UNIVERSITI PUTRA MALAYSIA

SWEETENED AND UNSWEETENED SEASONED EQUITY OFFERINGS AND THEIR IMPACT ON CREDITORS' WEALTH IN MALAYSIA AND AUSTRALIA

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By

SITI NURHIDAYAH MOHD ROSLEN

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Chairman : Associate Professor Cheng Fan Fah, PhD
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Previous research has addressed the question of whether sweetener in Seasoned Equity Offerings (SEO) will cause any shareholders' wealth changes but not on creditors' wealth. Prior studies have examined the bondholders' wealth reactions towards firms' equity offerings (IPO and SEO) by using tradable bonds data. Few, if none, have studied the wealth creations to creditors in companies with non-tradable debt. This study therefore has tried to fill in the literature gaps by examining the creditors' wealth effect in response to sweetened and unsweetened SEO in Malaysia and Australia by using probability of default model. In addition, this study also looks into the firm and offerings specific factors that will influence firms' decisions to issue sweetened and unsweetened SEO and identify if these factors are significant in determining the direction and magnitude of wealth reactions.

The first objective employs logit and probit regression model in analyzing the determinants of firms' choice to issue sweetened and unsweetened SEO. The findings conclude that in Malaysia, firms with high long term debt, overvalued stocks, and lower size of proceeds tend to issue sweetened SEO. In contrast, in Australia, firms with low long term debt, undervalued stocks, high managerial ownership, and high risk will have higher propensity to issue sweetened SEO.

The second objective is to examine the shareholders and creditors' wealth creations in sweetened and unsweetened SEO. It was discovered that in both countries, firms that issue unsweetened SEO will have more negative shareholders' wealth creations that in sweetened SEO. As for creditors wealth creations, both countries have shown a favourable wealth creations for creditors as firms approaching the announcement year. This second objective is then followed by the test on wealth transfer effect between shareholders and creditors surrounding the sweetened and unsweetened announcement period. In general, the study has found a moderate evidence of wealth transfer effect from unsweetened SEO samples in Malaysia.

The last objective is to investigate the determinants of shareholders and creditors' wealth creations in sweetened and unsweetened SEO. In Malaysia market, most of the changes in shareholders and creditors' wealth can be explained by the firm specific factors. While, in Australia market, the variations in wealth creations for both stakeholders groups were improved when the offer specific factors were added to the existing models.Overall, the evidence show that the shareholders and creditors' wealth creation in Malaysia and Australia are leading to almost the same conclusion. Additional equity offerings are generally perceived negatively by stock market, but at the same time, could benefit the creditors as a result of lower financial leverage.

Keywords: *shareholders' wealth, creditors' wealth, warrants, emerging market, developed market*

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

PENAWARAN EKUITI DAN WARAN DAN KESAN MEREKA KEPADA KEKAYAAN PEMEGANG SAHAM DAN PEMIUTANG DALAM PASARAN MALAYSIA DAN AUSTRALIA

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Penyelidikan dahulu telah mengemukakan persoalan mengenai sama ada pemangkin dalam Terbitan Sekunder akan menyebabkan perubahan kekayaan mana-mana pemegang saham tetapi bukan di kekayaan pemiutang. Kajian-kajian sebelumnya telah memeriksa kesan tawaran-tawaran ekuiti firma (Terbitan Pertama dan Terbitan Sekunder) terhadap reaksi kekayaan pemegang-pemegang bon dengan menggunakan data bon yang didagangkan di pasaran. Namun, masih belum ada kajian yang mengkaji penghasilan kekayaan kepada pemiutang dalam syarikat-syarikat dengan hutang tidak boleh didagangkan. Maka, kajian in cuba untuk mengisi jurang kesusasteraan dengan mengkaji kesan kekayaan pemiutang oleh sebab pemangkin terbitan di Malaysia dan Australia dengan menggunakan model *Probability of Default.* Selain dari itu, kajian ini juga meneliti faktor-faktor firma dan tawaran yang akan mempengaruhi keputusan firma melakukan penerbitan sekunder bersama-sama pemangkin dan mengenal pasti jika faktor-faktor ini penting dalam menentukan arah dan magnitud reaksi-reaksi kekayaan.

Objektif pertama dikaji menggunakan model regresi logit dan probit dalam menganalisis penentu pilihan firma dalam melakukan penerbitan sekunder bersama-sama pemangkin. Hasil kajian menunjukkan bahawa di Malaysia, firma dengan hutang jangka panjang tinggi, nilai saham yang tinggi , dan saiz penerbitan yang kecill cenderung untuk isu menerbitkan pemangkin. Sebaliknya, di Australia, firma dengan hutang jangka panjang rendah, saham-saham kurang bernilai, mempunyai pemilikan saham pengurusan yang tinggi , dan risiko tinggi akan mempunyai kecenderungan untuk menerbitkan pemangkin bersama-sama ekuiti sekunder.

Matlamat kedua kajian ini adalah untuk memeriksa pembentukan kekayaan bagi pemegang saham dan pemiutang.Hasil yang didapati menunjukkan dalam kedua-dua buah negara, firma yang menerbitkan ekuiti sekunder tanpa pemangkin akan mempunyai penciptaan kekayaan lebih rendah. Bagi pembentukan kekayaan pemiutang, kedua-dua buah negara telah menunjukkan unjuran pembentukan kekayaan yang baik untuk pemiutang apabila firma semakin mendekati tahun pernerbitan.Matlamat kedua ini kemudian diikuti oleh ujian kesan pemindahan kekayaan antara pemegang saham dan pemiutang.Secara umum, kajian telah menemui satu bukti kesan pemindahan kekayaan dari sampel data penerbitan ekuiti sekunder tanpa pemangkin di Malaysia.

Objektif terakhir adalah untuk menyiasat penentu pembentukan kekayaan pemegang saham dan pemiutang dalam penerbitan ekuiti sekunder.Dalam pasaran Malaysia, kebanyakan perubahan dalam kekayaan pemegang saham dan pemiutang boleh diterangkan oleh faktor khusus firma.Manakala, dalam pasaran Australia,pembentukan kekayaan untuk kedua-dua pemegang saham kumpulan dapat diterangkan oleh kedua-dua faktor firma dan faktor khusus tawaran. Secara keseluruhan, bukti kajian ini menunjukkan bahawatawaran ekuiti tambahan pada umumnya diterima secara negatif oleh pasaran saham, tetapi pada masa yang sama , boleh memanfaatkan pemiutang akibat tahap hutangfirma yang lebih rendah.

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I certify that a Thesis Examination Committee has met on 13 October 2017 to conduct the final examination of Siti Nurhidayah Mohd Roslen on her thesis entitled "Sweetened and Unsweetened Seasoned Equity Offerings and Their Impact on Creditors' Wealth in Malaysia and Australia" in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Degree of Doctor of Philosophy.

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CHAPTER 1

INTRODUCTION

1.1 Research Background

Shareholders' wealth creation is important goal for public listed corporations. In order to attract investors to subscribe to the stocks offering, it is undeniably vital for the corporation to demonstrate a higher wealth creation. In recent years, studies on shareholders wealth creation have been the focus of a number of empirical researches especially in developed capital markets. Most of the evidence gathered from these studies has suggested that shareholders' wealth would be created when the corporate decisions were directed towards the financial and non-financial well being of the corporation. Latest research have shown that events which are directly related to financial well being of a corporation will leads to positive shareholders' value creation which include mergers(Kiesel, et al., 2017), relocation of business operations(Brandon-Jones et al., 2017), corporate life cycles(Chuang, 2017), and private transactions(Boubaker, Cellier, & Rouatbi, 2014). In addition, the non-financial events but still relevant to the financial well being of the shareholders were also found to be significant in determining the shareholders' wealth creations which covers the issue of carbon emission in production management (Wang & Choi, 2015; Zhang, Lai, Wang, & Wang, 2017), the quality of financial advisor for the corporation (Chuang, 2014), shareholders' activism (Jory, Ngo, & Susnjara, 2017; Othman & Borges, 2015; Uche, Adegbite, & Jones, 2016), and corporate social responsibilities activities involvements (El & Karoui, 2017; Kecskés, Mansi, & Nguyen, 2017; Yang & Baasandorj, 2017). Based on all these findings, it can be said that, maximizing shareholders' wealth is one of the complicated tasks that need to be managed by the management team. It is not merely about tracking the performance of firms' products and marketing strategies alone. Management teams have to look at the implications of corporate decisions on the present value of the firm which in turn will maximize the shareholders' wealth. But, the question to be answered here is, will the decisions made by the corporations enrich the shareholders at the expense of the others? This research will therefore tries to answer this question by studying one of the context in corporate decision making which is financing decision.

At time where bond financing have been rapidly developed and used by many corporations in Asia market, it cannot be denied that creditors' wealth has now become one of the important issues that need to be taken care off. The needs for external financing may be justified by various development activities as well as capital structure restructuring program. The importance of corporate financing decision to wealth and firm value has been initiated by Modigliani and Miller propositions as early as year 1958. According to Modigliani & Miller (1958) in their Capital Structure Irrelevance Theorem, for a given production and investment decision, a firm's value is not dependent on its financing decision. However, this idea is only valid under the assumption of perfect and frictionless market. In a real world setting, it is acknowledgeable that firms' financial decisions will result in changes in financial claim structure which imply different costs to be borne by the issuers. Some financing decisions for the benefit of one group of investor may be detrimental to the interest of another.

In this study, greater focus will be given to creditors' wealth effect in one of emerging Asian countries (Malaysia) in comparison to another developed Asian country (Australia). Debt capital market in Asian region has been experiencing a rapid growth ever since the financial crisis hit the Asian region in year 1997. Beginning year 2000, the Asian Bond Market has shown rising interests of the creditors group based on the increasing size of local currency bond market in Figure 1-1.

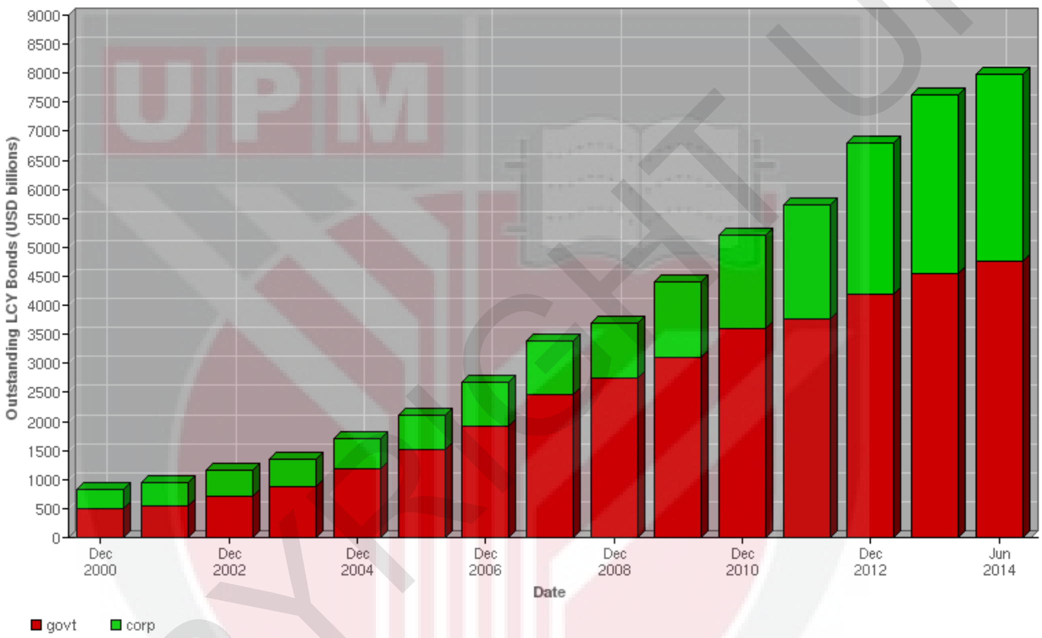

Figure 1.1 : Figure Historical Growth of Asian Local Currency Bonds

As of June 2014, the local currency bond market in East Asia has continued to expand to US $8.2 trillion in the third quarter of 2014 as compared to only US$ 589 billion in first quarter of year 2010. It is important to keep in mind that creditor and bondholders are the primary claimers of firms' earnings. Therefore, based on the recorded figures on the size of local currency bond is East Asia, it can be said that the creditors' interest and wealth should be given greater attention as they are now contributing to more than 50% of capital on average, to the countries' overall capital structure (see Figure 1-2).

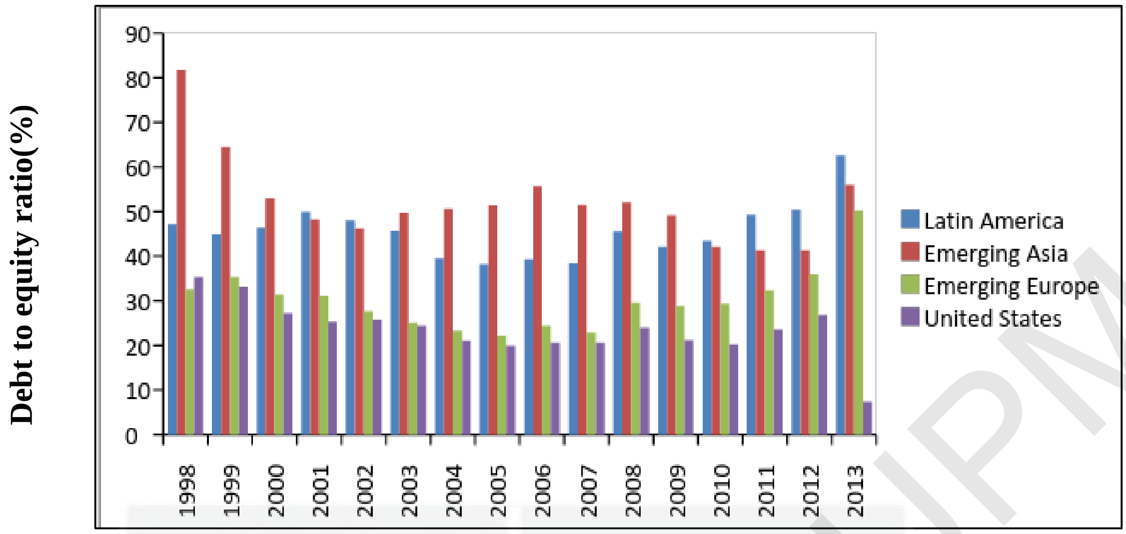

Figure 1.2 : World's Debt to Equity Ratio[1]

The increasing debt capital raised has indirectly reflects the importance of external financing, especially to countries with emerging economies. Malaysia, for instance, is currently at a phase of strengthening its competitiveness and efficiency in financial sector. Malaysia also works on strengthening its potential role in realizing its vision towards becoming a high value-added and high-economy country by year 2020. Bank Negara Malaysia (BNM) in its Financial Sector Blueprint for year 2011 until year 2020 has stated that, in order to realize the vision, it is imperative for the country to have effective and efficient financial intermediaries that can attract and channel lots of savings into potential investments in local and foreign markets. One of the important aspects that need to be seriously taken into consideration by these financial intermediaries is the availability of different range of financial instruments. With wider range of financial instruments, financial institutions can meet the demands by larger groups of business and individuals who are in search for profit and risk sharing investment and financing facilities.

The fact that forms of financing is important in facilitating different stage of firms' growth and innovations was also highlighted in the United Nation Economic Commission for Europe (UNECE) in their Policy Options and Instruments for Financing Innovation based on the result of Financing of Innovative Survey, in year 2000. It was found that at the expansion stage, financing channel such as debts, bridge loans, as well as public stock markets play the most important role in providing cash flows to businesses as shown in Figure 1-3.

[1] Source: IMF, Corporate Vulnerability Utility, April 2014; available from: http://www.imf.org/external/pubs/ft/reo/2014/apd/eng/areo0414.htm

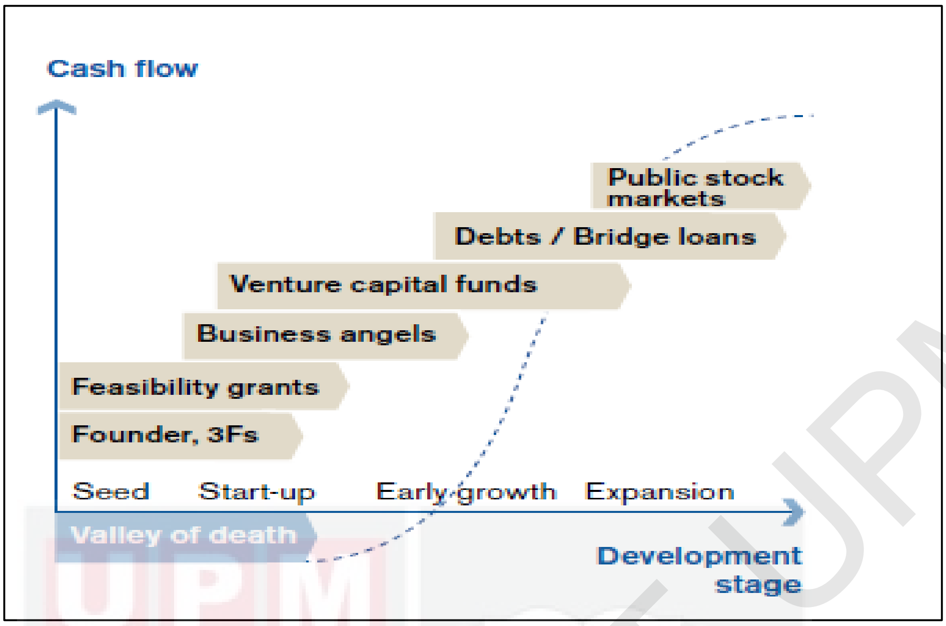

Figure 1.3 : Financing Sources and Development Stages [2]

As the importance of these financing sources varies across different stage of development, researcher expects that the market reactions towards corporate financing decision to be more critical in emerging countries than in developed countries. The increasing importance of debt financing is not implying that one should undermine the significance of equity financing in creating firm value.

Prior to Asian bond market emergence, the equity market has always been an alternative source of financing to business firms after bank loans. Equity funding can still be perceived as important source of funding, especially during post crisis period (as presented by the debt-to-equity ratio in Figure 1-2). Companies continuously need to balance their debt to equity ratio in order to avoid excessive financial risk problem. Equity financing will still be regarded as one of the most popular and profitable sources of investing for investors due to several factors which include[3]: (1) it allows for immediate buy and selling at any time with a very low transaction cost, (2) it gives the freedom to investors to manage their portfolio from other places, (3) ease of investment monitoring with the built up automated trading system, (4) allows the investors to maximize returns by diversifying risks into different stocks, (5) a predictable form of investment, (6) putting the investor in control and free from fund management fees, and last but not least (7) considerable tax advantage.

[2] Source: Policy Options and Instruments for Financing Innovation, United Nation Economic Commission for Europe (2000)

[3] http://www.bursamalaysia.com

As stated previously, rapid changes in market's risk and return preferences requires firms to be more creative in attracting investors to their issuance. Nowadays, corporate financing instruments are not only limited to equity, straight debt and bonds but also to a mix of equity and debt instruments as a package (quasi equity). These options are needed in order to cater greater needs for market demands for innovative financing and investments products for making profit and hedging risk. These financial instruments may also include hybrid securities such as convertible preferred shares, common shares attached with warrants, and convertible bonds.

The additional element attached to the original security is known as "sweetener". According to Ross (2013), sweeteners may be attached to the offerings in order to attract investors' attention to subscribe to the firms' debt and equity offerings. However, with the inclusion of sweetener element into the existing issuance, the interest of shareholders and creditors are now interchangeable as all these financial instruments enable the investors to either exercise the rights they possess with the warrants and options features, or participates in the issuers' stock price appreciation through the conversion option. The exchangeable of interest by these investors make the role of financial managers to become more complex and challenging. Not only these decisions will results in greater complexities in making financial decisions, but it also lead to changes in firms' cost of capital.

Theoretically, firms' financing decision is directly related with firms' cost of capital. By having different mixture of debt and equity financing, firm value will change which will then lead to changes in shareholders wealth. It is important to take note that, shareholders' return will not be realized if the creditors' obligatory payments are not satisfied. If the firm fails to meet their promise to repay back the outstanding loans to their creditors, the firm's expected cost of borrowing may also rise. Rising cost of borrowing is also equivalent to rising cost of debt, which in turn may increase the firm's overall cost of capital.

It is very important for firms to understand and be aware of what sort of factors that may increase their cost of capital. These factors include financial factors such as firm size, growth opportunities, profitability, financial leverage outstanding, tangibility of assets, firm's liquidity, and asset turnover (Serghiescu & Văidean, 2014) and non-financial factors such as customer satisfaction, brand value, and corporate reputation (Himme & Fischer, 2014). All of these factors may or may not be disclosed by firms depending on the level of requirement sets by the respective authorities. Nevertheless, assuming all firms are required to disclose all these information, the extent to which all corporate disclosures on financial and non-financial metrics could influence investors' investment decision will still depend on the level of trust in a country (Pevzner, Xie, & Xin, 2013). Market with high financial transparency will leads to lower cost of capital (Tran, 2014). This is because, in a real world where information asymmetry exist, investors are making decision based on the information they received and estimate the level of return they required which in turn will denotes firms' cost of raising capital (He, Lepone, & Leung, 2013).

The level of information asymmetry also depends on firm's future financial structure such as the level of financial leverage (Andres, Cumming, Karabiber, & Schweizer, 2014). According to Andres et al.(2014), when the firm is expecting to have higher leverage in the future, the level of information asymmetry index will be lower. This may be due to more disclosure needed to inform about the current financial standing of the firm to the creditors when the level of outstanding debt is higher. The financial disclosures in the bond covenants were viewed by investors as important instruments in mitigating agency problems (Reisel, 2014). The inclusion of warrants into firms securities offerings may also be taken as a signal of firm quality, free cash flow level, as a well as potential profit. If the inclusion of the warrant signals favourable financial outlook of the issuing companies, shareholders and creditors' wealth creations may be apparent in sweetened SEO relative to unsweetened SEO. However, if the inclusion of warrant is perceived as a complication to the issuance, shareholders may respond negatively to the sweetened SEO announcement, while creditors' wealth may (may not) be adversely affected.

By taking into account the importance of corporate disclosures to the company's cost of capital, this research will analyze the implications of sweetened SEO announcements on shareholders and creditors' wealth creations using samples of firms from Malaysia and Australia. It is because, different type of market will leads to different level of cost of capital (Arouri, Rault, Sova, Sova, & Teulon, 2013). Thus, different effects on shareholders and creditors' wealth creations are expected from the analysis conducted on these two markets.

According to Hasan, Hossain, & Habib (2015), the cost of equity for firms at introduction and declining stages will be higher than firms at growth and maturity stages. But, with an inclusion of warrant to SEO, it is expected that some firms will be able to have lower cost of capital (Byoun & Moore, 2003) which may be advantageous for firms in emerging market. Previous research on sweetened SEO however, did not cover on the studying the difference in firms practice in including sweetener or not between emerging and developed market. Therefore, this study will fill in the gap by providing evidence to show the extent to which sweetener are used in SEO in emerging and developed market and find out if the inclusion will leads to lower risk to shareholders and creditors, which will be represented by the share price movement and changes in computed probability of default. Higher share price indicates better wealth outlook to shareholders and thus lower risk. On the other hand, an increase in probability of default indicates higher credit risk to creditors, and thus higher cost of debt for the issuers.

1.2 Past Research Conducted on Public Listed Companies in Malaysia

Previous literatures on the equity offerings surrounding publicly listed firms in Malaysia have been covering various areas which include shareholders' wealth effect, design of equity offerings, factors that determine the issuance decisions, as well as issuance motives. Empirical studies using samples in Malaysia mainly focus on examining three key areas which are underpricing of equity issues, long run performance of IPOs and SEOs, and the impact of earnings management towards the performance of the equity offerings.

Recent studies on the underpricing of equity issues in Malaysia highlight that firms may use underpriced equity issues in order to increase the liquidity in stocks trading especially in secondary market(au Abdullah & Mohd, 2004). Highly liquid shares will help in terms of survivability in the secondary market, and thus, in SEO (Sapian, Rahim, & Yong, 2013). The variability of return in firms' IPO were also found to be dependent on the initial returns of the offering itself. For example, Ahmad-Zaluki, Campbell, & Goodacre (2007) discovered that IPOs with low initial returns will provide high raw returns in the long run.

Besides underpricing and initial return factors, another element that was brought forward by past researchers in determining the performance of the equity offerings includes the underwriter element. The context of research covers several areas such as the portion or offers being underwritten as well as the reputation of the underwriter to the offers(Paudyal, Saadouni, & Briston, 1998).

However, in the capital market with information asymmetry, one of the areas that always being discussed and researched by previous researchers include the disclosure factors in the prospectus (Santhapparaj & Murugesu, 2010) and annual reports, as well as the earnings management (Ahmad-Zaluki et al., 2011; Ahmad-Zaluki, 2009; Abdul Rahman & Razazila Wan Abdullah, 2005; Jelic et al., 2001). Firms' level of disclosure were said to have some impact to its growth and performance for all sectors in addition to firms' accounting related performance such as return on asset, return on equity, earnings per share, financial leverage (Salim & Yadav, 2012), and economic factors(Ameer, 2012; Salamudin, Ariff, & Md Nassir, 1999). Looking at various issues being discussed in relation to equity offerings in Malaysia, this study will therefore concentrate on wealth impact of equity financing announcements in Malaysia by focusing on SEO context with the inclusion of warrants in addition to firms and offers' specific factors.

1.3 Problem Statement

Even though the market risk was found to be more significant as a basis in making investment decision, there are also some studies that have proven the effect of sweetener in determining the stock price variability. For instance, in a research on the impact of issuing warrant and debt on the stocks' price reactions, Xiao, Zhang, Yao, & Wang (2013) have found that the issuance of warrants in conjunction with firms' bond will results in different price reactions before and after the warrants are issued. One of the possible reasonings behind this result is due to the dilutive effect of the warrants once it is exercised. Higher dilutive effect after the exercise warrants will cause the share price reactions to be more negative as compared to those transactions that results in lower number of shares outstanding (Henderson & Zhao, 2014). Some of the past studies also have shown a positive effects to the investors and firms in issuance with warrants attached (Gajewski, Ginglinger, & Lasfer, 2007; Byoun, 2004; Chemmanur & Fulghieri, 1997; Schultz, 1993). Due to this mix results, this study is going to discover if the difference in wealth effect to shareholders and creditors could be explained by the difference in market growth stage (in this case emerging versus developed markets).

Studies on the impact of warrants as sweetener in seasoned equity offerings have been conducted mainly using developed capital market samples such as United States (Soku Byoun & Moore, 2003; Dunbar, 1995), Australia (Balachandran & Theobald, 2017; Suchard, 2005), and France (Chollet & Ginglinger, 2001; Gajewski et al., 2007). Specifically, one study has been conducted on emerging market covering the same area which is by Adaoglu (2006) who studied on the wealth impact of sweetener in seasoned equity offerings by using Turkey samples with the objective to examine if the difference in institutional characteristics of emerging capital market will results in difference wealth reactions than in developed capital market. Based on the existing evidence, generally the stock price reactions were found to negative in response to seasoned equity offerings in both emerging and developed countries. However, those seasoned equity offerings issued together with sweetener have shown less negative share price reactions than unsweetened offerings. In the case of Turkey, there is a positive share price reactions from the day of the announcement until two days after the announcement took place. Various reasons could explain the variability of the findings. One of it could be because the way researchers were defining the "sweetener" element in their studies. For example,Adaoglu (2006) was using bonus issue together with rights as the sweetened seasoned equity offerings while the other studies on developed countries were using warrants as the sweetener. The second reasons could be because of the difference in environmental setting in developed and emerging capital markets with different growth characteristics(Cos, Seven, & Ertu, 2017)that caused the wealth reactions to be different although all of the evidence were leading to the same conclusion about the benefit of adding sweetener to seasoned equity offerings. Taking into account all these possibilities, this study will therefore helps to shed lights to clarify these findings by using Malaysia as a sample of the studies that represents emerging capital market which is also using warrants as sweetener in seasoned equity offerings.

The role of market growth stage in determining the effect of warrants has been highlighted in various studies. Those studies may not directly highlight about this in the context of seasoned equity offerings. The role of warrants as sweetener may also be found in the issuance of convertible debt as in Mayers (1998). Even though there were wide coverage of research being conducted on the benefit of debt in corporate financing purpose in balancing debt and equity ratio of the company, however, we cannot deny the fact that equity financing is still preferred by companies especially when it comes to financing valuable investment opportunities. Lewis et al. (2003) stated that firms with high growth opportunities should use equity finance while firms with poor investment opportunities should grow more slowly with greater reliance on debt financing, especially risky debt (Myers, 1977). Nevertheless, the investment ventured into should be in less certainty about asset in place and promising return in order to lower down adverse selection cost that could be resulted from agency cost (Jensen & Meckling, 1976)and adverse selection problem (Choe et al., 1993; and S. C. Myers & Majluf, 1984).

In essence, in a world where capital market is imperfect surrounded with information asymmetry, corporate financing decisions will imply different signals which will consequently leads to different firm value. Models of corporate financing decisions indicates that firm value will change due to three factors which are leverage decisions (including the use of warrants in financing)(Lang, Ofekb, & Stulz, 1995), investment opportunities, and growth rates. Firm growth will not be at disadvantage, as long as the financial leverage used are not leading to high financial distress costs. In fact, Lewis et al. (2003) contended that financing firm's investment with financial leverage such as convertible debt may be the optimal financing decisions for firms with many and few growth opportunities. In convertible debt arrangement, not only bondholders have a choice to reap the benefit of high equity returns upon converting the bonds they hold into shares when the market is bullish, but shareholders' interest may also be taken care off. In the case where the warrants attached (i.e. the convertible bond feature) is not being exercised, then higher incentives will be experienced by the shareholders. This is because, the outsiders (i.e. the convertible debt holders) put their fractions of the outside equity to insiders in exchange for the exercise price (Green, 1984). The investors have the opportunities to gain from the share price appreciations as a result from warrants issuance due to increase in market liquidity after the exercise of the warrants (Brockman & Olsen, 2013). As a whole, the introduction of call warrants in securities offerings were found to results in positive price effect on the underlying stocks in both initial public offerings[4] or in seasoned equity offerings.

Furthermore, as an addition to past findings, this study is going to include creditors' wealth as one of the dependent variables. There have been a lot of studies that examine on the wealth impact of plain SEO and sweetened SEO on shareholders' wealth. Researcher is only aware of three published study that has examined SEO impact on bondholders' wealth which are by Elliot, Prevost, & Rao (2009), Eberhart & Siddique (2002), and Kalay & Shimrat (1987). Kalay & Shimrat (1987) examine the bond price reactions to a sample of SEO announcements from year 1970-1982 and they have found negative bond reactions but insignificant results on for bond price reactions on the day of the issuance. Eberhart & Siddique (2002) on the other hand have discovered the evidence of wealth transfer effect that happens from shareholders to bondholders as a result of lower risk of default. This evidence is particularly significant for firms that use the proceeds of SEO for retirement of outstanding debt.

In Elliot, Prevost, & Rao (2009), they have extended the research on the same issue by covering year 1990 to year 2002 with an inclusion of firm and issue characteristics as the elements that may affect the magnitude and direction of the bond price reactions. They have found that bondholders experience a significant positive return on the announcement of an SEO with a greater magnitude given by bonds with lower rating. This finding is in line with what has been discovered in Eberhart & Siddique (2002). In short, two of these findings have suggested that

[4]See Khurshed et al. (2016), Mazouz et al. (2008) and Dunbar (1995) for evidence on shareholders' wealth effects of initial public offerings with warrants and without warrants.

additional equity offerings will results in positive bondholders' wealth reactions while detrimental to shareholders' wealth.

However, based on researcher's readings, until this date, no studies have been conducted on the wealth impact of sweetened SEO towards bondholders' wealth. This may happen due to limited number of sweetened SEO issuers that issue bond concurrently since most of the firms that issue sweetened SEO are firms which are small and younger (Byoun, 2003). The unavailability of daily bond prices, yield, or even spread may cause difficulty in using the methodology employed by earlier researchers who has conducted studies on bondholders' wealth reactions in response to various corporate decisions or events. This issue however, has created another opportunities for this study to look into how to measure the wealth of creditors for non-tradable debts apart from gathering the private and confidential credit information from various financial institutions which may seem almost impossible for public to access. Therefore, due to lack of research findings concentrated on the creditors' wealth effect as a result of sweetened SEO, the results generated from this research is expected to add value to the existing literatures in terms of explaining the wealth impact of corporate financing decision from the perspective of non-tradable debts.

The long term debt employed by most of the issuing firms may be limited to term loans which are not daily traded as in bond. Term loan is very much secured debt investment as the loan is amortized which means the borrower is expected to pay principal and interest along with each instalment. These amounts will be collected with the help of the hiring bank which makes the default risk to be much lower as compared to bonds. Even though the term loan investors (i.e. lenders) are very much protected by the fact that their obligatory claims are continuously monitored by the respective banks, however, the investigation of sweetened SEO announcements on creditors' wealth is still important for several reasons.

First, most of the firms issuing sweetened SEO are new and young in the industry which also means they need lots of financial supports via various financing means subsequent to the initial public offering stage. Without careful understanding on exact meaning of signal mechanism used by these companies with the use of sweetened offerings, for instance, firms may be dragged into more serious financial problems which may cause the firms to be delisted and harm the creditors (especially junior debt) as well as the shareholders. By studying the movement of share price returns and the changes in probability of default, researcher can examine the difference between the riskiness of firms' issuing sweetened SEO as compared to unsweetened issuers.

Second, the investigation of wealth impact of sweetened SEO announcements on other debt securities besides highly marketable bonds may provide a complete picture of the wealth impact of such events that may extend the meaning of wealth transfer effect between shareholders and bondholders covering greater scope of long term debt (which include marketable and non-marketable debt instruments). In addition, the findings generated from this study are expected to provide clearer picture on the kinds of practical complexities that are currently faced by the firms, especially when it comes to wealth implications.

Third, much prior research fails to identify the wealth transfer effect because they do not control for the events' impacts on firms credit risk (Imbierowicz & Wahrenburg, 2013). For instance, will there be a significant difference in creditors' wealth if the use of proceeds of the offerings is meant for debt repayment purpose rather than other corporate purpose such as for working capital, securities acquisition, and investment. In catering this issue, this study will examine the impact of creditors' wealth by including the use of proceeds variable as one of the regressors (dummy of 1 if the proceeds are used for debt repayment) in testing objective 1 and objective 2 of this study. It is hypothesized that, firms that use the SEO proceeds in paying off debt will have lower risk, and thus lower probability of default than those firms that use the proceeds for other purpose. This test will be conducted separately for sweetened and unsweetened SEO.

Last but not least, there were also mixed and insufficient results to make a solid conclusion on how SEO affect creditors' wealth in the past literatures. Therefore, in this research, researcher is going to provide evidence that can shed some lights towards identifying the most appropriate hypothesis among the competing ones (such as cash flow signalling model and adverse selection effects) that can explain why the new shares issuance is always associated to negative share price reactions.

1.4 Overview of Malaysia Capital Market

The Malaysia stock market begins with the Malayan Stock Exchange with a public trading of shares initiated on 9th of May 1960. After the secession of Singapore from Malaysia, the Kuala Lumpur Stock Exchange was formed in year 1994. The market benchmark which is KLSE Composite Index was launch in year 1986, followed by the introduction of Second Board of KLSE for high potential smaller companies to be listed. Since then, Malaysia has been enjoying a steady economic growth until the onset of Asian Financial Crisis in year 1997.

The Asian Financial Crisis that originated from Thailand has given Malaysia with an important learning point about the need for having sufficient and matching capital raising sources. The financial crisis showed that Malaysia firms have been using high financial leverage (especially bank loans), insufficient market capitalization, poor risk management capabilities and high default risk. Heavy reliance on short term financing sources (bank loans) to support long term capital intensive project has caused Malaysia to suffer in the financial turmoil at that time. The Malaysia's banking institutions were in serious need for liquidity which has caused Malaysia Government to raised RM3 billion worth of Malaysia Government Securities in year

1997 in order to support for these needs[5].

Corresponding to the economic recovery period, there has been an increase in debt and equity issuance size in Malaysia. Malaysia equity market can be considered as a well established market due to its high growth within 10 years period and has been recorded as a country that has raised the highest amount of funds from secondary market in ASEAN which is approximately USD4, 352 billion as at 31st December 2015, followed by Philippines, Vietnam, Indonesia, Thailand and Singapore[6]. Almost all the activities in Malaysia stock market were organized by Bursa Malaysia's trading platform together with a number of indices being developed and used (especially FTSE Bursa Malaysia KLCI) as portfolio performance benchmark.

Similarly, Malaysia debt market has also experience a rapid growth in terms of size which is approximately RM 19,936 million in year 2000 to RM28, 080 million in year 2016[7]. These figures include both Corporate Bonds and Sukuk. The Malaysia debt market has been placed as the third largest bond market (per GDP) and the world's largest global sukuk issuers. The private debt securities in Malaysia were dominated by the issuance of corporate bonds by private sectors and the government.

The Malaysia capital market has grown significantly from a total size of RM 39,608 million in year 2000 to RM74, 389 million[8] with over 60% of the funds raised were attributed to the stock market as shown in Table 1-1. The data presented in Table 1-1 shows that, the biggest contribution in seasoned equity offerings (SEO) in Malaysia were coming from rights issue.

[5]Bank Negara Malaysia Annual Report 1997
[6]Capital Markets Malaysia, 2015. pp. 7)
[7] Statistics on Funds Raised in Capital Market (by Private Sector), Bank Negara Malaysia, 2016
[8] Statistics on Funds Raised in Capital Market (by Public and Private Sector), Bank Negara Malaysia, 2016

Table 1.1 : Funds Raised by Private and Public Sector in Malaysia from Year 2000 to 2016

Year	BY PUBLIC SECTOR	BY PRIVATE SECTOR							Net Funds Raised in the Capital Market
	Net Funds Raised by the Public Sector	Initial Public Offers	Rights Issues	Private Placement / Restricted Offer-for-Sale	Special Issues, Preferred Shares and Warrants	New Issues of Shares/ Warrants	Net Issues of Corporate Bond and/or Sukuk	Net Funds Raised by the Private Sector	
2000	13,659	992	3,898	912	210	6,013	19,936	25,949	39,608
2001	15,214	1,678	1,892	1,681	873	6,124	17,577	23,701	38,915
2002	8,568	6,835	3,271	2,402	783	13,291	2,058	15,349	23,917
2003	23,851	3,952	2,283	707	829	7,772	18,731	26,502	50,353
2004	26,671	4,017	1,494	838	126	6,475	9,526	16,001	42,672
2005	15,825	5,305	968	-	42	6,315	19,579	25,894	41,719
2006	20,919	1,519	367	-	29	1,916	7,368	9,284	30,203
2007	25,178	2,486	4,341	186	113	7,126	13,174	20,300	45,478
2008	36,188	1,273	3,659	247	298	5,477	15,637	21,114	57,302
2009	57,766	12,186	13,714	144	0	26,045	26,536	52,581	110,347
2010	37,014	19,800	12,250	-	89	32,139	18,358	50,497	87,511
2011	45,243	7,378	5,218	-	25	12,621	24,508	37,130	82,372
2012	46,687	22,950	4,258	175	21	27,405	63,384	90,788	137,475
2013	43,877	8,211	7,803	-	13	16,027	22,240	38,267	82,144
2014	49,894	5,904	13,253	-	6	19,163	31,033	50,196	100,090
2015	46,819	4,350	13,552	-	17	17,919	44,875	62,794	109,613
2016	39,219	646	6,343	-	100	7,090	28,080	35,169	74,389

*Note: Capital raised is all in RM millions

1.5 Overview of Australia Capital Market

In Australia, corporations raise funds from various sources which include internal as well as external financing sources. The internal financing sources cover cash profits received from operations while external financing include bank loans, bonds, commercial papers, and equity issuance. In general, the size of external funding has been increasing in Australia. Nevertheless, the portion of debt capital has been declining especially during the Global Financial Crisis period in year 2007 to 2008 due to the widened market credit spread at that time. In addition, greater emphasize were given to debt repayment during that period besides on investment activities, acquisitions and dividend payments.

During early year 2000, many corporations relied heavily on external debt funding especially by corporations in real estate and infrastructure sectors. As the asset value is rising, the ability for real estate and infrastructure corporations were also increased since the assets owned could be used as collateral for the borrowing. From year 2000 to June 2007, the size of financial leverage in Australia has been increasing by 55%

(as measured by total debt to equity ratio)[9].

During the financial crisis period, the mix of corporate capital structure has been significantly changed. As the interest margins widened, it has becoming more difficult for corporations to raise funds externally using debt sources. Furthermore, for almost all countries around the globe, debt financing has becoming more expensive and detrimental to their financial health. As a result, for corporations in Australia, the best option is to utilize their internal and equity funding.

Most companies in Australia tend to issue Initial Public Offerings (IPO) at the early years of business establishment due to limited access to venture capital funding in Australia. In addition, companies also use private equity when it comes to financing takeover and acquisition activities. The size of IPO depends on the market value of the stock at the time of the issue. The size of new listings will be high if the private companies believe that they were able to reap the most benefit from favourable market conditions by being public.

In terms of regulatory requirements, the Australian Securities Exchange does not require issuers to have pro-rata issues. All issuers can issue up to 15% of issued capital on a non-pro-rata basis in 12 month period. The same rule applies for non-renounceable rights issue. Furthermore, there is no restrictions imposed on the level of discounts that can be offered on the rights issues. Nevertheless, for a non-renounceable rights issue, there is a limit on how much can be raised[10].

As in seasoned equity offerings, around 95% of all capital raised in Australia stock market, rights issue and dividend reinvestment plan are the significant options being used by public listed companies in raising capital. For smaller companies, two thirds of all capital raisings activities were dominated by rights issues. As shown in Table 1-2, in general, there arefour major types of seasoned equity offerings in Australia which are private placements, rights issues, share purchase plans, and dividend reinvestment plans. The other financing sources may includeBest Efforts Offerings, Private Equities, Block Trade, Accelerated Bookbuilding, and Venture Capital.

[9]Reserve Bank of Australia Bulletin 2009

[10]Australia Securities Exchange

Table 1.2 : Funds Raised by Private and Public Sector in Australia from Year 2006 to 2016[11]

Year	Initial Public Offers	Additional Share Offerings	Rights Issues	Dividend reinvestment plans	Private Placement	Others
2006	17,033	44,444	2,680	513	26,667	14,585
2007	19,897	62,528	9,980	1,980	37,517	13,051
2008	2,458	60,019	16,870	4,970	36,011	2,168
2009	7,509	98,629	30,630	752	644	66,603
2010	25,048	31,428	8,490	36	60	22,843
2011	14,674	33,101	12,210	601	302	19,988
2012	7,146	35,162	7,300	493	240	27,129
2013	24,036	28,489	6,920	60	543	20,966
2014	28,840	34,788	12,430	729	339	21,290
2015	33,436	56,636	20,900	157	94	35,485
2016	21,189	33,322	20,900	307	245	11,870

Note: Capital raised are all in $ millions

In studying the shareholders and creditors' wealth effect in both emerging and developed countries, several screening and literature reviews has been done in finalizing Malaysia and Australia as the samples to be studied. First of all, researcher has been looking at the level of development of bond market on emerging countries in order to highlight the significance of creditors' wealth towards companies' announcements and events. In addition, researcher also ensures that the type of seasoned equity offers used by potential sample countries are sweetened (rights with warrants) and unsweetened (plain rights) as defined in this study. Based on the data collected from Capital IQ database and cross checked via Datastream, in Malaysia, the warrants issuance are concentrated on young and small firms which normally used long term-loans (10-15 years maturity) as their debt financing sources. Even though there is high amount of bonds being issued by Malaysia, but these numbers are concentrated on government bonds and corporate bonds for big and well established companies. In Singapore, the number of samples of sweetened SEO is not sufficient causing it to be not suitable to be selected as the sample of the study. In addition, as in Malaysia, high number corporate bond issuers are concentrated on several big players of the industry. As of Korea, the number of sweetened offerings are high, but concentrated on corporate bonds rather than in SEO. Almost all rights issue offered are plain rights issue. Researcher able to identify only three announcements (2004-2014) that comprise of rights issue with warrants for Korean market. Therefore, to account for various distributions of data and for the purpose of generalization of findings, this study will focus on Malaysia since Malaysia has meet the criteria being stated above. Sweetened and Unsweetened rights offerings for the past 10 years to represent emerging economic region, and the comparison will be done against a country with advanced economy which is Australia. This is because, according to Australia Stock Exchange, the second most common methods of raising

[11] Australia Securities Exchange's Market Statistic cross checked with Bloomberg Database

equity financing in Australia is rights issues[12].This fact also supported by (Suchard, 2005)who studied on the impact of warrant SEO on bondholders' wealth that stated that rights issue is the most common method used to issue seasoned offerings in Australia. At the initial stage of the data search, researcher has been referring to various databases such as Capital IQ, Datastream, and Bloomberg which all defined Malaysia and Australia as Emerging and Developed countries, respectively. Thus, this will help in generalizing the findings obtained from this study in the scope of emerging and developed countries.

1.6 Research Question and Objectives

1.6.1 General Objectives

The general objective of this study is to assess the shareholders and creditors' wealth creations as a result of sweetened and unsweetened SEO in Malaysia and Australia. Specific Objectives

1.6.2 Specific Objectives

1) To analyze the determinants of firms issuing sweetened and unsweetened SEO in Malaysia and Australia.
2) To estimate the shareholders and creditors wealth creations towards sweetened and unsweetened SEO in Malaysia and Australia.
3) To discover the existence of wealth transfer effect between shareholders and creditors as a result of sweetened and unsweetened SEO in Malaysia and Australia.
4) To investigate factors that will significantly affect shareholders and creditors' wealth reactions towards sweetened and unsweetened SEO in Malaysia and Australia.

1.7 Research Questions

In achieving all these stated research objectives, several research questions have to be answered which include:

1) What are the underlying factors that influence firms' decisions to issue sweetened and unsweetened SEO?
2) Is there any difference in shareholders and creditors' wealth creations in sweetened and unsweetened SEO?
3) Is there any evidence of wealth transfer between shareholders to creditors in sweetened and unsweetened SEO?

[12]Capital Raising in Australia: Experience and Lessons from the Global Financial Crisis. *ASX Information Paper*, 2010

4) What are the factors that determine the shareholder and creditors' wealth creations in sweetened and unsweetened SEO?

1.8 Significance of Research

The main purpose of the research is to build better understanding on the wealth implications of corporate events to creditors. Most of previous studies have concentrated on shareholders' wealth effect based on the idea that this group is the owner group whose interest should primarily be taken care of by the management. However, one should not forget the significant role of bondholders in today's world especially when the world is moving towards employing more fixed income securities as the main source of financing. With greater level of debt employed by the firm, the level of control of bondholders' and creditors to companies' operational decisions will be higher and thus, will directly affecting firms' future wealth and growth.

Since the bondholders and creditors are the primary claimer of companies' cash flows, therefore, by identifying events that will secure primary claimers' wealth will also indicate that firms are trying to move towards securing future's shareholders' wealth through better sources of risk identification and management. To capture these needs, this research will be directed towards identifying the implications of sweetened SEO event on firms' credit risk which is the direct indicator of bondholders' returns. Understanding on corporate financial decision may also be enhanced to the extent at which this research better illustrates the additional factors and events that may influence firms' optimal capital structure decisions.

Besides that, there have been numerous researches being conducted on shareholders' wealth reactions towards plain SEO covering developed and developing countries like US (Autore, Bray, & Peterson, 2009), Europe (Adaoglu, 2006), as well as Asia developed and developing countries like Singapore (Tan,2002), Korea (Dhatt et al.,1996), Malaysia (Salamudin, 1999), China (Wang et al., 2006), Japan (Caton et al., 2011; Cai and Loughran, 1998; and Ferris et al.,1997) , and New Zealand (Marsden, 2000). However, there is lack of research covering on the impact of sweetened SEO issue on shareholders' wealth other except for emerging European market (Adaoglu, 2006a), US market (Soku Byoun & Moore, 2003), China (Dang & Yang, 2013), and France (Gajewski, Ginglinger, & Lasfer, 2007). Therefore, the findings generated from this research is expected to add more evidence on emerging Asian capital pertaining sweetened SEO which will add value to the existing literatures which seems to be lacking.

1.9 Organization of Study

The first chapter discussed the research background together with the purposes of conducting this study. It includes the problem statement, research objectives, research questions, and significance of research. The next chapter will emphasize on the theoretical discussions that highlights the importance firm financing decision in creating firm value, the roles of warrants in wealth creations for both shareholders and creditors, as well as the relevant financial theories that can highlight on the shareholders' and creditors' wealth reactions towards additional equity offerings. Research methodology is presented in chapter 3 with great emphasize given on possible ways to measure creditors' wealth. Results and findings are presented in chapter 4 followed by the summary and conclusion draw from conducted this study in chapter 5.

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