MINISTRY OF EDUCATION AND TRAINING

UNIVERSITY OF ECONOMICS HO CHI MINH CITY

DINH THI THU HA

SEASONED EQUITY OFFERINGS EVIDENCE IN VIETNAMESE STOCK MARKET

DOCTORAL THESIS

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LIST OF ABBREVIATIONS

AAR: Average abnormal returns

AD: Announcement day

AR: Abnormal returns

CAR: Cumulative average abnormal returns

EMH: Efficient market hypothesis

HOSE: Ho Chi Minh City Stock Exchange

SEOs: Seasoned equity offerings

XR: Ex-right day

REC: Real estate and construction

MAI: Manufacturing industry

SER: Service

FBI: Financial – Banking – Insurance services

AFF: Agriculture, Fishery and Forestry

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INTRODUCTION

1.1 Research motivation:

Seasoned equity offerings (SEOs) draw enormous attention from researchers around the world. This method is an effective and popular way to expand company financial resources to maintain and develop its activities, to reconstruct capital and stakeholder structure of company. In order to finance companies' activities, they can choose either internal sources or external sources of funding. While the former mainly refer to profit or retained earnings, the latter mention the concept of debt financing as well as equity financing. To estimate company's financing decisions Modigliani and Miller (1958, 1963) suggest that capital structure is not consistent with firm value. Nevertheless, this observation is based on the important assumption that the market is perfect. The idea of perfect capital market consists of the following characteristics: (i) companies are classified based on their risk; additionally, companies having the same risk generate similar returns; (ii) perfect capital market which implies that there is no transaction cost, also no tax or bankruptcy cost; (iii) the interest rate for lending and borrowing activities are similar for private and investors as well as corporation. However, in the real market, tax is deducted from interest expenditure. Nevertheless, debt financing pressure may discourage firms to entirely use debt financing instead of equity financing (Huang, 2012). Besides the trade-off theory which mainly discuss tax shield as well as financial distress, there are also other factors affect the financing decision of company including information asymmetry costs, agency conflict costs and the availability of promising growth opportunities

Besides, a trend of increasing international equity issuance has also been reported, especially after the financial crisis in 2010. To compensate for the losses and larger writedowns suffering from the crisis as well as to raise capital in the prediction of more strict regulations will occur, global financial institutions have to raise equity issuance substantially. A report of Bloomberg in July 2010 shown that financial institutions, mainly from Europe and the United States, since mid-2007 had raised US$1.5 trillion equity issue to offset their crisis losses (Witmer, 2010).

The paucity of literature and case study in emerging market where results are inclusive also urge a solution. There have been many research to find out company and market behavior such as determinants of companies that lead them to conduct SEOs, impact of SEOs on company stock prices when information about SEOs are publicized. The number of research on this topic has been increasing with many aspects have been discovered and applied in practice. However, the majority of existing SEOs research are examined at developed market (Eckbo et. al., 2007) while only few research on cases of emerging market are conducted. The paucity of literature and case study in emerging market has drawn attentions from researchers to this market. Therefore, examining emerging economy case attracts the interest to fill the research gap and emphasize the own nature of this market. In additional, examining whether the results of developed markets can be carried over to emerging market also becomes appealing. In addition to examining determinants of company's SEOs decision, researchers also show that stock prices on the market will be affected when information about the issuance is publicized. In contrast to negative reactions in developed markets, the results of emerging markets are inclusive. While there is a trend of positive reaction in the research of Kim and Lee (1990) for Korea; Salamudin et. al. (1999) for Malaysia; Tan et. al. (2002) for Singapore; Marisetty et. al. (2008) for Indian, the findings of Cahit (2006) for Turkey; Chen et. al. (2007) and Shahid (2010) for China; and Lerskullawat (2011) for Thailand, on the other