UNIVERSITI PUTRA MALAYSIA

THE EFFECTS OF CREDIT RATING ANNOUNCEMENTS ON STOCK RETURNS IN MALAYSIA

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THE EFFECTS OF CREDIT RATING ANNOUNCEMENTS ON STOCK RETURNS IN MALAYSIA

By
NORSUHAIDA BINTI HUSIN

Thesis Submitted to the Graduate School of Management,
Universiti Putra Malaysia, in Partial Fulfillment of the Requirement for the Degree of Master of Science
DEDICATION

This thesis is dedicated to my parents, fiancé’ and friends
Abstract of thesis presented to the Senate of Universiti Putra Malaysia in partial fulfillment of the requirement for the degree of Master of Science

THE EFFECTS OF CREDIT RATING ANNOUNCEMENTS ON STOCK RETURNS IN MALAYSIA

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NORSUHAIDA BINTI HUSIN

March 2010

Chair:  Associate Professor Loo Sin Chun
Faculty:  Faculty of Economics and Management

This study aims to provide a comprehensive investigation of the effect of bond rating changes on stock returns in Malaysia between the years 2000-2008. The study examines the rating changes of both Private Debt Securities (PDS) and Islamic Private Debt Securities (IPDS) based on ratings by RAM Rating Services Berhad (RAM) and Malaysia Rating Corporation Berhad (MARC). All the data are collected from RAM, MARC, Bond Pricing Agency Malaysia, Thomson Datastream, Securities Commission and Bank Negara Malaysia. The abnormal returns are calculated by using event study methodology and the beta is adjusted by using Dimson-Fowler Rorke (DFR) method. The findings reveal that when there is an announcement of rating upgrades for PDS, stock price react negatively and affect the firm returns while for IPDS the effect is negative but insignificant. The results for downgrades of PDS show that stock market responds negatively and significant while for IPDS it is negative but insignificant. This study also identifies determinants of abnormal return on bond announcement with associated firm
(FIRM SIZE & LEVERAGE) and bond-specific factors (MATURITY). There is useful information for PDS and IPDS on the LEVERAGE of the rating change.
Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi sebahagian keperluan untuk ijazah Master Sains

KESAN-KESAN PENGUMUMAN PENARAFAN KREDIT PADA PULANGAN SAHAM DI MALAYSIA

OLEH

NORSUHAIDA BINTI HUSIN

March 2010

Pengerusi: Profesor Madya Loo Sin Chun

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untuk IPDS ia negatif tetapi tidak signifikan. Kajian ini juga mengecam kadar pulangan luar biasa pada pengumuman bon dengan firma bersekutu (SAIZ FIRMA & KEUMPILAN) dan faktor khusus (KEMATANGAN). Terdapat maklumat berguna untuk PDS dan IPDS pada KEUMPILAN penukaran pengkadaran.
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I certify that an Examination Committee met on **March 26, 2010** to conduct the final examination of **Norsuhaida binti Husin** on her Master of Science thesis entitled ‘**The Effects of Credit Rating Announcements on Stock Returns: Evidence from Malaysia**’ in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulation 1981. The committee recommends that the candidate be awarded the relevant degree. Members of Examination Committee are as follows:

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DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at UPM or other institutions.

NORSUHAIDA BINTI HUSIN
Date:
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