

ABNORMAL RETURN ON STOCK SPLIT - REVISITING THE EVIDENCE OF THAILAND DURING 2009 - 2018

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ABSTRACT: *An abnormal return on the stock split is one of the most prominent debates in the finance industry. Positive signaling and optimal trading range hypotheses are underlying principles that are commonly used to describe a positive market reaction to the stock split. This research paper focuses specifically on the market's reactions by the announcement date of the stock split, applying firm size and price range to explore insightful connections. The samples are listed companies in the Stock Exchange of Thailand (MAI excluded) with a stock split from January 1, 2009, to December 31, 2018, aiming to capture data in all economic cycles. To examine positive abnormal returns around announcement date, the event-study-methodology is applied. The study indicates that average abnormal return (AAR) and cumulative average abnormal return (CAAR) are significantly positive during the announcement. Applying firm size in the study, the market tends to react more positively to small-size firms, likewise, low-price. The pieces of evidence indicated that stocks responded more positively by reason of consciously or subconsciously anticipation to post-splits. The investors are able to apply the rationales and logic behind this corporate action to distinguish between fundamental changes and expectations for their investment decisions in financial markets.*

Keywords: *Stock splits, average abnormal return, cumulative average abnormal return, event study, announcement date*

Introduction

Stock split refers to the adjustment of par value of the stock by the firm. In effect, a split simply increases the number of shares outstanding by subdividing the existing number of shares into a greater number of units. As one of the most commonly used corporate practices spanning several decades, stock split has been one of the widely researched topics in finance literature. In theory, stock splits are

a cosmetic change with no real economic value or any impact on cash flow, investments or capital structures of the firm. In practice, however, stock splits have been one of the most common corporate actions in use until today. One of the most prominent examples is the announcement of stock split by Apples with effect on 30th July 2020, marking the fifth stock splits since the company went public in 1980 (Bary, 2020).

One of the most commonly asked questions explores the reason behind stock splits. This topic has been one of the most widely researched areas and disputes among scholars as they try to understand the rationales of stock splits and market reactions surrounding the announcement date over the past forty years (Karim, 2018). According to the empirical evidence, there are three main hypotheses explaining the stock splits phenomenon, namely the signaling, the optimal trading range and the liquidity hypotheses. More specifically, these hypotheses suggest that

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