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# The Effects of Right Offering Announcements on Returns of Shares of Deposit Banks Traded in Istanbul Stock-Exchange

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Abstract. *In this study, the impacts of right offerings announcements on the returns of shares are analysed. The right offerings means to have the right of receiving new shares in proportion to shares on hand when the corporation issues new shares for outsourcing capital increase. In this study, before and after the right issue announcements, the abnormal returns (AR) of shares of the banks in Istanbul Exchange Market-100 calculated and the return changes are analysed.*

**Keywords:** right issue, event study, abnormal returns.

**JEL Codes:** *D53, G23, G24, E22*

## 1. Introduction

Companies which traded on the Stock Exchange announce important events and changes that affect their investment decisions. These statements cause to increase or decrease in the value of the shares due to the effects on the investor's decisions.

One of these announcements is the right issue announcement. Right issue defined here as having the right of receiving new shares in proportion to shares on hand when the corporation issues new shares for outsourcing capital increase. Prior to the issuance of new shares, companies make an announcement in the case of right issue and these announcements affect the decisions of investors.

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The study consists of four parts. In the first part of the paper, after a definition of the right issue, we will talk about the right issue as defined and specified in the new Turkish Commercial Law. In the second part, a literature review about the studies regarding the impact of the rights issue announcements on stock prices will be conducted. In the third section, the methods of analysis will be reported; the last part of the study is about the findings of the research.

## 2. Right Issue Definition

Right issue can be defined as the right of existing shareholders that entitles them to buy new shares at a specific price in order to protect the interest rates. With right issue shareholders can buy new shares in proportion to their existing holdings (Adıgüzel, 2014: 4).

Companies generally increase their capital by ensuring assets in cash or in kind from external resources. On the other hand, in increasing capital from internal resources, shareholders do not pay any cash or in kind resource, capital increase is fully met with internal resources. Therefore, internal capital increase does not provide an additional financial source, does not increase the assets of the company and does not affect the total market value. However, capital increase from internal resources facilitates company's reputation increase; helps strengthen the financial structure and update the capital in addition to some tax advantages (Yavuz, 2013: 129).

Shares that are issued with a new commitment or payment, meaning right issue may be issued in the establishment or public offering phase. Right issue is a right related to shares in hand, and it can only be used by shareholder. It is also a subjective and proportional right. However, it is not a vested right because of the fact that it can be restricted or eliminated. The aim of this right is to protect the number of shares of the existing shareholders after capital increase. Thus, it prevents the reduction of financial and administrative rights such as vote in plenary session and participation in profits. The removal or restriction of this right is possible only in certain circumstances (Adıgüzel, 2014: 3).

The restriction of right issue can be in the form of limiting a portion of the shares that they deserved to receive; limiting the rights of some shareholders; prohibiting the transfer of rights to others and inhibiting shareholders from getting some categories of shares. The removal of right means to prohibit the right to buy new shares completely (Adıgüzel, 2014: 7).

In the new Turkish Commercial Law, capital increase can be implemented in three ways. These are capital increase with capital commitment, internal resources for capital increase and contingent capital increase. Right issue is analysed as a type of contingent capital increase in that law. The regulations in the new Turkish Commercial Law have intended to solve various problems related to right issue and to answer the requirements of Article 29 of the Second Company Law Directive. The provisions about right issue in Turkish Commercial Law are as (New Turkish Commercial Law Article. 461):

"(1) Every shareholders has the right of receiving new shares in proportion to shares on hand.

(2) If there are justifiable reasons, the right issue can be limited or removed with the affirmative vote of at least sixty percent of equity holders in board of directors. Especially, initial public offerings,

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acquisitions of company sections and affiliates and the joining of company's workers are the justifiable reasons. With the limitation and elimination of right issue, no one can be given advantage or taken a knock. This article is valid for register capital system and board decision except quorum. Board of directors explain with a report the reasons of limitation or elimination of right issue; causes of issuance of new shares with or without premium; the calculation method of premium. This report is registered and announced.

(3) The board of directors sets the essentials of right issue with a ruling and allows, at least fifteen days, to the shareholders for issuing in that ruling. This ruling is registered and published in a national newspaper that has at least a circulation of fifty thousand. Moreover, it is put on the website of the company.

(4) Right issue can be transferred.

(5) Company cannot prevent the right issue by suggesting that the transfer of registered shares is limited by articles of association."

## 3. Literature Review

There is a wide range of studies about the impacts of announcements such as company mergers and transfers, dividend, capital changes, macroeconomic data on the returns of shares. In the same way, there are several studies about the impacts of right issue announcements on the share prizes in different countries.

Hansen (1989) and Eckbo & Masulis (1992) reported a stock price decline in US. In United Kingdom, it has been discovered that a 2-day excess returns reductions of 1.3% (Levis, 1995) and 1.88% (Slovin et al., 2000). A decrease on stock prices has also been observed in France (Gajewski and Ginglinger, 1998), New Zealand (Marsden, 2000), Netherlands (Kabir and Roosenboom, 2003) and Hong Kong (Ching et al., 2001).

However, an increase on stock prices has been reported in Japan (Kang and Stulz, 1996), Greece (Tsangarakis, 1996) and Singapore (Tan et al., 2002). On emerging markets such as Korea (Kang, 1990 and Dhatt et al., 1996), Malaysia (Salamudin et al., 1999) and China (Shen and Xiao 2001), a significant rise on stock returns has been stated. V.B. Marisetty et al. (2008), however, observed insignificant increase on stock prizes in Indian firms and have reported insignificant positive abnormal returns in Indian firms (cited by Shahid et al., 2010: 163).

C. Chen, X. Chen (2007, cited by Shahid et al., 2010: 163) have analysed 205 right issue announcements in China. They observed a decrease on stock returns around the announcements and an increase during post-announcement period (in +10 to +20 days expiration period).

Suresh and Gajendra (2012) have analysed the right issue announcement effect on share returns, by using event study methodology for Nifty 50 stocks from 1995 to 2011. They reported a statically insignificant negative abnormal return (ARR of -0.048) on announcement day. The event has also reported that there is no significant change in trade volume of analysed stocks during announcement period. In the study, it was concluded that right issue announcements have a negative effect on Indian market (Ramesh and Rajumesh, 2014: 154).

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Adnan Bashir (2013), in his study that analysed the effects of right issue announcement in Karachi Stock Exchange Market from 2008 to 2011, found positive abnormal returns on announcement day. However, the study concluded that the right issue announcements have no effect on Karachi Stock Market and shareholders' wealth (Ramesh and Rajumesh, 2014: 154).

Even if the right issue is not widely utilized in US, a negative impact of approximately 2% has been observed in studies. There are few studies about the right issue announcement effect on emerging markets. Corporate characteristics of emerging markets are: (1) companies use the right issue only in the second issue of shares; (2) there are no organized secondary markets; (3) property is not widespread; (4) commercial stock market is weak; (5) there are limited financial alternatives. With these characteristics, Istanbul Stock Exchange is also an emerging market in Europe (Adaoğlu, 2006: 250).

Cahit Adaoğlu (2006: 250) analysed the effects of "unsweetened" (plain) and "sweetened" (with simultaneous distribution of bonus issues) rights issues on the Istanbul Stock Exchange Market. He reported in that study that there is a significant negative return (-7.1%) in "unsweetened" right issues while there are positive returns (2%) in "sweetened" right issues.

The studies about the impact of right issue on share returns are shown in the table below Table-1):

Table-1: The studies about the impact of right issue on share returns

| | | | |
|---|---|---|---|
| Hansen | 1989 | US | Negative Impact on Stock Prices |
| Eckbo and Massulis | 1992 | US | Negative Impact on Stock Prices |
| Levis | 1995 | UK | A reduction of 1.3% on 2-day excess returns |
| Slovin et al. | 2000 | UK | A reduction of 1.88% on 2-day excess returns |
| Gajewski and Ginglinger | 1998 | France | Negative Impact on Share Prices |
| Marsden | 2000 | New Zealand | Negative Impact on Share Prices |
| Kabir and Roosenboom | 2003 | Holland | Negative Impact on Share Prices |
| Ching et al. | 2001 | Hong Kong | Negative Impact on Share Prices |
| Kang and Stulz | 1996 | Japan | Positive Impact on Share Prices |
| Tsangarakis | 1996 | Greece | Positive Impact on Share Prices |
| Tan et al. | 2002 | Singapore | Positive Impact on Share Prices |
| Kang | 1990 | Korea | Significant Positive Returns |
| Dhatt et al. | 1996 | Korea | Significant Positive Returns |
| Shen and Xiao | 2001 | China | Significant Positive Returns |
| Salamudin et al. | 1999 | Malaysia | Significant Positive Returns |

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| | | | |
|---|---|---|---|
| Marisetty ve Diğ. | 2008 | India | Insignificant Positive Returns |
| C. Chen and X. Chen | 2007 | China | Increase During Post-announcement Period |
| Suresh andGajendra | 2012 | India | Negative Returns From 1995 to 2011 |
| Adaoglu | 2006 | Turkey | Significant negative return in "unsweetened" right issues; positive returns (2%) in "sweetened" right issues |

## 4. The Impacts of Right Issue Announcements

### 4.1. Method of Study

In this study, the data is analysed using the event study method. Event study is used in the measurement of unusual response of market when an event occurs. Event study examines the changes on corporate value caused by a specific event (Mutan and Topçu, 2009: 1).

Event study determines the impact of an event on firm value by using specific data from financial market. The effects of an event impact rapidly the share prices, thus it is possible to test these effects through the prices of the stocks (MacKinlay, 1997: 14).

In the case study, event window is defined; the criterion is selected; normal and abnormal returns are calculated; hypotheses are developed; estimation window is determined and the results are interpreted respectively. With the assumption that abnormal returns reflect the response of stock prices to events, abnormal returns are calculated as: (Koçyiğit ve Kılıç, 2008: 170):

$$ARi = Rit - Rmt$$

ARi – abnormal return of share i in t day,
Rit – actual return of share i in t day,
Rmt – expected return of share I in t day.

Getting the average effect of the announcements of all companies rather than evaluating each company separately provides a better result. Because "averaging across all companies should minimize the effect of other events" (Prakash, 2013: 11). Average abnormal returns (AAR) are calculated by taking abnormal returns of different companies in the same time period.

In this study, cumulative abnormal returns and cumulative average abnormal returns around event are calculated as:

$$CAR\ (t1, t2) = \Sigma AR$$

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CAAR (t1, t2) = CAR (t1, t2) / N

N is the sample size.

For testing the significance of AAR and CAR, t test is used.

The basic evaluation period is the day of announcement (0). Price performance of before and after the announcement (20, -20) and each share's changes in returns of will be analysed.

### 4.2. Empirical Evidence

In this study, the impacts of right issue announces on the share price of trade banks traded in Istanbul Stock Exchange Market are shown. These trade banks are Akbank Inc., Alternatifbank Inc., Denizbank Inc., Finansbank Inc., Fortisbank Inc, Şekerbank Inc., Tekstil Bankası Inc, Türk Ekonomi Bankası Inc., Türkiye Garanti Bankası Inc., Türkiye Halk Bankası Inc, Türkiye İş Bankası Inc., Türkiye Vakıflar Bankası Inc., Yapı ve Kredi Bankası Inc., Tekstilbank Inc.

In the survey, there are five right issue announcements. Two of these right issues were announced by Şekerbank Inc. on June 3rd, 2009 and June 6th, 2014. Two of them were announced by Finansbank Inc. in October 20th, 2010 and October 25th, 2011. The last one was announced by Alternatifbank Inc. on February 13th, 2014.

Table 2: Average Abnormal Returns Around the Announcement Date

| Gün | AAR | T-İstat. | P-Değeri | Negatif Ars % |
|---|---|---|---|---|
| -20 | -0,011203 | -0,542952 | 0,307986 | 60 |
| -19 | -0,012299 | -0,619635 | 0,284416 | 80 |
| -18 | 0,006779 | 0,309817 | 0,386085 | 20 |
| -17 | 0,004874 | 0,151985 | 0,443278 | 80 |
| -16 | -0,004333 | -0,383284 | 0,360602 | 80 |
| -15 | 0,006538 | 0,268771 | 0,400700 | 40 |
| -14 | -0,005819 | -0,180088 | 0,432919 | 60 |
| -13 | -0,004391 | -0,432428 | 0,343862 | 60 |
| -12 | 0,030322 | 0,511925 | 0,317836 | 40 |
| -11 | 0,031238 | 0,396393 | 0,356026 | 40 |
| -10 | 0,015088 | 0,344760 | 0,373819 | 60 |
| -9 | 0,012629 | 0,130910 | 0,451083 | 80 |
| -8 | 0,036592 | 0,364785 | 0,366870 | 60 |
| -7 | 0,013369 | 0,388578 | 0,358692 | 40 |
| -6 | -0,018160 | -0,422281 | 0,347265 | 60 |

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| | | | | |
|---|---|---|---|---|
| -5 | 0,012007 | 0,241408 | 0,410555 | 60 |
| -4 | -0,003331 | -0,333896 | 0,377614 | 80 |
| -3 | -0,017655 | -0,665774 | 0,270992 | 60 |
| -2 | 0,019050 | 0,538897 | 0,309275 | 40 |
| -1 | -0,002834 | -0,207916 | 0,422726 | 60 |
| 0 | 0,008384 | 0,288692 | 0,393580 | 40 |
| 1 | -0,014431 | -0,217434 | 0,419255 | 60 |
| 2 | -0,024380 | -0,523628 | 0,314104 | 100 |
| 3 | -0,027397 | -1,409383 | 0,115759 | 80 |
| 4 | -0,008386 | -0,281712 | 0,396069 | 20 |
| 5 | -0,006040 | -0,221744 | 0,417687 | 80 |
| 6 | 0,000371 | 0,022355 | 0,491618 | 60 |
| 7 | -0,011881 | -0,934558 | 0,201462 | 80 |
| 8 | -0,016963 | -1,079132 | 0,170628 | 80 |
| 9 | -0,008091 | -0,938706 | 0,200514 | 100 |
| 10 | -0,005956 | -0,320972 | 0,382151 | 60 |
| 11 | 0,001157 | 0,050160 | 0,481200 | 60 |
| 12 | -0,023847 | -1,095071 | 0,167499 | 100 |
| 13 | -0,008135 | -1,329735 | 0,127183 | 100 |
| 14 | -0,002686 | -0,497382 | 0,322509 | 60 |
| 15 | 0,015072 | 0,272298 | 0,399435 | 40 |
| 16 | -0,024159 | -1,567432 | 0,096042 | 100 |
| 17 | 0,025907 | 0,300225 | 0,389481 | 80 |
| 18 | 0,017837 | 0,590047 | 0,293440 | 40 |
| 19 | -0,035644 | -0,690030 | 0,264061 | 100 |
| 20 | 0,006228 | 0,249177 | 0,407748 | 40 |

As it can be seen from the table (Table-2), there is no significant finding about the impact of right issue announcements on share prices of deposit banks traded in Istanbul Exchange Market.

However, when Abnormal Returns (AR) before and after event day are analysed separately, significant abnormal returns are detected in some periods. During the period of forty days (20, -20), we can observe that 100% of the abnormal returns of six days; 80% of the abnormal returns of ten days and 60% of the abnormal returns of twelve days are negative.

Table 3: Cumulative Average Abnormal Return to Obtain Different Window

| **Day** | **CAAR** | **T-Stat.** | **P-Mean** | **Negative Ars %** |
|---|---|---|---|---|
| [-20,20] | -0,03458 | -0,12040 | 0,45499 | 80 |

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| | | | | |
|---|---|---|---|---|
| [-20,-1] | 0,10846 | 0,43274 | 0,34376 | 20 |
| [-20,0] | 0,11685 | 0,49416 | 0,32355 | 20 |
| [-10,-1] | 0,06676 | 0,31153 | 0,38548 | 40 |
| [-5,5] | -0,06501 | -0,80074 | 0,23407 | 80 |
| [-1,1] | -0,00888 | -0,15133 | 0,44352 | 40 |
| [-1,0] | 0,00555 | 0,29429 | 0,39159 | 40 |
| [0,1] | -0,00605 | -0,10855 | 0,45939 | 60 |
| [0,2] | -0,03043 | -0,58724 | 0,29430 | 80 |
| [0,10] | -0,11477 | -2,70826 | 0,02681** | 100 |
| [0,20] | -0,14304 | -1,43350 | 0,11250 | 100 |

Table 3 shows the information regarding right issue announcements impound in the share price returns in different periods. Cumulative Average Abnormal Return (CAAR) is found to be negative during post-announcement period of 10 days (0, 10) in 5% significance level. Moreover, as in the table 2, the percentages of negative abnormal returns in the same periods are shown in the Table 3.

## 5. Conclusion

Cumulative Average Abnormal Returns (CAAR) is found to be negative in a ten days period after the announcement date (0, 10). This means that investors of deposit banks can yield abnormal returns in the period of ten days after the announcement.

Even if it is not statically significant, the other finding of the study is that 100% of the abnormal returns of six days; 80% of the abnormal returns of ten days and 60% of the abnormal returns of twelve days are negative.

More significant results can be observed by analysing wider samples. Moreover, all the important events in the announcement day that can affect the share price should be analysed together.

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