

PRICE REACTION TO RIGHTS ISSUE ANNOUNCEMENTS OF EMERGING STOCK MARKETS: A STUDY USING DATA FROM THE COLOMBO STOCK EXCHANGE

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ABSTRACT

In this paper, stock market reaction to rights issue announcements was examined using the well-known event study methodology. The sample consisted of 18 Sri Lankan companies which made rights issue announcements in 1994 whose number of trading days was at least 40% of the number of trading days for the estimation period and the event period. Two types of analyses were carried out at portfolio level and individual company level. Analysis carried out at the portfolio level revealed that the stock market reaction on the event day and 3 day event window was positive, but statistically insignificant. A negative but statistically significant market reaction was observed starting from the second day after the event day. Analysis carried out at the individual company level revealed statistically insignificant price reactions, except for one company for 3 day event window, for the event day and the 3 day event window. However, the analysis for the 21 day event period showed negative insignificant price reactions. Analysis carried out for individual companies for the 21 day event window revealed statistically significant price reactions only in respect of 4 companies. Mixed reactions were observed at the individual company level. Results of both of the above analyses imply that the Sri Lankan share market is not efficient in the semi-strong form sense. However, further research is needed to confirm the results of this study using a larger sample with adjustments for possible thin trading bias.