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Announcements Effect of Corporate Bond Issuance on Share Price Returns of some listed companies in Ho Chi Minh Stock Exchange (HOSE)

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# **ABSTRACT**

**Purpose**: The paper's primary goal is to investigate the impact of the bond issuance announcement on the share price return of some listed companies in HOSE.

**Design/methodology/approach**: Event study and Cross-sectional regression were both used in the research. 40 listed sample companies in Ho Chi Minh Stock Exchange were gathered between 2018 and 2022.

**Findings**: The findings reveal a significant positive of announcements' corporate bond issuance on cumulative abnormal return. In terms of company characteristics, the results show the cash flow ratio has a significant negative with cumulative abnormal returns

**Originality/value**: The findings of the study can be utilized as a guide for investors to profit optimally from the announcement of a bond issuance.

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1. **INTRODUCTION**
2. ***Rationale***

The global financial crisis has unpredictable consequences for the worldwide economy. Because of this, numerous research studies have examined the function of financial institutions in the capital market to foster sustainable economic development in the future. Bank loans, one of the most crucial sources of finance for businesses, became riskier and were phased out of balance sheets. In this context, issuing corporate bonds is a suitable alternative to assist in currency stabilization, investment diversification, and economic recovery. ( Hakansson, 1999)

Since bonds are considered the primary capital source in the equity market, public disclosure may impact the price of corporate bonds and securities.

Numerous studies have demonstrated an association between bond announcements and share market returns; however, most studies have focused on advanced economies and the period just before the financial crisis. While ( Switzer, et al., 2004) concentrates on the US market, ( Veld & Roon, 1998) investigates the Dutch market, and ( Ammann, et al., 2006) make conclusions regarding the German and Swiss markets. As a result, the need for more research in this area in frontier and emerging markets is evident.

In terms of the Vietnamese economy, the bond market was established in the 1990s and grew in 2000. From 2011 up to now, the bond market has grown significantly due to the rise in government and corporate demand for capital mobilization.

A corporate bond is an efficient tool for Vietnamese firms and a potential investment channel for individual investors. In particular, corporate bonds have grown on average by 46% during the last five years, making up 15% of the nation's GDP. Although compared to other regional markets like Thailand (25% GDP), Singapore (38% GDP), and Malaysia (56% GDP), this number is still low. However, the Vietnamese corporate bond market is experiencing strong growth, primarily when corporate bonds are fully utilized with long-term issuance capacity and relatively low-interest rates due to the COVID-19 epidemic.

Therefore, with a potential frontier market like Vietnam, it is necessary to expand and clarify the impact of corporate bond issuance on stock prices, especially over the past five years.

The company's characteristics must also be considered when they potentially contribute to the stock's abnormal returns, such as firm size, leverage, or growth opportunities.

1. ***Aim of research***

The paper's primary goal is to research the effects of bond issuance announcements on stock price returns in the Vietnamese market between 2018 and 2022 and examine the company's characteristics that may affect the effect. The cumulative abnormal return will be employed in the study to assess the percentage of unusual stock returns during the event window.

The research is divided into two main objectives related to two phases:

* The first phase focus on the impact of bond announcements on cumulative abnormal return
* The second phase investigates the connection between a company's characteristics and cumulative abnormal return.

1. ***Research question***

What is the impact of announcements' corporate bond issuance on cumulative abnormal return?

What is the relationship between the characteristics of corporate bond issues and cumulative abnormal returns?

1. ***Research structure***

The remainder of the research is organized as follows:

Section 2 presents the literature review. Section 3 discusses the methodology. Results and Analysis are displayed in section 4. Section 5 provides discussion and recommendations. Finally, the conclusion is provided in Section 6.

1. **LITERATURE REVIEW**
2. ***Theoretical framework***

*1.1. MM theory*

The concept of capital structure was initially studied and established by (Modigliani & Miller, 1958) in the area of corporate finance. They established through the traditional concept of "capital structure relevance" that a rise in the debt-to-equity ratio has no bearing on the company's value." Similarly, ( Fama & French, 1998) hold the same viewpoint as the MM Theorem; however, all of the assertions above are supported solely by the ideal capital market.

However, economists have developed and expanded other capital structure theories based on capital market imperfections. Several theories, including signaling models, asymmetric information models, and adverse selection effects, may help assess and comprehend the influence of debt levels on a company's stock price.

*1.2. Signalling model*

Investors frequently notice company-related information since it reveals the current state of the company and paints a picture of its future financial possibilities. According to the signaling theory, if a firm receives any external finance that is made public, investors will alter their opinion of the company's worth as a result of the signal (Ross, 1988).

The signaling theory predicts managers will have more knowledge and comprehension of their firms. Thus, management will inform investors when it believes the company has promising future prospects, hoping that this will increase the share price.

Remarkably, according to (Barclay & Smith, 2005), the expansion of debt in the capital structure is regarded as a trustworthy indicator of future expectations for positive cash flow. Since then, investors have started to raise their investments when the news of the increase in leverage is made, which has improved stock returns.

*1.3. Asymmetric information model*

The assumption that managers, more than anybody else, will hold more accurate knowledge than investors is the foundation of the asymmetric information paradigm, which is based on the information gap between management and shareholders regarding the company's true worth. (MILLER & ROCK, 1985) concluded that any announcement of extra external capital suggests that the company will have a bleak future. Hence, an inverse relationship can be seen as the more extensive the source of external funding, the lower the firm value.

*1.4. Adverse selection effects*

Similarly, ( Myers & Majluf, 1984) developed an adverse selection model based on the premise that managers are the ones who genuinely comprehend a company's value. Therefore, to support the current shareholders in getting the best benefits, the management will issue shares when they acknowledge that the company's shares are being overvalued. As a result, the market will respond negatively to reports of new outside finance funding when management's objectives are recognized.

( Stein, 1992) also concluded that since bonds are one of the primary sources of equity capital, this effect will have a comparable impact on bond issuance announcements as it does on common stock. Therefore, the announcement of external financing has a negative impact on the stock price based on adverse selection effects.

1. ***Empirical evidence***

*2.1. The impact of announcements' corporate bond issuance on cumulative abnormal return*

The abovementioned theories suggest a conflicting relationship between bond issuance notices and abnormal returns. As a result, this correlation result has long been a controversial subject for economists. Numerous contradictory empirical findings have been made across a wide range of markets.

In this regard, ( Kang, et al., 2009), (Dutordoir & Gucht, 2009), ( Veld & Roon, 1998) 's research findings demonstrate that bond issuance has a favorable impact on abnormal returns, which is appropriate with the Signaling model.

( Kang, et al., 2009) investigated how foreign equity affected stock prices for Japanese market enterprises. They found a positive shift in abnormal returns for three days around the announcement date (at t = [-1;1]) using data from 451 releases between 1977 and 1989. ( Kang, et al., 2009) explain this positive link based on Japanese banks' unique practices. Companies in Japan are frequently implicitly insured by banks regarding equity issues, even uninsured matters, to prevent bankruptcy. Therefore, announcing a new issuance will send a helpful message about the company's financial situation.

In Western Europe, there is also evidence of an association between the issuing of convertible bonds and abnormal stock returns. In order to investigate the consequences of convertible bonds, (Dutordoir & Gucht, 2009) specifically used 179 convertible debt offerings released between 1994 and 2004.

Another study with a Dutch market emphasis discovered a connection between bond announcements and exceptional stock performance.

( Veld & Roon, 1998) hand-collected 47 notifications of convertible bonds and 19 notices of warrant bonds of Dutch firms that were listed on the Amsterdam Stock Exchange (ASE). The event research results reveal that bond announcements have a beneficial impact on anomalous returns for both types of bonds. However, this impact is especially favorable for warrant bonds.

In contrast, numerous studies show negative abnormal returns following the bond issue, ( Ammann, et al., 2006), consistent with the theories put out by ( Myers & Majluf, 1984) and (MILLER & ROCK, 1985).

The study by ( Ammann, et al., 2006) used 55 convertible bonds and 28 swaps issued from 1996 to 2003, specifically focusing on the Swiss and German markets. Given the findings from the cumulative average abnormal return of -1.61% over the period [0, 1], both countries experienced a negative price in stocks during the period covered by the information. However, ( Ammann, et al., 2006) conclude that the German market has a more significant influence than the Swiss market.

Similar findings were made by (Mikkelson & Partch, 1986), who noted a negative correlation between the stock price on the US market and the announcement of a security offering. To come up with the most objective results, the researchers gathered 595 notices from 360 randomly selected industrial companies listed on the US Stock Exchange. The study covered the years 1972 to 1982, and abnormal return was computed using a market model technique with an event window from 60 days before the announcement to 20 days after (t= -60 to t= 20).

(Mikkelson & Partch, 1986) also discovered that the service characteristics examined in the article, offering size and ranking the credit rating of the convertible bond, have no bearing on the stock's abnormal return.

Finally (Duca, et al., 2012) study in the US market also revealed a negative correlation between the two variables. However, this study compares the two traditional investment eras (1984–1999) and the arbitrage era (2000–2008) before the financial crisis. The study produced average abnormal stock returns across two periods of -1.69% and -4.59%, respectively, thanks to acquiring a sample of 1436 convertible bonds from Securities Data Company. (Duca, et al., 2012) made an argument based on the influence of the arbitrage to explain why the average stock return outcomes in the Arbitrage period were twice as negative as in the Traditional period. Bond announcements were followed by macroeconomics. Notably, the market experienced significant volatility due to Lehman Brothers collapsed in September 2008.

*2.2. The relationship between Firm characteristics and Cumulative Abnormal Return*

In addition to the impact of bond issuance announcements, in this study, several firm characteristics will be included for analysis in order to draw the most complete and comprehensive analysis conclusions. According to earlier studies, a firm's size, profitability, cash flows, leverage, and growth prospects are crucial factors in determining its financial health (BAUER, 2004), (Rajan & Zingales, 1995), (Titman & Wessels, 1988).

*2.2.1. Firm size*

Firm size can be used to reflect the degree of information asymmetry. A large corporation is often subject to more protection and regulation from institutional investors, government than a small business. Because of this, risk-averse investors will give larger organizations' reputations and trust a higher value. Therefore, the abnormal return for larger businesses is typically lower than for smaller firms. In other words, there is an inverse correlation between company size and abnormal returns. Numerous empirical research has confirmed this adverse connection (Ibrahim & Minai , 2009), (Abhyankar & Dunning, 1999)

On the other hand, venture capitalists, or those who purchase shares for speculative purposes, specialize in focusing on small and medium-sized businesses. Compared to blue-chip stocks, penny and midcap stocks have more reasonable prices and more substantial potential for growth. Hence, investors frequently look for small businesses to gain the most profits due to the higher risk and higher return. Consequently, a company with a lower scale has an unexpectedly high abnormal return. (Martani, et al., 2009), (Eddy & Seifert, 1988)

*2.2.2. Profitability*

According to ( (Purnamawati, 2016) profitability is a crucial criterion for assessing the stock market. A corporation will experience financial challenges if its profitability is low. The corporation will be obliged to adopt riskier investing strategies as the likelihood of its risk rises. Hence, it is reasonable to expect a negative correlation between profitability and abnormal return. Numerous research has demonstrated and validated this relation ( FRIEND & LANG, 1988), (Ben , 2015).

However, ( Lestari & Nuryatno, 2018)) study shows no connection between abnormal returns and profitability. While (Botika, 2012)discovered a significant relationship between these two variables.

*2.2.3. Cash flows*

According to (Lee & Wyatt, 1990), the free cash flow hypothesis proposed by (Jensen, 1986) can account for potential property losses. The management may alter the company's cash flow management approach if the operating cash flow is robust. In particular, as free cash flow rises, management can make wasteful expenditures rather than repaying money to shareholders. Therefore, even businesses with high free cash flow may incur potential agency costs. A rise in cash flows may be inversely correlated with an increase in the stock market's response due to agency issues when the conscious market is aware of this issue and has specific insights.

In particular, many empirical results have demonstrated this negative correlation ( Baulkaran, 2019), ( Luo, 20008).

However, some research findings also show a positive correlation between cash flow and CAR. ( Cheng, et al., 2013)

*2.2.4. Leverage*

Financial leverage includes borrowed funds in a company's total funding to raise a return on assets or earnings per share. A research have demonstrated that high leverage has a detrimental effect on abnormal returns (Abhyankar & Dunning, 1999) .

However, high leverage can reduce the agency cost between the management and the authorizing party. By utilizing debt instead of ownership equity, the management party may be less likely to steer the company in its best interests (Kraus & Litzenberger, 1973). Furthermore, (Jenkinson & Stucke, 2011) argues that paying interest on loans is a more rational expenditure than paying corporate taxes, which can reduce costs and boost profits. The investment side may benefit more from adopting this "tax shield". It implies that leverage influences investor reaction positively. A few earlier empirical research have demonstrated this beneficial association ( Stein, 1992), (McLaughlin, et al., 1998), (Asiri & Batool, 2015), (Ramadhanty & Budiasi, 2020).

*2.2.5. Growth opportunities*

A measure of a company's potential for growth based on annual sales over time is its growth opportunities. According to ( Lewis, et al., 2003), large companies frequently have fewer prospects for growth compared to other organizations. Most large businesses have a solid foundation in their sector. Hence, this size group has few growth opportunities. Most investors seek this group of companies to make secure, long-term investments. So, there is a positive correlation between abnormal returns and growth opportunities (Baulkaran, 2019), (Jia, et al., 2016). Likewise, small and medium-sized businesses have a higher likelihood of growth prospects. Therefore, given venture capitalists' appetites, their choices may cause abnormal returns to increase.

However, a few research studies have demonstrated a negative correlation between growth opportunities and abnormal return. (Mollemans, 2002)

1. ***Research gap***

In light of the theory and empirical data shown above, it is clear that most study focuses on advanced economies, where the bond market has long been established and is frequently used as a long-term route for capital mobilization. Since the frontier market has tremendous potential for long-term investors and is expected to experience a significant boom in the future, it is challenging to find research articles specifically focused on it. Therefore, this study will focus on the Vietnam market, where bonds are currently experiencing a boom. From there, it can offer information to help investors make more knowledgeable judgments about their investments.

Secondly, since the current empirical evidence has primarily been investigated and focused on the period before the 2008 financial crisis, the accuracy of the empirical results may have been affected and needs to reflect the correlation in recent times. Because bonds are growing significantly in Vietnam between 2018 and 2022, this study will concentrate on that time frame.

1. ***Hypothesis***

Empirical evidence has provided a diverse and conflicting relationship for the impact of corporate bond issuance announcements on CAR. Specific results have been mixed, most recent studies in developed and emerging markets have shown significant results ( Veld & Roon, 1998), (Chin & Abdullah, 2013), (Marie, et al., 2016), (M’ng, et al., 2020), (Wang, et al., 2019).

There is still much room for growth in a frontier market like Vietnam. Therefore, the first hypothesis is put forward as follows:

**H1: There is a significant positive of announcements' corporate bond issuance on cumulative abnormal return.**

Besides the bond issue announcement, it is perfectly plausible that other variables also play a role in and impact the CAR shift. The empirical data has shown a complex and wide-ranging association between company features and CAR. However, recent studies have found significant negative results for these variables (Michael, 2002), (Abhyankar & Dunning, 1999) . As a result, the second hypothesis put forth is:

**H2: There is a significant negative of characteristics corporate bond issuance and cumulative abnormal returns.**

***H2a: There is a significant relationship between firm size and cumulative abnormal returns***

***H2b: There is a significant relationship between profitability and cumulative abnormal returns***

***H2c: There is a significant relationship between cash flow and cumulative abnormal returns***

***H2d: There is a significant relationship between leverage and cumulative abnormal returns***

***H2e: There is a significant relationship between growth opportunities and cumulative abnormal returns***

1. **METHODOLOGY**
2. ***Data***

The sample consists of companies from various industries listed on the Ho Chi Minh Stock Exchange (HOSE) between 2018 and 2022. From 2018 to the present, the corporate bond market in Vietnam has started to shift and thrive to meet capital needs as credit growth tends to slow down. Therefore, 2018 was chosen as the starting year to prioritize sample companies with a consistent frequency of bond issuance. Additionally, the study does not include private debt issuers.

The final data used contains 40 example companies from a variety of industries, including banking (42.5%), real estate (30%), construction, food & beverage and manufacturing (7.5%), utilities, and aviation (2.5%). Banking and real estate are the two largest business sectors issuing bonds in Vietnam. The primary data and information sources are Bloomberg, Finpro, and corporate annual reports.

To eliminate the risk of bonds being canceled after the issuance has been publicized. Instead of the announcement date, the bond issuance date will be used in this study paper (Kapoor & Pope, 1997). The investigation's event window covered the period from 30 days before and 30 days after the release announcement (time = -30 to date = +30). Additionally, the study will use daily rather than monthly data to calculate abnormal returns since daily data has a minor standard deviation than monthly data (Brown & Warner, 1985).

1. ***Variables***

*2.1. Measurement of Cumulative Abnormal Return*

The standard event study methodology is applied in this paper to determine abnormal returns during the event. According to studies, this method is easy to use and quite successful at spotting abnormal results. (Brown & Warner, 1985), (Mikkelson & Partch, 1986), ( FIELDS & MAIS, 1991)

Abnormal daily return is calculated by finding the difference between the actual and expected returns based on the CAPM. (Table 1)

Then, the Cumulative Abnormal Return (CAR) is calculated over various window periods. In most similar studies, the standard event window is commonly used as a date in the range (-1;1), where day 0 is the day of the announcement.

*2.2. Measurement of firm characteristics*

Based on (Baulkaran, 2019), (Rajan & Zingales, 1995), (Gaud, et al., 2005) research, the logarithm of total assets is used to calculate firm size. Profitability is determined by dividing Earnings Before Interest, Taxes, and Depreciation by the Total Asset, according to (Gaud, et al., 2005), (Rajan & Zingales, 1995). According to ( Zeller & Stanko, 1994), (Mills & Yamamura, 1998) , (Rayburn, 1986) the cash flows are computed by dividing operating cash flow by total assets. Leverage is evaluated as the ratio of total debt to total assets, based on (Ashhari, et al., 2009), (Cheng, et al., 2005). Growth opportunities are calculated in terms of Annual sales growth rate, according to (Titman & Wessels, 1988), (Chen, 2004).

|  |  |  |  |
| --- | --- | --- | --- |
| **Variable** | | **Abbreviations** | **Measurement** |
| ***Dependent variables (Phase 1)*** | | | |
| ***Culmulative Abnormal***  ***Return*** | Actual Return |  | Where: : return of firm i on day t ;  : market returns on day t;  and: parameters estimated using the market model . |
| Abnormal Return | ***AR*** |  |
| Culmulative Abnormal  Return | ***CAR*** |  |
| ***Independent variables*** | | | |
| ***Company Characteristics*** | Firm size | ***Size*** | *Natural log of firm’s assets* |
| Profitability | ***PROF*** |  |
| Cash flow | ***CASH*** | (%) |
| Leverage | ***LEV*** | *LEV =* |
| Growth Opportunities | ***GROWTH*** | (%) |

Table : Summary of variables

1. *Empirical model*

The impact of characteristics' corporate bond issuance on cumulative abnormal return:

1. **RESULTS AND ANALYSIS**

The analysis refers to the announcement date as day 0. The abnormal returns are calculated between t= [−30, 30]. Tests of statistical significance are based on the research of (Corrado, 1989), so a Standardized t-test and a non-parametric test (Rank test) will be applied in the calculation process of the study.

1. ***Event study results***

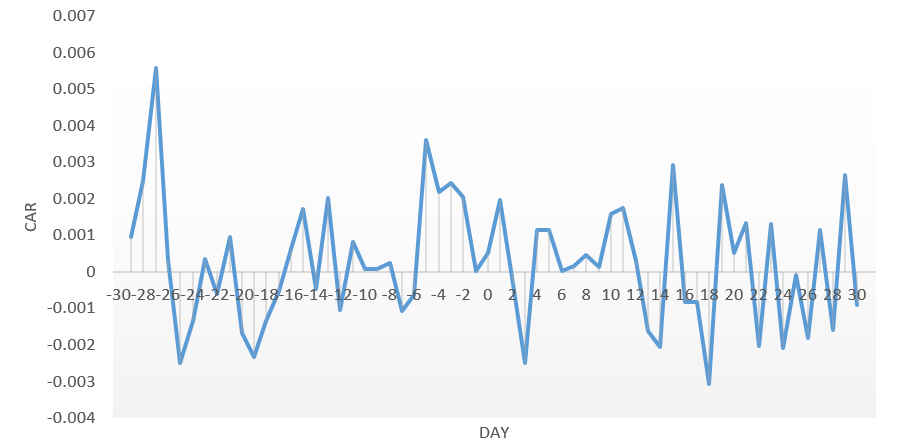


Figure : . Graph of cumulative abnormal returns for all observations

Figure 1 illustrates the change in CAR over the 30-day window preceding the release date (t = [-30; +30]).

Overall, bond issuers' experience fluctuated significantly in CAR during this period. Although there were ups and downs in both the pre-and post-event periods, the CAR peaked in the pre-release period while it hit its lowest point in the post-event.

The stock market witnessed a significant transformation 30 days before the announcement. Figure 1 shows a clear upward trend during the (-30; -25) period, with CAR reaching its highest point of nearly 0.06% on day -28. Then, a negative CAR trend appeared between days (-27; -19), with two sharp declines ranging from -0.02% on days -26 and -19. After that, an uptrend continued until day -5, just before it plummeted.

Investors appear to respond aggressively to the information when the announcement is made. Specifically, there was a slight increase two days after the bond issue. The CAR percentage fluctuated steadily throughout the entire time, reaching its lowest point with a CAR of -0.03 at t = +17 and a high on days 15, 20, and 30 with a CAR of roughly 0.03%.

|  |  |  |  |
| --- | --- | --- | --- |
| Period | CAR(%) | Beta | P-value |
| (-1) to (+1) | 0.20 | 0.29 | 0.39 |
| (-5) to (+5) | 1.26 \*\* | 0.35 | 0.03 |
| (-10) to (+10) | 1.32 | 0.39 | 0.10 |
| (-15) to (+15) | 1.84 \* | 0.40 | 0.09 |
| (-20) to (+20) | 1.20 | 0.43 | 0.33 |
| (-25) to (+25) | 0.87 | 0.44 | 0.53 |
| (-30) to (+30) | 1.56 | 0.43 | 0.32 |

Table : T-test over different CAR surrounding the event

\*,\*\*,\*\*\*Significant at α = 10, 5 and 1 %

In order to evaluate the first hypothesis, a t-test was included to assess CAR over different periods.

Table 2 shows the abnormal return in periods around the release date. An increasing trend of CAR can be seen during the event window ranging from 3 days (t= [-1;+1 ]) to 61 days (t= [-30;+30 ]).

In particular, in the three days surrounding the event, there was a slight increase in CAR (at 0.2%); however, this change is insignificant. Subsequently, a significant positive in cumulative abnormal returns of 1.26% was observed over the period [-5, +5] at α 5%, indicating that the announcement effect is positively significant with CAR. In light of that, the timeline extension shows a bullish signal for CAR over the 21 days surrounding the event; however, there is no significant during that event. Up until around 31 days surrounding the announcement date (with t= [-15, +15]), the CAR once again records a positive of 1.84% at α of 10%. Again, with a significant positive outcome, the two event windows above strongly support the study's first hypothesis. The null hypothesis that the bond announcement had no effect on the CAR can therefore be rejected, it might be said.

A modest tendency of CAR volatility can be noticed over the 61 days and 41 days surrounding the event. However, during this time, the announcement effect has no impact on CAR.

Next, in order to obtain an overview of the volatility of CAR under the influence of the bond issuance announcement, the study will evaluate the results based on two main periods: Before and after the announcement.

Table 3 presents the results in various event windows, including before and after the event.

|  |  |  |  |
| --- | --- | --- | --- |
| Period | CAR | Beta | P-value |
| (-30) to (-1) | 1.29 | 0.41 | 0.211 |
| (-20) to (-1) | 0.59 | 0.42 | 0.471 |
| (-10) to (-1) | 0.77 | 0.37 | 0.174 |
| (-5) to (-1) | 0.87 \*\* | 0.31 | 0.023 |
| (+1) to (+5) | 0.39 | 0.36 | 0.351 |
| (+1) to (+10) | 0.60 | 0.38 | 0.276 |
| (+1) to (+20) | 0.63 | 0.42 | 0.471 |
| (+1) to (+30) | -0.6 | 0.48 | 0.681 |

Table : : T-test over different CAR before and after the event

\*,\*\*,\*\*\*Significant at α = 10, 5 and 1 %

Table 3 shows that before the bond issue period, the market often responds favorably and gradually declines from 30 to 5 days before the event. Despite a positive CAR result being noted, no significant abnormal return was observed following the bond issuance announcement. Up until five days before the announcement was made public, a positive and significant CAR could be observed for t= [(-5);-1] with a CAR of 0.87% and significant at the 5% significance level.

Regarding the aftermath event, it is evident that the stock market responded favorably to trading, with the CAR remaining optimistic for the whole 20-day period that followed the bond issue. However, this positive trend is not affected by the bond issuance event since the p-values of the window events immediately after the event are greater than 10%, implying that this result is influenced by other factors that the study has yet to mention.

To sum up, with the assumption that corporate bond announcements positively impact CAR, the null hypothesis is once again rejected based on the results presented above. Instead, the results strongly support the alternative hypothesis.

Therefore, it can be concluded that the cumulative abnormal return has strong fluctuations and does not follow a particular trend during the event. However, when focusing on the periods t= [-5;-1], [-5;+5], and [-15;+15], it is clear that the company's increased debt through the issuance of bonds still has favorable effects on the CAR.

In addition, with the complicated movements of the stock market, investors must also consider many other factors before making the final investment decision. Hence, besides the announcement effect, it is essential to include other elements for consideration and analysis.

1. ***Regression results***

*2.1. Descriptive statistic*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| *Variable* | *Obs* | *Mean* | *Std.Dev* | *Min* | *Max* |
| *Firmsize* | 132 | 31.91005 | 2.996743 | 23.30631 | 35.29044 |
| *Profitability* | 132 | 0.0670141 | 0.0347608 | -0.0063828 | 0.2192084 |
| *Leverage* | 132 | 0.74136638 | 0.179713 | 0.2888458 | 0.958454 |
| *Cashflows* | 132 | 0.177152 | 0.0698744 | -0.14761 | 0.2807576 |
| *Growth Opportunities* | 132 | 0.4030503 | 3.57019 | -7.302536 | 37.02193 |

Table : Descriptive Statistic

Table 4 provides descriptive statistics about the characteristics of the company. Regarding firm size, the quantity is determined using the total assets' logarithmic value. The logarit of firm size ranges from 23,306 to 35,290, with a mean of 31,910. With total assets of 2,120 trillion VND in 2022, the Bank for Investment and Development of Vietnam (BIDV) would be the largest company in term of size by assets. Meanwhile, Khang Dien Housing Trading and Investment Joint Stock Company (KDH) is the firm with the smallest size, with a total asset of 13 billion VND in 2019. Additionally, compared to the other variables, the standard deviation of firm size is 2,006743, the highest value.

Second, in terms of leverage, on average, 74% of firms' assets are financed by debt, with a minimum leverage of 28% and a maximum of 95%. Since leverage ratios are typically less than 1, a company's operations are still primarily financed by equity rather than debt. In general, the sample companies are managing leverage effectively.

The mean profitability is 6.7%, ranging from -6% to 21.92%. As of 2021, Vinhomes JSC (VHM) had the highest profit, and Phat Dat Real Estate Development Corp (PDR) had the lowest profitability. Indeed, 2022 is predicted to be a challenging year for real estate enterprises due to difficulty in accessing capital sources, rising input material prices, and products that can not be sold.

Additionally, with a mean of 0.403, growth opportunities ranged from -7.302 to 37,021. Lastly, cash flow varies between -1.47% and 28%, with an average of 17.7%, suggesting that the sample firm's liquid assets still have enough value to pay its debts.

*2.2. Correlation analysis*

Theoretically, correlation analysis aims to measure the association between all variables in the regression through correlation coefficients. The correlation matrix presented in Table 5 includes CAR and firm characteristics.

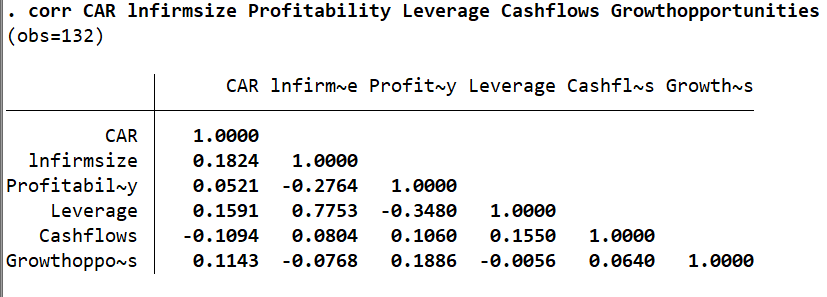


Table : The correlation between variables

First, with correlation coefficients equal to 0.1824, it is possible to see a positive association between CAR and firm size. A positive correlation indicates that firm size and abnormal stock returns are positively correlated, with larger firms being associated with higher CARs and vice versa. It is clear that in the Vietnamese market, investors frequently decide whether to invest in a firm based on its size. However, the association is relatively weak because the coefficient is so near zero.

Second, there was a favorable association between CAR and growth opportunities, with correlation coefficients of 0.1143.

Before making an investment decision, the prospectus has always been regarded as a crucial document that can be used to evaluate the profitability and prospects of the company. Therefore, a business with high profits and clear signs of growth is always the top criterion for investors, which implies that the share prices of these companies also increase. Specifically, this positive correlation was seen in the Vietnamese stock market, with high growth opportunities leading to increased CAR and vice versa.

Next, financial leverage is a commonly used method by businesses to generate a greater return on operating assets. Financial leverage will boost the company's profits if used for the proper purposes and to its full advantage. However, it will become a double-edged sword and lead to unpredictable consequences if some companies abuse excessive leverage. With the Vietnamese market, investors positively react to the leveraged instrument at correlation coefficients equal to 0.1591. The results imply that the increase in CAR results from increased leverage and vice versa.

Cash flow and CAR, however, have a -0.1 negative correlation. According to the inverse correlation, when a company's cash flow increases, the abnormal return on the security would decline.

The majority of correlation coefficients, however, are low and weak, which means that correlations are naturally not particularly strong.

*2.3. Regression analysis*

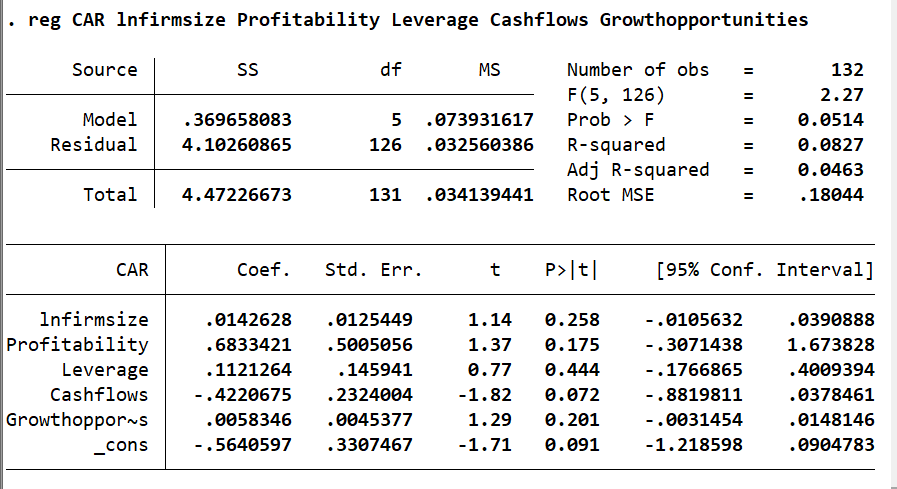


Table : Regression result

The regression model in Table 6 evaluate how independent factors (including firm characteristics) affect the dependent variable (CAR). According to the R-square coefficient of 0.082, it can be concluded that the independent variable explains 8.2% of the variation of the dependent variable. In other words, the 8.2% figure demonstrates that the independent variables' ability to explain the variation in cumulative abnormal returns is inadequate.

Moreover, table 6 demonstrates the F-test with a p-value of 0.0514 (less than 10%), suggesting that the regression model is statistically significant at approximately 10%.

Overall, after considering the independent variables, only the cash flow factor significantly impacted CAR. At the same time, no statistical significance was found between CAR and the remaining variables, including firm size, profitability, leverage, and growth opportunities.

Specifically, according to Table 6, the cash flow is negative and significant at the 10% level. The results suggest that businesses with strong operating cash flow will receive a negative response from investors. This is consistent with the study's original hypothesis, which assumed that businesses with strong operating cash flows would not need to rely on outside financing since they preferred to employ their internal resources.

As a result, abnormal returns on the stock market tend to decline as cash flow rises.

Meanwhile, investors seem to not pay much attention to the remaining company characteristics. Specifically, based on Table 6, the p-value of lnsize, profitability, leverage, and growth opportunities are 0.258, 0.175, 0.444, and 0.201, respectively (in significant at the 0.1 level). Therefore, the above variables have insignificant coefficients with CAR.

This result is consistent with the study of ( Eckbo, et al., 2007); the researchers suggested that the variables that used to be the main factor for reaching conclusions in previous studies might not significantly impact the announcement effect in their study. Indeed, in the Vietnamese market, during announcement events, investors were not affected by factors such as firm size, profit, or leverage ratio when making their investment decisions.

Thus, it can be inferred that, in addition to the announcement effects that positively influence cumulative abnormal returns, cash flow is another factor that investors consider when making investment decisions. Additionally, it was discovered that none of the remaining firm characteristics, including firm size, profitability, leverage, and growth opportunities, had an impact on the CAR of securities.

*2.4. Robustness check*

A robustness check is a helpful technique for identifying possibly impacted observations and when data is contaminated with outliers, which is necessary to evaluate the model's trustworthiness. In order to determine the reliability of the confidence intervals and hypothesis tests in this study, heteroskedasticity and multicollinearity will be used.

*2.4.1. Multicollinearity*

First, to ensure that multicollinearity does not occur, the VIF test determines the correlation between many independent variables in the regression model. The result will be inflated with a coefficient error if the independent variables are correlated.

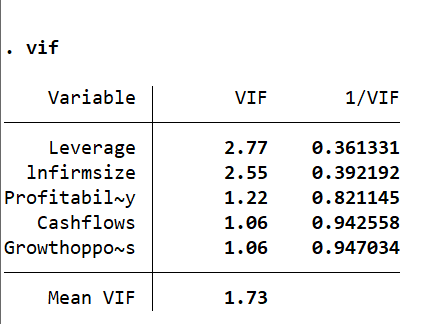


Table : Multicollinearity

The standard level of VIF has always been the subject of debate by researchers. While (Menard , 2001) and ( Gareth, et al., 2013)suggest that a VIF > 5 may be considered a cause for concern, and a VIF > 10 indicates a severe collinearity problem. Johnston R concluded that VIF ≥ 2.5 showed the presence of multicollinearity.

Based on the above recommendations, Table 7 shows a mean VIF of 1.7, implying that the prediction results are moderately correlated. Given the low standard error level, multicollinearity is not a concern in this study.

*2.4.2. Heteroskedasticity*

Since OLS regression presumes that all residuals drawn from the population have a constant variance, heteroskedasticity can happen when a system contains inconsistent and unevenly distributed residuals. Therefore, to satisfy the regression assumptions and have confidence in the results, a heteroskedasticity test is needed to check the constancy of the variance. Especially with Cross-sectional data, which is known for the sum of minimal and extensive values, and, thus, more likely to stick to heteroskedasticity.

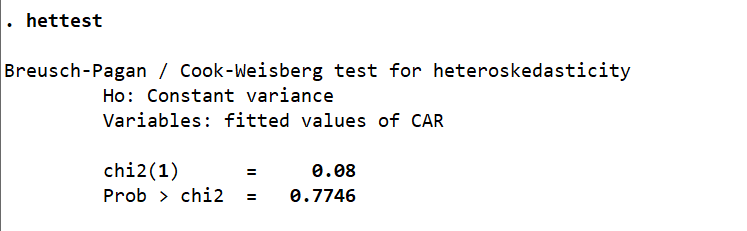


Table : Heteroskedasticity Test

Table 8 illustrates that the chi-square statistic's probability value equals 0.7746, which is more than 0.1. As a result, at a 10% level of significance, the constant value null hypothesis is not rejected. It means that residuals are not affected by the heteroskedasticity problem.

In conclusion, the findings discussed above are entirely accurate and applicable.

1. **DISCUSSION AND IMPLICATIONS**
2. ***The impact of announcements’ corporate bond issuance on CAR***

*1.1. Discussion*

Overall, the findings demonstrate that bond announcements affect the increase in CAR. With various timelines included taken into account, the results show that observations before and around the event include 5 days (t= [-5; -1]) 11 days (t=[-5;+5]) and 31 days (t=[-15;+15]) show a positive and significant relationship in the Vietnamese market, supporting the first alternative hypothesis.

Regarding the theoretical model, the announcement effect acts as a signal to the market, a result that supports Ross's signaling theory. According to (Ross, 1988), he believes that by signaling, investors would positively alter their perceptions of the business. Investors at the time believed that the company needed confidence in its financial resources and a willingness to completely repay lenders for their principal and interest before seeking funding from outside sources. Thus, high leverage creates a scenario with positive expected future cash flows.

Additionly, according to the research results, five days before the announcement, experienced a significant positive with CAR. This could be explained by the fact that the information was leaked to the market before the company made public announcements.

Therefore, with a positive announcement being leaked to the market, it will immediately receive a positive reaction from the stock market since they will quickly seize the opportunity to bring the highest profit. Hence, the result is in line with ( Michaelides, et al., 2014) 's research, which found a high correlation between information leakage and abnormal return before the event.

Besides, this finding disputes the theory put forth by ( Smith, 1986) or ( Fama & French, 1998) that no connection between CAR and bond issuance announcements was discovered.

The positive study results are consistent with ( Ibrahim & Minai , 2009) study on the issuance of Islamic bonds in the Malaysian market, which found a favorable reaction from the stock market in the times surrounding the announcement, with event t = [-3;3] and [-3;0].

As a result, it can be concluded that asymmetric knowledge is nonexistent and has no negative impact on investor sentiment.

Similarly, several studies across numerous markets also offer empirical data that is compatible with the findings of this study. While (Hyeong & Seung, 2019) researches the Korean market; (Wang, et al., 2019) finds a favorable effect for the event window (+1; +3) in the stock markets of Shanghai and Shenzhen.

In the Vietnamese corporate bond, despite some errors that raised investment risks at the beginning of 2022. However, the Ministry of Finance has established stricter guidelines and requirements for issuing private bonds since Decree 65 was published. As a result, the bond market is still relatively active in general.

Therefore, the positive and significant CAR coefficients in the Vietnamese market provide strong evidence of Ross's signaling theory. At the same time, (MILLER & ROCK, 1985) and ( Myers & Majluf, 1984) are refuted.

At the same time, the significant result on CAR during the event windows was also recorded to support the transition to the semi-strong form efficiency market in Vietnam ( Nhuong, et al., 2020), which suggests that the current stock prices adjust rapidly to the new publicly available information.

*1.2. Recommendation*

After reviewing the research findings, it is clear that various audiences, such as investors, corporate executives, or business economists, can benefit greatly from this research.

From an investor's standpoint, short-term investors can use the chances and information from this study to apply to the Vietnamese stock market. Mainly focused on three big event windows with t = [-5;1], t = [-5;5], and t= [-15;15], the decision to buy or sell in the stock market can produce remarkable profits. Specifically, during three events, a positive CAR trend is always observed. It can be seen that the market is underestimating companies. Therefore, investors can consider and seize opportunities to invest in undervalued companies at this stage. From there, paying attention to announcement events can bring opportunities and good profits for investors, especially those with long-term vision.

Second, from the company's management perspective, the management will be more cautious when choosing to issue bonds and pay more attention to the time and circumstances of issuance since the company has noticed that the bond issuance announcement effect might cause swings in CAR.

Finally, this essay can serve as a resource and a starting point for further investigation. There is little evidence on this topic, particularly for the Vietnamese market, where this research area has yet to be extensively researched.

1. ***The Impact of characteristics’s Corporate Bond Issuance on Cumulative Abnormal Return***

Regarding company characteristics, even though most variables do not demonstrate significance with the predicted sign, only the operating cash flow is negative and significant with CAR. This result is consistent with the studies of (Shawn, et al., 1998),

(JENSEN, 1986) has demonstrated that the agency cost can occur with free cash flow, defined as surplus cash flow required to finance projects with net present value (NPV), to explain this outcome. There may be a conflict of interest between shareholders and managers at that point. In this case, the latter may exploit surplus free cash rather than using it to advance shareholders' interests. Thus, it is possible to argue that there is an inverse relationship between strong operating cash flows and adverse stock market reactions.

Other aspects of the business, such as firm size, profitability, leverage, or growth prospects, also have insignificant coefficients. This outcome aligns with the convertible bond study by ( Eckbo, et al., 2007). The researchers asserted that many of the choice factors crucial to earlier studies had no appreciable impact on examining the announcement effect.

Additionally, this outcome challenges ( Stein, 1992) claim that firm size and leverage can influence the market favorably and serve as reliable indicators of improved future performance.

Thus, it is clear that the announcement effect directly impacts abnormal stock returns. In order to choose the best investment within the event window, investors in the Vietnamese market also pay some attention to the cash flow element. Other company features are also not taken into account and have little impact.

1. ***Limitation***

During the study, there were some limitations. First, the bond market in Vietnam has grown strongly only in the last five years. As a result, the small number of observations may impact the study's result. Additionally, due to each company's distinct characteristics, companies' inconsistent issuance of bonds over time can hinder and disturbs the research findings.

Second, in addition to the factors already mentioned, additional factors may also impact the outcomes. (Davidson, et al., 1995) have demonstrated that corporate bond characteristics influence abnormal returns. Therefore, it is recommended that the characteristics of the bond, such as Coupons, Maturity, Investment grade, or Oversubscription, should be included in future studies.

Furthermore, sample synthesis based on the classification of different industry sectors should also be considered. Breaking down different areas can result in more in-depth insights and recommendations for each area. However, due to the observation's limitations, the sample cannot be divided for the study.

1. **CONCLUSION**

This article analyzes the Vietnamese stock market and corporate bond markets. More specifically, the paper examines the impact of corporate bond issuance on investors through the stock market.

The findings of this research were attained by analyzing, critiquing, and testing the numerous factors mentioned in the hypothesis:

First, this study's findings show that corporate bond announcements favorably impact the Vietnamese market's cumulative abnormal return. The application of the t-test revealed significantly favorable CAR outcomes over three different time points using the event study methodology. This implies that investors and issuers can use bond issuance in Vietnam as a market signal. In contrast to the MM theory, the results align with the signaling hypothesis.

Secondly, to evaluate other factors likely to affect stock prices, the paper also develops a fairly reliable cross-sectional regression model to find the relationship between CAR and firm characteristics.

However, among the variables included, only the cash flow factor strongly influences the abnormal change in stock prices. Furthermore, the study may need to address other effects of CAR.

Therefore, the bond issuance announcement is the primary cause that directly impacts cumulative abnormal returns during the event. At the same time, investors may consider other factors, including the cash flow, before making final investment decisions.

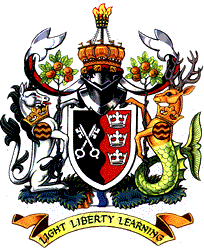
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**The University of the West of England**



**Nguyen Kim Chi**

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**Announcements Effect of Corporate Bond Issuance on Share Price Returns of some listed companies in Ho Chi Minh Stock Exchange (HOSE)**

A Project presented in part requirement of the degree of Bachelor of Arts with honours

in Banking and Finance of the University of the West of England, Bristol.

Academic year of presentation: 2022/2023

Faculty of Business and La

Record of meetings with your project supervisor

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| Supervisor’s name: Dr. Ho Hoang Lan |
| Project title: Announcements Effect of Corporate Bond Issuance on Share Price Returns of some listed companies in Ho Chi Minh Stock Exchange (HOSE) |

**Record of meetings**

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| **Date** | **Time** | **Supervisor’s signature** |
| Semester 1 |  |  |
| 15/09/2022 | 15:00 - 15:30 | Dr. Ho Hoang Lan |
| 23/10/2022 | 14:00 - 14:30 | Dr. Ho Hoang Lan |
| 5/12/2022 | 16:00 - 17:00 | Dr. Ho Hoang Lan |
|  |  |  |
| Semester 2 |  |  |
| 05/02/2023 | 15:00- 15:30 | Dr. Ho Hoang Lan |
| 17/03/2023 | 15:30 - 16:00 | Dr. Ho Hoang Lan |
| 18/04/2023 | 14:00- 14:30 | Dr. Ho Hoang Lan |