

EFFECT ON QUARTER RESULTS ANNOUNCEMENT TOWARDS STOCK PRICE: EMPIRICAL EVIDENCE FROM INDUSTRIAL PRODUCT SECTOR

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Abstract

This study investigates the effects of quarterly results announcement on share price of industrial products sectors. The data of public listed companies is collect from the Kuala Lumpur Stock exchange (KLSE). The study focuses on top ten gain companies in Malaysia based on their market capitalization. By applying the Panel Ordinary Least Square (POLS) based on first quarter of 2013 until fourth quarter of 2018. This study used earnings per share, revenue, net profit, dividend and net tangible asset as independent variables and price from each company choose as dependent variables. By using POLS analysis, this study tests the significant relationship between earnings announcement and share price. It is consistent with the previous study which there is a significant relationship on earnings per share, revenues, net profits, dividend and net tangible asset towards stock price.

Keywords: Quarter Result Announcement, Stock Market, Stock Price, Earning Management, Industrial Product

1.0 INTRODUCTION

Malaysia today has an enhanced economy and has turned into a main exporter of electrical appliances, electronic parts and components and natural gas from an economy dominated by the production of raw natural resource materials, such as tin and rubber back at 1970s. World Bank (2017) had expressed on The Star that Malaysia quickened development has been fuelled by strengthening domestic demand, improved labour market conditions and wage growth, as well as improved external demand for Malaysia's manufactured products and commodity exports. They likewise said capital use has additionally expanded because of higher private and public investment. There are many sectors in the Malaysia Kuala Lumpur Index (KLCI) included industrial, technology and trading-services sector.

Though, this paper studies on the effects of quarterly results announcement on share price in industrial product sector in Malaysia. Industrial product sector is sector that engage with the manufacture materials or components into new products for industrial use. Malaysia is a newly

industrialised country that experienced an economic boom and goes through rapid development during the late twentieth century ("The world bank in Malaysia", 2017).

Recently, the Malaysian KLCI shows a better performance in January 2018. News Strait Times reported that Bursa Malaysia wrecked the year's 2017 trading with a large hit as the Composite Index hit a year high of 1,796.81 points with extensive buying on heavyweights as they encouraged by upward momentum of local peers. Market breadth was positive with 489 gainers against 468 losers, while 389 counters were unchanged, 494 untraded and 49 others suspended. However, KLCI historical data shows that the Malaysian Stock Market reached all the time high in June of 2014 ("Bursa hits record 1,892.33", 2014).

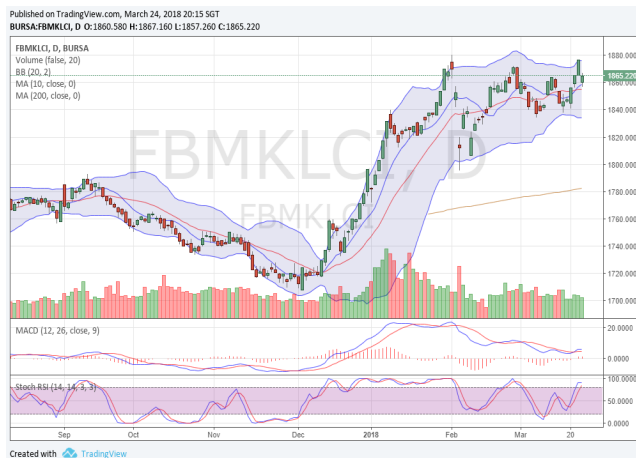


Fig. 1 Performance of FBMKLCI. (Sources: Malaysiastock.biz)

Fundamental analysis is the most vital sign used by investor to invest or not to invest in a specific share by using quarterly results of the company (Zakaria et al., 2012). Public companies make their quarterly report announcement based on periodical filing to report their accomplishment. Company quarter result announcement is also closely watched events, being the fundamental basis of new information about company performance and plays a critical role in drawing in investments in shares. It can be proven by study conducted by Al-Ajmi (2009) which he investigated into each investor' perceptions of the factors affecting buying, holding and selling of stock on the Bahrain stock exchange (BSE). The real question here is, can investors rely on the quarter result announcement, in forecasting the company's stock price movement?

2.0 LITERATURE REVIEW

2.1 REVENUE

[7] examine the announcement effects of share price market quarterly earnings announcement by using net profit and net sales. He concluded that share price market reaction to the earnings announcement is very slow or insignificant. This study results can be confirmed trough [5] which also studied on the effects of revenues towards stock price. They examined on how information taken by revenues, and founded that revenues and earnings surprises and positively correlated with stock price.

2.2 EARNING PER SHARE (EPS)

[12] which analyses the relationship between stock price volatility and dividend policy of industrial products firms listed on Bursa Malaysia. The data comprises 166 industrial products public-listed firms from year 2003 to 2012. The results earnings per share has a significant positive relationship with share price,

signifying that the more stable the earnings power of a firm, the less volatile its stock price. It was supported by [4] which they indicate that the stock prices of all sample of banking sectors change with the change in earnings. Their findings is stock price has negative relationship with the earning per share. [3,13] show no significant influence between earnings volatility on the changes of the company share prices.

2.3 NET PROFIT

The result of the financial ratio analysis with statistical methods shows that the profitability ratios group and valuation ratios group have a significant effect on stock prices [2]. This study results inconsistent with previous research such as [7,8] and they concluded that share price market reaction to the earnings announcement is very slow or insignificant.

2.4 DIVIDEND

[4] indicate that the stock prices of all sample of banking sectors change with the change in dividend. It consistent with [13,9,6] which they analyze the share price reaction towards dividend announcement and all authors conclude that there is a positive impact of dividend announcement on the share prices.

2.5 NET TANGIBLE ASSETS

Research by [12] concluded that firm's stock price volatility is related to dividend payout, controlling for earnings volatility, firm size, leverage and growth of assets. [10] which investigated the influence of price to book value and price to sales multiples and stock price of selected firms in Nigeria. The result reveals significant positive relationship between price to book value and the stock price. [2,13] finds that market to book value have a statistically significant effect on stock price.

3.0 METHODOLOGY

3.1 POPULATION AND SAMPLE

The data analyse from year 2013 on the first quarter until 2018 on the fourth quarter from the Bursa Malaysia. This study uses panel data as the year taken only 6 years and based on market capitalization, top ten lead companies were chosen.

Table 1. Ten companies chosen based on the highest market capitalization.

Bil	Name of the company	Market Cap. (RM' billion)
1	Petronas Chemicals Group Bhd	64.720

2	Petronas Gas Bhd	34.865
3	Press Metal Aluminium Holdings Bhd	24.411
4	Hartalega Holdings	19.336
5	Topglove Corporation Bhd	12.217
6	Kossan Rubber Industries Bhd	5.480
7	DRB Hicom Bhd	5.065
8	Cahaya Mata Sarawak Bhd	4.620
9	Lafarge Malaysia Bhd	4.461
10	Scientex Bhd	3.716

3.2 DATA COLLECTION TOOLS AND INSTRUMENT

In this research paper, secondary data is used. 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.

3.3 EQUATION

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

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.

NTA : Net Tangible Asset of a public listed company

ϵ : Error term

3.4 STATISTICAL ANALYSIS

This research paper used a statistical analysis such as descriptive analysis, correlation analysis and POLS to examine the relationship between quarterly report announcement and company share price.

4.0 RESULTS AND DISCUSSION

4.1 DESCRIPTIVE ANALYSIS

Table 2. Descriptive statistic analysis

	SP	REV	EPS	NP	DIV	NTA
Mean	5.7977	1218620	9.4021	168387.4	4.3202	2.8299
Median	4.0125	658743	8.0000	61486	1.5000	2.6650
Maximum	24.5200	4740000	52.6600	1295000	40.0000	6.3250
Minimum	0.3040	214489	-40.9000	-790760	0.0000	0.4700
Std. Dev.	5.6661	1218066	9.1652	277624.3	6.0087	1.3436
Skewness	1.8196	1.4058	0.3267	1.644309	2.1325	0.5517
Kurtosis	5.6544	3.4852	9.9620	6.310685	9.9295	2.7017
J-Bera	202.9097	81.4079	488.9757	217.7564	662.0993	13.066

The mean or average is the most regularly used technique by researcher to describe the central tendency of the results. As in the table 2, the mean for stock price (SP), revenues (REV), earnings per share (EPS), net profit (NP), dividends (DIV) and net tangible assets (NTA) is 5.7977, 1218620, 9.4021,

168387.4, 4.3202 and 2.8299 respectively. The median is the score found in the middle of the set of values collected. The median values for stock price (SP), revenues (REV), earnings per share (EPS), net profit (NP), dividends (DIV) and net tangible assets (NTA) is 4.0125, 658743, 8.0000, 61486, 1.5000 and 2.6650 respectively. Furthermore, the measures of dispersion also been evaluated. The common measures of dispersion are the standard deviation. The standard deviation displays the connections that the set of the values used in the observation has to the mean of the sample. A greater standard deviation value identifies the greater spread of data. Assuming that the distribution of the values in this investigation is normal, numerous assumptions can be prepared. The standard deviation value for stock price (SP), revenues (REV), earnings per share (EPS), net profit (NP), dividends (DIV) and net tangible assets (NTA) is 5.6661, 1218066, 9.165203, 277624.3, 6.008723 and 1.343606 respectively.

4.2 CORRELATION ANALYSIS

Table 3. Correlation Matrix Test

Prob	SP	REV	EPS	NP	DIV	NTA
	1					
SP	----					
	0.008463	1				
REV	0.130567	----				
	0.8962	----				
	0.484774	-0.08795	1			
EPS	8.550641	-1.36211	----			
	0.0000	0.1745	----			
	0.440801	0.588775	0.548353	1		
NP	7.576093	11.23742	10.11611	----		
	0.0000	0.0000	0.0000	----		
	0.588101	-0.00495	0.425893	0.297484	1	
DIV	11.21775	-0.07633	7.261886	4.806994	----	
	0.0000	0.9392	0.0000	0.0000	----	
	0.635832	0.189884	0.443241	0.287484	0.499878	1
NTA	12.70897	2.983673	7.628264	4.630557	8.904017	----
	0.0000	0.0031	0.0000	0.0000	0.0000	----

It can be seen the probability of the stock price and revenue is 0.8962. It is not significant which indicates that it higher than the 5% significance level (95% confidence level). Thus, it failed to reject the null hypothesis. As for the correlation between stock price and earnings per share, the probability is 0.0000. This means that it lesser than the 5% significance level (95% confidence level) indicates that it is significant. We can reject the null hypothesis. Other than that, stock price and net profit's probability value is 0.0000 which is smaller than 5% level of significance (95% confidence level). It is significant, and then we reject the null hypothesis. The correlation value for stock price and dividend is 0.0000 which is smaller than 5% level of significance (95% confidence level). This means it is significant and we reject the null hypothesis. Moreover, the probability value for stock price and net tangible assets is 0.0000 which is smaller than 5% levels of significance (95% confidence level)

which indicate it is significant. Thus we reject the null hypothesis.

4.3 PANEL ORDINARY LEAST SQUARE (POLS)

Table 4. POLS Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.457988	0.576343	0.794644	0.4276
REV	-2.30E-06	3.08E-07	-7.4928	0.0000
EPS	-0.15489	0.041489	-3.7333	0.0002
NP	1.32E-05	1.56E-06	8.473781	0.0000
DIV	0.216996	0.045351	4.784845	0.0000
NTA	2.277958	0.216086	10.54193	0.0000
R-squared	0.63796	Mean dependent var		5.797758
Adjusted R-squared	0.630224	S.D. dependent var		5.6661
S.E. of regression	3.445509	Akaike info criterion		5.336702
Sum squared resid	2777.938	Schwarz criterion		5.423718
Log likelihood	-634.404	Hannan-Quinn criter.		5.371763
F-statistic	82.46759	Durbin-Watson stat		0.475879
Prob(F-statistic)	0.0000			

I. REVENUE

The probability value for revenues is 0.0000 which is smaller than 5% level of significance (95% confidence level). Thus we reject the null hypothesis. This means there is significant relationship between revenues and share price. This results do not consistent with the research of [7] which they examine the announcement effects of share price market quarterly earnings announcement by using net profit and net sales. He claimed that share price market reaction to the earnings announcement is insignificant. Fortunately, these studies can be proven by the [5] as they get the same results and surprises it positively correlated with stock price.

II. EARNING PER SHARE

The probability value for earnings per share is 0.0002 which is smaller than 5% level of significance (95% confidence level). Thus we reject the null hypothesis. This means there is significant relationship between earnings per share and share price. Based on the findings above, the main findings of this paper are consistent with the previous studies, the effects of quarterly report announcement towards share price. The prior research by [12,4,3] had stated that the earnings per share has the significant relationship towards share price. In the result above, we can see the probability value for earnings per share is 0.0002 which is smaller than 5% level of significance (95% confidence level). Thus we reject the null hypothesis. This means there is significant relationship between earnings per share and share price. However, it does not same with the studies of [13] as they said there is no significant influence between them.

III. NET PROFIT

The probability value for net profit is 0.0000 which is smaller than 5% level of significance (95% confidence level). Thus we reject the null hypothesis. This means there is significant relationship between net profit and share price. We take a look into a past research such as have a significant effect on stock prices [2]. He also proved that the net profit has a same outcome which is consistent with this study. Unfortunately, the prior research of [7,8] argued that net profit has slow and insignificant effects towards stock price.

IV. DIVIDEND

The probability value for dividend is 0.0000 which is smaller than 5% level of significance (95% confidence level). Thus we reject the null hypothesis. This means there is significant relationship between dividend and share price. However, this results not consistent with recent study by [4,13] as they said that dividend affects stock price negatively. They also said that their result is inconsistent evident as the most of the dividend has been found positive relation with other variables. In this research, the findings show consistent outcome with the [9,6]. They claimed there is a significant effect of dividend towards stock price.

V. NET TANGIBLE ASSETS

The probability value for net tangible assets is 0.0000 which is smaller than 5% level of significance (95% confidence level). Thus we reject the null hypothesis. This means there is significant relationship between net tangible assets and share price. Moreover, there is significant relationship between the net tangible asset or market to book value and the stock price [12,2,13]. All the researchers claimed that net tangible asset has a significant effect toward the stock price. This proved the probability result of 0.0000 of net tangible asset. This indicates that the values are less than the 5% of significance level and we must reject the null hypothesis.

5.0 CONCLUSION AND RECOMMENDATION

5.1 CONCLUSION

The overall results show that there is a significant relationship between earnings per share, revenues, net profit, dividend and net tangible assets towards the stock price. Among the variables, there is a significant negative relationship which is revenues and earnings per share. This indicates that increase in revenues would decrease the stock price. It also same perceptive as the earnings per share, implying that increase in earnings per share would decrease the stock price.

Other than, there is variables has a significant positive impact on the stock price which is net profit, dividend and net tangible asset. The results of this research also revealed the strongest variables that effect the stock price is the revenues, net profit, dividend and net tangible asset. Large firms are generally more profitable, stable, and financially sound and therefore should experience lower volatility in terms of stock price

5.2 RECOMMENDATION

The main purpose of this paper is to identify the effect of quarterly report announcement toward stock price in industrial product industry. 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, Earning per Share (EPS) Net Profit, Dividend, and Net Tangible Assets of companies is the key elements that should consider by market participants and institutional investors because it lead to significant towards stock price.

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