SHARE PRICE REACTIONS TO BONUS ISSUE
ANNOUNCEMENTS OF SRI LANKAN STOCK MARKET
(1993-2004)

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Abstract

This research investigates share price reaction to bonus issue announcements in Sri Lankan Stock market for the period of 1993 to 2004 (including both years). Study sample consist of 76 bonus announcement issues, which represent 28 listed companies that belong to 11 business sectors in Sri Lankan Stock market. For deeper understanding the effect of bonus announcements, the study sample is further divided into two sub-groups which represents entire study sample. One study sample consists of bonus announcement issues having large bonus ratio (bonus ratio is greater than or equal to 50%) and other sample consist of bonus announcements issues having small bonus ratio (bonus ratio lower than 50%). There are 63 small bonus announcement issues and 13 large bonus announcement issues in the study sample.

In summery, there are positive market reactions from investors to both sizes of bonus announcements. In addition, results of this research imply that Sri Lankan stock market does not exhibit semi-strong form of market efficiency for bonus issue Event Study methodology was used to determine Average Abnormal Return (AAR) on event date (bonus announcement date) and around the event date at portfolio level (during the investigating window of -60 to +60 days). AAR was estimated using Abnormal Return (AR) data of each individual stock.

The results show that, there is positive AAR on event date for both large size bonus announcement issues as well as small size bonus announcement issues. AAR is statistically significant at 1% level for both large and small size of bonus announcements. Investor's responses towards large size of bonus announcements are more positive than that of small size of bonus announcements. There is positive Cumulative Average Abnormal Return during the pre event period for both sample and it indicates that investors have positive attitudes towards bonus announcements. In addition, 85% of large bonus announcement observations and 62% of small bonus announcement observations have positive AR on event date. Overall, 66% of the events have positive AR on event.