



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
NORSUHADA 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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March 2010

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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

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March 2010

Pengerusi: Profesor Madya Loo Sin Chun

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Kajian ini bertujuan bagi menyediakan penyelidikan komprehensif mengenai kesan perubahan penarafan bon ke atas pulangan saham di Malaysia di antara tahun 2000-2008. Kajian ini memeriksa perubahan penarafan bagi kedua-dua sekuriti hutang swasta (PDS) dan sekuriti hutang swasta Islam (IPDS) berdasarkan penilaian oleh RAM Rating Services Berhad (RAM) dan Malaysia Rating Corporation Berhad (MARC). Kesemua data ini diperolehi dari RAM, MARC, Bond Pricing Agency Malaysia, Thomson Datastream, Suruhanjaya Sekuriti dan Bank Negara Malaysia. Kadar pulangan luar biasa dikira dengan menggunakan kaedah kajian peristiwa dan beta diselaraskan dengan menggunakan kaedah Dimson-Fowler Rorke (DFR). Penemuan-penemuan mendedahkan sedemikian apabila terdapat satu pengumuman penarafan meningkat untuk PDS, harga saham bertindak secara negatif dan menjejaskan pulangan firma manakala untuk IPDS menunjukkan kesan negatif tetapi tidak signifikan. Keputusan untuk penurunan PDS menunjukkan pasaran saham itu menyambut secara negatif dan signifikan manakala

untuk IPDS ia negatif tetapi tidak signifikan. Kajian ini juga mengesahkan 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:

TABLE OF CONTENTS

Dedication	
Abstract	III
Abstrak	IV
Acknowledgement	V
Approval	VII
Declaration	VIII
Table of Contents	IX
List of Tables	XII
List of Figures	XIII
List of Abbreviations	XIV
 CHAPTER 1: INTRODUCTION	 1
1.1 Background of the Study	4
1.2 Problem Statement	4
1.3 Research Objectives	9
1.4 Research Questions	9
1.5 Significance of the Study	10
1.6 Scope & Limitation	11
1.7 Chapter Summary	11
 CHAPTER 2: MALAYSIAN CORPORATE BOND MARKET	 12
2.1 Introduction	12
2.2 Development of Bond Market in Malaysia	13
2.3 The Private Debt Securities (PDS) and Islamic Private Debt Securities (IPDS) Market	15
2.4 Characteristics of Private Debt Securities (PDS) and Islamic Private Debt Securities (IPDS)	17
2.5 Maturity of Bonds	19
2.6 Credit Rating Agencies	21
2.6.1 Background	21
2.6.2 Credit Rating Agencies in Malaysia	22
2.6.2.1 RAM Rating Services Berhad	22
2.6.2.2 RAM's Rating Process	23

2.6.2.3	Malaysian Rating Corporation Berhad	26
2.6.2.4	MARC's Rating Process	27
2.7	Categories of Rating	31
2.8	Types of Ratings Actions	34
2.9	Chapter Summary	36
CHAPTER 3: LITERATURE REVIEW AND THEORETICAL FRAMEWORK		38
3.1	Introduction	38
3.2	Theoretical Perspectives on the Value of Credit Ratings	38
3.3	The Empirical Findings on the Impact of Credit Ratings Changes on Stock Returns	41
3.3.1	U.S. Studies	41
3.3.2	Non-U.S Studies	49
3.4	Theoretical Framework	55
3.5	Chapter Summary	57
CHAPTER 4: DATA AND METHODOLOGY		58
4.1	Introduction	58
4.2	Data	58
4.3	Methodology	60
4.3.1	The Standard Event Study of Stock Returns	60
4.3.2	Measurement of Abnormal returns	63
4.3.3	Measurement of Cumulative Mean Abnormal Returns	65
4.3.4	Beta Refinement	66
4.4	Multivariate Regression	68
4.5	Hypotheses	70
4.6	Chapter Summary	74
CHAPTER 5: EMPIRICAL RESULTS		75
5.1	Introduction	75
5.2	Private Debt Securities	75
5.3	Islamic Private Debt Securities	79
5.4	Private Debt Securities as a Whole	82

5.5	The Impact of Changes in Credit Rating with Associated Firm and Bond Specific Factors	86
5.5,1	Multivariate Regression Results of Firm Size, Leverage and Maturity of Rating Changes	87
5.6	Chapter Summary	90
CHAPTER 6: SUMMARY AND CONCLUSION		91
6.1	Conclusion	91
6.2	Future Research	94
REFERENCE		95
APPENDIX		100
APPENDIX A: OLS Regression		100
APPENDIX B: Multivariate Regression		111

LIST OF TABLES