akbank Inc., Alternatifbank Inc., Denizbank Inc., Finansbank Inc., Fortisbank Inc, Şekerbank Inc., Tekstil Bankası Inc, Türk Ekonomi Bankası Inc., Türkiye Garanti Bankası Inc., Türkiye Halk Bankası Inc, Türkiye İş Bankası Inc., Türkiye Vakıflar Bankası Inc., Yapı ve Kredi Bankası Inc., Tekstilbank Inc.

In the survey, there are five right issue announcements. Two of these right issues were announced by Şekerbank Inc. in the date June 3, 2009 and June 6, 2014. Two of them were announced by Finansbank Inc. in the date October 20, 2010 and October 25, 2011. The last one was announced by Alternatifbank Inc. in the date February 13, 2014.

Table 2: 2 **AVERAGE ABNORMAL RETURNS AROUND THE ANNOUNCEMENT DATE**

Gün AAR T-İstat.

P-Değeri Negatif Ars %

-20 -0,011203 -0,542952 0,307986 60

-19 -0,012299 -0,619635 0,284416 80

-18 0,006779 0,309817 0,386085 20

-17 0,004874 0,151985 0,443278 80

-16 -0,004333 -0,383284 0,360602 80

-15 0,006538 0,268771 0,400700 40

-14 -0,005819 -0,180088 0,432919 60

-13 -0,004391 -0,432428 0,343862 60

-12 0,030322 0,511925 0,317836 40

-11 0,031238 0,396393 0,356026 40

-10 0,015088 0,344760 0,373819 60

-9 0,012629 0,130910 0,451083 80

-8 0,036592 0,364785 0,366870 60

-7 0,013369 0,388578 0,358692 40

-6 -0,018160 -0,422281 0,347265 60

-5 0,012007 0,241408 0,410555 60

-4 -0,003331 -0,333896 0,377614 80

-3 -0,017655 -0,665774 0,270992 60

6 **-2 0,019050 0,538897 0,309275 40**

-1 -0,002834 -0,207916 0,422726 60

0 0,008384 0,288692 0,393580 40

1 -0,014431 -0,217434 0,419255 60

2 -0,024380 -0,523628 0,314104 100

3 -0,027397 -1,409383 0,115759 80

4 -0,008386 -0,281712 0,396069 20

5 -0,006040 -0,221744 0,417687 80

6 0,000371 0,022355 0,491618 60

7 -0,011881 -0,934558 0,201462 80

8 -0,016963 -1,079132 0,170628 80

9 -0,008091 -0,938706 0,200514 100

10 -0,005956 -0,320972 0,382151 60

11 0,001157 0,050160 0,481200 60

12 -0,023847 -1,095071 0,167499 100

13 -0,008135 -1,329735 0,127183 100

14 -0,002686 -0,497382 0,322509 60

15 0,015072 0,272298 0,399435 40

16 -0,024159 -1,567432 0,096042 100

17 0,025907 0,300225 0,389481 80

18 0,017837 0,590047 0,293440 40

19 -0,035644 -0,690030 0,264061 100

20 0,006228 0,249177 0,407748 40

As can be seen on the table (Table-2), there is no significant finding about the impact of right issue announcements on share prices of deposit banks traded in Istanbul Exchange

Market.

However, when Abnormal Returns (AR) before and after event day are analysed separately, significant abnormal returns are detected in some periods. During the period of forty days (20,-20), it is observed that 100% of abnormal returns of six days; 80% of abnormal returns of ten days and 60% of abnormal returns of twelve days are negative.

Table 3: Cumulative Average Abnormal Return to Obtain Different Window

Day CAAR T-Stat.

P-Mean Negative Ars %

[-20,20] -0,03458 -0,12040 0,45499 80

[-20,-1] 0,10846 0,43274 0,34376 20

[-20,0] 0,11685 0,49416 0,32355 20

[-10,-1] 0,06676 0,31153 0,38548 40

[-5,5] -0,06501 -0,80074 0,23407 80

7 **[-1,1] -0,00888 -0,15133 0,44352 40**

[-1,0] 0,00555 0,29429 0,39159 40

[0,1] -0,00605 -0,10855 0,45939 60

[0,2] -0,03043 -0,58724 0,29430 80

[0,10] -0,11477 -2,70826 0,02681** 100

[0,20] -0,14304 -1,43350 0,11250 100

Table-3 shows the information regarding right issue announcements impound in the share price returns in different periods. Cumulative Average Abnormal Return (CAAR) is found to be negative during post-announcement period of 10 days (0,10) in 5% significance level. Moreover, as in the table-2, the percentages of negative abnormal returns in the same periods are shown in the Table-3.

Conclusion

Cumulative Average Abnormal Returns (CAAR) is found to be negative ten days period after the announcement date (0,10). This means that investors of deposit banks can yield abnormal returns in the period of ten days after announcement.

Even if it is not statically significant, the another finding of study is that 100% of abnormal returns of six days; 80% of abnormal returns of ten days and 60% of abnormal returns of twelve days are negative.

It is the fact that more significant results can be observed by analysing wider sample. Moreover, the all important events in the announcement day that can be affect the share price should be analysed together.

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RIGHT ISSUE, EVENT STUDY, ABNORMAL RETURNS

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AVERAGE ABNORMAL RETURNS AROUND THE ANNOUNCEMENT DATE

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HANSEN (1989) AND ECKBO &MASULIS (1992) REPORTED A STOCK PRICE DECLINE IN US

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A stock price decline has been observed by Hansen (1989) and Eckbo and Masulis (1992) in US

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IN UNITED KINGDOM 2-DAY EXCESS RETURNS A REDUCTION OF 1.3% (LEVIS, 1995) AND 1.88% (SLOVIN ET AL., 2000) HAS BEEN DISCOVERED

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In United Kingdom 2-day excess return of -1.3% (Levis, 1995) and -1.88% (Slovin et al., 2000) has been observed

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A DECREASE ON STOCK PRICES HAS ALSO BEEN OBSERVED IN FRANCE (GAJEWSKI AND GINGLINGER, 1998), NEW ZEALAND (MARSDEN, 2000), NETHERLANDS (KABIR AND ROOSENBOOM, 2003) AND HONG KONG (CHING

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A negative excess stock returns has also been observed in France (Gajewski and Ginglinger, 1998), New Zealand (Marsden, 2000), Netherlands (Kabir

ET AL., 2001)

and Roosenboom, 2003) and Hong Kong (Ching et al., 2001)

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HOWEVER, AN INCREASE ON STOCK PRICES HAS BEEN REPORTED IN JAPAN (KANG AND STULZ, 1996), GREECE (TSANGARAKIS, 1996) AND SINGAPORE (TAN ET AL., 2002)

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In contrast to these findings, a positive abnormal return for right issue announcements has been observed in Japan (Kang and Stulz, 1996), Greece (Tsangarakis, 1996) and Singapore (Tan et al., 2002)

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ON EMERGING MARKETS SUCH AS KOREA (KANG, 1990 AND DHATT ET AL., 1996), MALAYSIA (SALAMUDIN ET AL., 1999) AND CHINA (SHEN AND XIAO 2001) A SIGNIFICANT RISE ON STOCK RETURNS HAS BEEN STATED

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in Korea (Kang, 1990 and Dhatt et al., 1996), Malaysia (Salamudin et al., 1999) and in China (Shen and Xiao 2001)

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MARISETTY ET AL

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Marisetty et al

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2006, “MARKET REACTION TO “UNSWEETENED” AND “SWEETENED” RIGHTS OFFERINGS IN AN EMERGING EUROPEAN STOCK MARKET”,

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Market reaction to “unsweetened” and “sweetened”

JOURNAL OF MULTINATIONAL FINANCIAL MANAGEMENT, 16, PP

rights offerings in an emerging European stock market

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CHING ET AL

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Ching et al

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BECAUSE “AVERAGING ACROSS ALL COMPANIES SHOULD MINIMIZE THE EFFECT OF OTHER EVENTS”(PRAKASH, 2013

Source - http://iosrjournals.org/iosr-jef/papers/vol2-issue1/B0210918.pdf?id=7855

occurring and averaging across all companies should minimize the effect of other events, thereby

Suspected Entry: **68% match**

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IN THIS STUDY CUMULATIVE ABNORMAL RETURNS AND CUMULATIVE AVERAGE ABNORMAL RETURNS AROUND EVENT ARE CALCULATED AS

Source - http://iosrjournals.org/iosr-jef/papers/vol2-issue1/B0210918.pdf?id=7855

Cumulative Abnormal Returns (CAR) and Cumulative Average Abnormal Returns (CAAR)

Suspected Entry: **76% match**

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CAAR (T1, T2) = CAR (T1, T2) / N

Source - http://iosrjournals.org/iosr-jef/papers/vol2-issue1/B0210918.pdf?id=7855

CAAR (t1, t2) = N

Suspected Entry: **67% match**

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N IS THE SAMPLE SIZE

Source - http://iosrjournals.org/iosr-jef/papers/vol2-issue1/B0210918.pdf?id=7855

Where N is the sample size (15 events)

Suspected Entry: **67% match**

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2013, "EVENT STUDY TEST OF INCORPORATING EARNING ANNOUNCEMENT ON SHARE PRICE", JOURNAL OF ECONOMIC AND FINANCE, 2, PP.9-18

Source - http://iosrjournals.org/iosr-jef/papers/vol2-issue1/B0210918.pdf?id=7855

Event Study Test Of Incorporating Earning Announcement On Share Price

Suspected Entry: **66% match**

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-2 0,019050 0,538897 0,309275 40

Source - Another student's paper

-2 -0,40% -0,69 -0,85%

Suspected Entry: **66% match**

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[-1,1] -0,00888 -0,15133 0,44352 40

Source - http://html.rincondelvago.com/efficient-financial-market.html

[-1,0] -0.25% -0.1%