

STOCK MARKET REACTION TOWARDS QUARTER RESULTS ANNOUNCEMENT: EMPIRICAL EVIDENCE FROM MALAYSIA

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Abstract - This research about stock market reaction towards quarter results announcement. The objective of the study is to investigate the effect of quarter results announcement on stock price movement. This paper used a panel data from the year 2012 to 2017 for growth and defensive industries. The data were analyzed using panel ordinary least square method (PLOS) techniques. As a result, the findings show that RE, NP, EPS, and NTA are significantly affect stock price for growth and defensive industries while that DIV is significant for growth industries and insignificantly for defensive industries. It is found that, quarter results announcement has mixed results on company share price in Malaysia market.

Index Terms - KLCI Index, Stock Market, Stock Price, Quarter Result Announcement

I. BACKGROUND OF STUDY

Earnings announcement defined as an official public declaration of financial performance or income statement of a company for an exact time period typically quarterly result. Listed companies legally required to announce their earnings every quarter based on the rule of different country stock exchange. Basically, investors would like to rely on the fundamental analysis to help them in making an investment decision. From the quarter result announcement, it may give additional information for investors to analyze the company's performance. There are several objectives of investor investing in stock market, some of them invest to receive additional income, some to gain control over a company, some to store and hedge their portfolio/asset value and some of them just to seek profit overtime. But the main investor objectives in investing in the stock market are to increase their wealth and to diversify their risk. These objectives can be achieved through collecting, processing and analyzing information regarding on the company stock and the stock market as suggested in several of previous study that information affects the stock price. There also a theory called Efficient Market Hypothesis which explains on how information and the level of information that affects the stock price (Fama, 1991). Thus, each investor required information on their preferred stocks to guide and to choose the best possible stock in order to achieve an efficient and less risk investment. Information has played as an important role in deciding an investment activity as it has the effects on return of a stock and also it is help to determine the price of stock in the market (Hamid Moridipour, 2013).

The information on a company stock that is needed is based on internal information or external information of that particular company. The internal information of a company can be derived from the company financial annual report whereby it is shown in income statement, cash flow and balance sheet.

Investors during investment in stocks should consider various factors, because they intend to convert their most cash assets to stocks. Investors also should consider which type of industries they should invest such as investing in defensive industries or growth industry. Both of the industries have different characteristic which help to meet investor objective as well as their risk appetite. The growth industry or also known as cyclical industry is the sector of the economy experiencing a higher-than-average growth rate. This industry provides higher Rate of Return (ROR) and tends to relatively volatile and risky stocks. The industry often associated with new or pioneer industries that did not exist in the past such as industrial sector or technological sector and their growth is related to consumer demand for the new products or services offered by the firms within the industry. Defensive industry or also known as non-cyclical industry is the sector of the economy experiencing a slow growth and normally underperforming the market. This industry provides low Rate of Return as well as lower risk as it remains relatively stable during both economic upturns and downturns. Defensive industry may lag behind during normal period but during periods of economic instability or turmoil, the demand for the goods and services provided by defensive companies tends to remain stable. The industry often associated with consumer sector or utilities sector.

As mentioned earlier, from quarter result announcement, it may give additional information for an investors to analyze the company's performance and they believed there are significant relationship between quarter result announcement and stock price. However, is it necessarily true that the quarter result announcement, may serves as an indicator of the overall performance of the company for that year. The real question here is, can investors rely on the quarter result announcement, in forecasting the company's stock price movement?

II. LITERATURE REVIEW

A. Stock Announcement

Efficient Market Hypothesis or also known as Random walk theory explain on how stock market price reacts toward certain level of information and expects the price of a stock to always fairly value with the past, present and expected information on companies, industries and even economy itself. The theory suggests that information play an important role in determining stock price. Therefore, investors will use such internal and external information of a stock in aiding them to decide what best stock to invest in (Fama, 1991). As a result, knowledge on financial variables and condition are studied by researchers and are important towards investor in aiding and determining their investment decision.

B. Stock Price

The dependent variable used in this study is the stock price (SP), defined as the market price at which an asset or service can be bought or sold. Economic theory contends that the market price converges at a point where the forces of supply and demand meet. Shocks to either the supply side and/or demand side can cause the market price for a good or service to be re-evaluated. If the demand side is surplus then, it causes the stock price to increase whereas if there is excess on the supply side is, the stock price will decline. An increase in stock price from its original value are desired by investor and called as capital gain which is one of the stock return. A stock price changes overtime according to the market force at that time. An increase in stock price usually indicates that investors are desire to own company equity. This happen due to several factor from economic variable to the financial variables of the company itself. Usually the impact of company financial variables effects the company stock prices the most rather than economy variables as economy variables have universal impact rather than impact that are specifically toward the company and its stakeholder.

Numerous past researcher has examined the determinant of stock return. They carried out research to determine whether the financial variables have positive of negative relationship with stock return. For instance, (Milad Emamgholipour, 2013) examine the effect of market ratio, corporate financial performance, earning per share and price to earnings ratio toward stock return is significant. Besides that, (S. Kheradyar, 2011) analyze the dividend, earnings yield and book to market ratio is proven to have a predictive power to predict the future stock return in Malaysia market as an important emerging market. The researchers (Al-Ajmi, 2008) have done on a survey on how individual investor, corporate investor, retail investor and financial institution including banks use corporate reports in their decision in buying, holding and selling stocks. They researchers found that income statement, cash flow and highlight of the balance sheet to be significant. They also founded that

in their second research result that total revenue, shareholders' equity, net profit, total expenses and dividend pays to be significant which shows that these information is important and widely used by many investors in investment decision.

C. Revenue

Total revenue is significant and is ranked no 1 as the most used financial statement in determining investment decision (Al- Ajmi, 2008). Another research (Narasimhan Jegadeesh, 2004) studied on the effects of revenue surprise toward the stock price. The research examines on how information conveyed by revenues, and investigates whether the market reacts efficiently to that information and founded that revenues and earnings surprises are positively correlated with stock price.

D. Market to Book Ratio

Market based ratio are widely used by investors in forecasting the real value of stocks by using such as earnings per share (EPS), price to earnings ratio (P/E), and market to book ratio (M/B) (E. F. Fama, 1988; J. Pontiff, 1998). Ratio such as market to book ratio is used to measure the actual value of a company by dividing the market price with the net tangible asset per share. By doing this, the ratio help investor to measure the company past and future performance as well as it current worth. Normally, if the real value of stock is greater than the market value of stock, investors will prefer to buy this stock as the stock is consider as under value or currently sell below it actual value. In this respect, market based ratios are important indicators for investment decisions. There are many studies done on how market to book ratio effects the stock price and the result varies among each research. Research done by (Emin Zeytinoğlu, 2012) founded that Market to Book ratio have a significant positive impact on stock price. Whereas, research (Milad Emamgholipour, 2013) founded that Market to Book ratio have significant negative impact on stock price. There is also research (Eugene F. Fama, 1992) believe that Market to Book ratio have different result due to market overreaction to the relative prospects of firm.

E. Net Profit, EPS, Dividend and Net Tangible Asset

Al-Ajmi (2008) studied how investor used corporate report and they have founded that net profit is ranked no 3 as the most used financial statement in determining investment decision. A part from that, there is no disagreement on the significant of profitability of a firms as a determinant of corporate dividend policy (Amidu, 2006; Baker 2015; Johannes, 2013). Since in the study (S. Kheradyar, 2011) found that earning yield, dividend yield and book to market ratio is significant related with stock price. Therefore, net profit has play as important roles in determining the stock price.

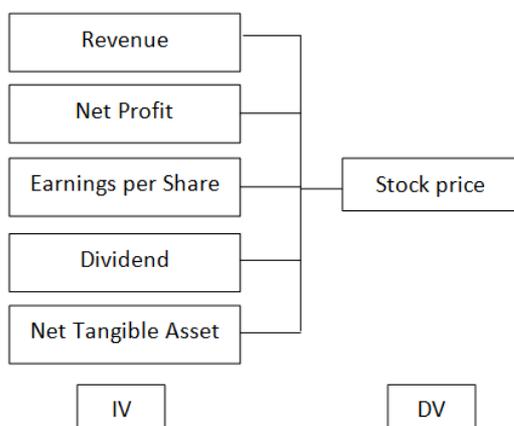
Milad Emamgholipour (2013) studied the effect of performance evaluation of market ratio on the stock return during the years 2006 to 2010. They used the

variables of market value to book value (M/B), earnings per share (EPS) and price to earnings ratio (P/E) as financial variables. The research finds that there is a significant and positive relationship between earnings per share (EPS) and stock price, but the relationship between the ratio of price to earnings (P/E) and market value to book value (M/B) with stock price is negative and significant. Another research (Seyed Heidar Mirfakhr- Al-Dini, 2011) on financial variables and stock price for the period of 1998 to 2007 where the also founded that there is a significant and positive relationship between earnings per share (EPS) and stock price.

S. Kheradyar (2011) founded that dividend yield is significantly affect stock prices. Moreover, an earlier study shows, dividend yield has positive relationship with a common stock in time-series & cross-section research. Research by (Eugene F. Fama, 1992; Michael J. Brennan, 1998) had shown that dividend yield has effects for cross-section return of the common stock. While there also study association between stock returns and dividend yield of time series.

Net tangible asset shows the size of a firm. The larger the firm then the easier it is in accessing the capital market due to large firms usually more mature than smaller companies. Larger firms also usually be less dependent on internal funds due to its big value of equity and asset and also easier to excess external fund through debt financing. Due to that, the large firm have the ability to achieve economy of scale thus resulting in higher profit and market share. This also makes larger firm to be more stable, allowing them to attract more investor rather than small public firm. There also studies by (Nurul Shahnaz Mahdzana, 2016) and (Jabbouri, 2016) that show net tangible asset is positively significant with dividend yield. With the evidence of many studies that dividend yield is has positive significant relationships with stock price (S. Kheradyar, 2011; Hamid Moridipour, 2013). Therefore, net tangible asset is important in determining stock price

III. THEORETICAL FRAMEWORK



IV. RESEARCH METHODOLOGY

This paper used a panel data from the year 2012 to 2017 with 20 cross-sectional (Hsiao, 2003) to determine the stock market reaction towards quarter result announcement. The regression analysis will be employed as a stastical processes for estimating and measure the relationship the variables studied.

A. Population and Sample

The data used in this research retrieved from quarter report for each company in consumer and technology industries that listed in Bursa Malaysia. There are 120 companies in consumer industry while 32 companies of technology industry. For this research, 10 blue chips companies are selected as a sample from each industry to conduct the research. A researcher believes that by choosing blue chips companies, the result obtained will be much precise compared to other companies.

B. Data Collection Tools and Instruments

In this research paper, secondary data is used. Secondary data, a type of quantitative data, refers to the statistical material which is obtained from public records. Section I sought capture the general data which is a stock price of the companies that chosen as sample in this paper. Section II, was concerned on a quarter result announcement issued by a company every three months. In this paper, quarter result announcement was collected for period 2012 until 2017.

V. DATA ANALYSIS AND FINDINGS

The equation is used for both growth industries companies and defensive industries companies in analyzing the effects of the selected independent variable towards the stock price.

$$SP_{it} = \beta_0 + \beta_1 RE_{it} + \beta_2 NP_{it} + \beta_3 EPS_{it} + \beta_4 DIV_{it} + \beta_5 NTA_{it} + \epsilon$$

Where:

B : Beta

SP : Stock Price of a public listed company

RE : Revenue of a public listed company

NP : Net Profit of a public listed company

EPS : Earning Per Share of a public listed company

DIV : Dividend per share distributed by a public listed company

NTA : Net Tangible Asset of a public listed company

E : Error term

A. Panel Ordinary Least Square (POLS) for Growth Industries

Variable	Coefficient	t-Statistic	Prob.
C	-4.919508	-3.896779	0.0002
REVENUE	6.35E-07	3.992629	0.0001***

NET PROFIT	-6.71E-06	-5.915229	0.0000***
EPS	0.295794	6.984358	0.0000***
DIVIDEND	0.048888	1.756773	0.0817
NTA	1.011448	9.064486	0.0000***
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R-squared	0.798118	F - statistic	
		74.455568	
Adjusted R-squared	0.787399	Prob	
		0.000000	
		(F-statistic)	

Notes: *** Significant at 1% significance level
** Significant at 5% significance level
* Significant at 10% significance level

Table 1.1 Growth Industries

From the table 1.1, the p-value of t-test statistic shows that the independent variables of RE, NP, EPS, and NTA are consistent with the previous studies which states that the variables are significant to explain the movement of SP since their p-value of RE, NP, EPS, and NTA are smaller than significance level of 0.05, therefore the null hypothesis is rejected. However, DIV are not consistent with the previous studies by (S. Kheradyar, 2011) and Eugene F. Fama, 1992; Michael J. Brennan, 1998), since p-value of 0.0817 is more than 0.05 which is fail to reject the null hypothesis which is the estimated result for DIV is insignificant towards movement of SP.

For F-test statistic it shows that the p-value of F-test statistic is 0.0000 which is less than 5% level of significant, therefore the null hypothesis is rejected. Thus, the independent variable is significant to explain the dependent variable. The model is significant.

B. Panel Ordinary Least Square (POLS) for Defensive

Variable	Coefficient	t-Statistic	Prob.
C	-1.219101	-4.271075	0.0000
REVENUE	4.02E-07	8.766258	0.0000***
NET PROFIT	2.75E-06	3.998216	0.0001***
EPS	-0.093638	-3.376727	0.0010***
DIVIDEND	-0.047534	-2.332957	0.0214***
NTA	0.914433	12.80799	0.0000***
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R-squared	0.899281	F - statistic	
		74.455568	
Adjusted R-squared	0.893933	Prob	
		0.000000	
		(F-statistic)	

Table 1.2 Defensive Industries

For Table 1.2, the p-value of t-test for defensive industries shows that the independent variables of RE, NP, EPS, DIV and NTA are consistent with the previous which states that the variables are significant to explain the movement of SP since their p-value of

are smaller than significance level of 0.05, therefore the null hypothesis is rejected. F-test is used to determine whether the whole estimated model is significant or not. Based on table below, it shows that the p-value of F-test statistic is 0.0000 which is less than 5% level of significant, therefore the null hypothesis is rejected. Thus, the independent variable is significant to explain the dependent variable. The model is significant

CONCLUSION AND RECOMMENDATION

A. Conclusion

As conclusion, the independent variables of RE, NP, EPS, and NTA for growth and industrial industries are consistent with the expectation which states that the variables are significant to explain towards movement of SP. While, DIV is significant relationship towards SP for growth industries but however, DIV for defensive industries is insignificant relationship toward SP at 5% level of significant.

The revenue for growth and industrial industries is significant as consistent with the expectation, (Al-Ajmi, 2008) play an important role as a benchmark of company ability in making profit. As it is ranked no 1 as most used financial statement in investment decision, the market is also reacted efficiently to companies' revenue as it show the company performance and sustainability in managing their sales quarterly (Narasimhan Jegadeesh, 2004).

Many researches have founded that net profit is significant with stock price, but have problem in determining the result due to market overreaction to the relative prospects of firm (Eugene F. Fama, 1992). For growth and defensive industries a positive cash flow of net profit is needed as the companies is need to pay dividend to its investor as investor is expecting dividend payment thus cause the stock price to increase when there is positive sign of income. The results supported by (Amidu, 2006; Baker 2015; Johannes, 2013 and (S. Kheradyar, 2011).

The earning per share is significantly affects the stock price as it is the most commonly ratio used to measure the performance of a companies, (Seyed Heidar Mirfakhr- Al-Dini, 2011) on financial variables and stock price for the period of 1998 to 2007 where the founded that there is a significant and positive relationship between earnings per share (EPS) and stock price. This supported the defensive and growth industries estimation result for this study due to investor tend to hold a stock in longer period of time thus cause the price to increase overtime with positive performance of a company.

As for dividend, a research done by (S. Kheradyar, 2011), (Eugene F. Fama, 1992; Michael J. Brennan, 1998) founded that dividend yield is significantly affect stock prices is not questionable as it is part of investment return. But for growth industries where investor nature is mostly short-term trading and focus more on capital gain rather than slow and steady return

like dividend not deniable that it is not significant due to its nature of industries. Whereas for defensives industries, investors tend to sell of their position after receiving dividend due to liquidity need or to allocate their fund to another asset. The same nature can be founded in Unit Trust investment.

Net tangible asset is important in determining stock price. Previous literature by (Nurul Shahnaz Mahdzana, 2016; Jabbouri, 2016; S. Kheradyar, 2011; and Hamid Moridipour, 2013) show net tangible asset is positively significant with dividend yield. In this study, NTA for growth and defensive industries also show significant in relationship towards movement of stock price.

Both of the estimated result show high R^2 value which is 0.7981 for growth industries and 0.8993 for defensive industries. This show that 79.81% and 89.93% of the dependent variable can be explained by the independent variables which conclude that quarterly report is effective in determining stock price in Malaysia.

B. Recommendation

The main purpose of this paper is to identify the effect of quarterly report announcement toward stock price in Malaysia. All the findings of this paper will be useful for the stock market participants and institutional investors. The investors need to look at the quarter result announcement before make an investment decision. The Revenue, Net Profit, Earning per Share, and Net Tangible Assets of companies is the key elements that should consider by market participants and institutional investors because it lead to significant movement towards Stock Price.

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