

# **Why do companies issue seasoned equity? A case study of Thailand**

**Salinla Tulyasatien**  
**5102042305**

Master of Science Program in Finance (International Program)

Faculty of Commerce and Accountancy, Thammasat University, Bangkok, Thailand

May 2010

## **ABSTRACT**

This study investigates the motivations of companies to issue seasoned equity (SEO). There are main hypotheses to explain, namely, the hot issue, agency cost, and signaling. This study uses 129 samples of the stocks listed on the Stock Exchange of Thailand during 2005-2009. Unlike previous studies, we use two steps approach to run the empirical model. First, the probability to issue seasoned equity for any company is forecasted from the model suggested by Guo and Mech (2000). The variables included in this model are derived from the probability for firm to issue new shares given investment prospect and limitation in other means of external financing. This allows us to control these conditions before we run another regression model to test the relationships of the predicted probability and other key variables relevant to main hypotheses.

Our results suggest that SEO is not used by management to signal the investors. On the other hands, there is evidence that management sell their shares within 2 months before and after the SEO. The result is confirmed by declining return on asset (ROA) after the SEO.