

Leverage, Growth Opportunities and Stock Prices Response to New Financing Evidence from the Stock Exchange of Thailand

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ABSTRACT

This paper studies the market reactions to seasoned equity offering (SEOs) of the top 50 stocks (SET50) on Thailand's stock market for the period of year 2000 to 2010. Our paper studies the relationship between stock price change to the SEOs (as an indicator to market reactions) and key financial information which are Leverage and Growth Opportunities. Event study is the main methodology, and two test methods are used. The first test method is the financial ratio ranking which ranks the leverage and growth factors of sample firms into quartiles, and observes if the rank of the abnormal returns is consistent to the rank of the financial ratio. The second test method is the cross sectional regression of abnormal return and the two financial ratios. The result shows a significant negative relationship between leverage and abnormal return in both test methods, and a significant positive relationship between growth opportunities and abnormal return only for the financial ratio ranking method. In other word, the stock price of issued firm would experience a decrease on the SEOs announcement day. However, the degree of decrease depends on mix of leverage (negative relationship) and growth opportunities (positive relationship).