

Trading Behavior of Each Investor Type Reaction to Season Equity Offerings in Thailand

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Abstract— The purpose of this paper is to investigate the trading behavior of three different investor groups around season equity offering (SEO) in Thailand. The evidence shows that individuals are net-buyer while foreigners and institutional investors are net-seller. Further, investors prefer to trade private placement (PO) rather than other SEO types.

Keywords— Seasoned Equity Offering (SEO), Event Study, Private Placement (PP), Public Offering (PO), Right Offering (RO), Retails, Foreigner, Institutions

I. Introduction

The research on asymmetric information theory documents that different types of investors perceive news and information about firms' performance and future prospects unequally. Thus, there exists a gap in confidence and decision making for investment. For example, Masulis and Korwar (1986) historically found that the portfolios which do not involve any known sales of stocks by management perform better than the portfolios which do. Ryu, Kim and Yang (2016) recently found that institutional trades are positively related with stock returns since there is an information superiority of institutional investors. In contrary, individual trades are negatively associated with stock returns because of the information inferiority.

In addition, it is expected that, from the information asymmetry, individual investors are net buyers of attention-grabbing stocks, e.g., stocks in the news, stocks experiencing high abnormal trading volume, and stocks with extreme one day returns. Attention-based buying results from the difficulty that investors have searching the thousands of stocks they can potentially buy. Individual investors don't face the same search problem when selling, because they tend to sell only a small subset of all stocks – those they already own. Stocks bought by individual investors on high-attention days tend to subsequently underperform stocks sold by those investors (Barber and Odean, 2005). Likewise, SEO stocks are considered 'in the news' as they must be reported and/or publicly announced. As a result, individual investors are predicted to be net buyers.

This study focuses on investigating trading behavior of investors by separating the investors into three different types based on available market microstructure data from the Stock Exchange of Thailand:

- 1) Individual investors include broker portfolio, broker customers, sub-broker portfolio and sub-broker customers,
- 2) Institution investors include broker mutual fund and sub-broker mutual fund, and
- 3) Foreign investors include foreign broker and foreign sub-broker.

Three types of seasoned equity offerings including private placements, public offerings and right offerings are analyzed. Private placement (PP) refers to the sales of securities to a relatively small number of selected investors, usually institutional buyers, as a way to raise capital. Public offering (PO) is the sale of equities or other financial instruments by an organization to the public i.e. there is no limitation to the group of people to buy stocks for fund raising. Right offering or right issue is an issue of rights to a company's existing shareholders who are entitled to buy additional shares directly from the company within a fixed time period.

II. Data Sample

These transactions can be acquired from the database. For SEO, the data with PP (Private Placements), PO (Public Offerings) and XR (Exclude Rights) will be used for this research. XR indicates that the buyer of a stock carrying an XR sign will not be entitled to any recently offered rights. In other words, to get the ownership of the firm, investor needs to buy newly issued stocks any time before the sign is on. Prior to SEO, the firm may have a Board's meeting and the announcement.

The data acquire totally has more than 4,560 events since 1975 when the Stock Exchange of Thailand established. However, the scope of the study will be on common stocks only as well as the year will be covered from 1999 until 2014 where the investor types data are available. Initially, there are about 1,800 events from 1999 to 2014 for Stock Exchange of Thailand, which is enough to generate statistically significant level and confidence in the result. Out of this, the two major types of offerings found are right offerings (RO) and private placements (PP): 48% and 45%, respectively, while public offering (PO) is accounted for 7% from the data set.

The summary is shown in Table 1. From the historical data of SEO, evaluated by sectors, Property and Construction is the biggest industry in Thailand to issue additional stocks, accounted for 27.5% of the events. The next two biggest industries are Services and Industrials; each of them contributes 15.6% and 10.6%, respectively. Financials industry comes as the fourth place at 10.1%, followed by MAI industries and Technology industry.

Equity offerings come out as the most convenient operations to observe and analyze among other external financing decisions because:

- 1) SEO needs to be approved by the shareholder's meeting,
- 2) SEO can be issued over a several-year period, so managers can time the operation and decide exactly the time and conditions for the operation to be realized
- 3) SEO is defined by legal and/or supervision authorities (Securities and Exchange Commission, or SEC). Thus, all information required and other qualifications for SEO firms have to be disclosed to public. This implies that important dates such as the official announcement date or the realization date are easily identifiable relative to other financing decisions like bank loans or alternative private financings. This can also be guided by a Disclosure Manual (2007) developed by the Stock Exchange of Thailand.
- 4) SEO are available to every investor type. This allows comparisons between a wide range of firms, and different capital structures, unlike straight or convertible bonds which are restricted to larger corporations.
- 5) SEO firms are usually required to announce the use of proceeds whether it will use the fund to finance a new project or balance capital structure operations.

TABLE I. CHARACTERISTICS OF SEO FIRMS IN THAILAND

Industry	Frequency	%
Property & Construction	759	27.5%
Services	430	15.6%
Industrials	292	10.6%
Financials	280	10.1%
MAI Industry	243	8.8%
Technology	205	7.4%
Agro & Food Industry	109	3.9%
Resources	101	3.7%
Consumer Products	59	2.1%
Others	287	10.4%
Total	2,765	100.0%

Table 1 summarizes the SEO events based on the industry of the firms that issue additional securities. There is a total of 2,765 events originally from 1999 – 2014. SEO has been popular in Property & Construction, Services, Industrials and Financials Industries, accounted for more than half of the total events.

Table 2, on the other hand, summarizes the distribution of SEO in Thailand with respect to time. Equity-leverage financing has been used by many firms in the history. As a result, this research is aimed to explain the details of each offering to see whether it is, somehow, related to any perspectives elaborated in later section.

Table 2 summarizes the SEO events by calendar year. It can be observed that SEO is becoming more and more popular over the past few years.

TABLE II. SEO DISTRIBUTION BY YEAR

Year	Frequency	%
1999	204	7.4%
2000	144	5.2%
2001	124	4.5%
2002	175	6.3%
2003	185	6.7%
2004	193	7.0%
2005	156	5.6%
2006	145	5.2%
2007	140	5.1%
2008	133	4.8%
2009	89	3.2%
2010	136	4.9%
2011	143	5.2%
2012	213	7.7%
2013	279	10.1%
2014	306	11.1%
Total		100.0%

III. Methods

The event study method used in this research based on assumptions that the market is efficient, the event is unanticipated, and there is no confounding effect during the event period.

First of all, the event date must be defined as set as Day 0. The SEO dates, both the date of announcement and the actual date the firm allocates the securities (issuance date), are the events for this research. Second, the time period of the event study must be framed. On the timeline in Figure 1, test period is identified as the interval before and after the SEO date, $t = T_0$. This is also known as the event window, from $t = T-1$ to $t = T1$. The impact of the event on dependent variable will be examined in this event window.

The data provides information on four different types of investors including individuals, foreigners, proprietary traders, and institutional investors. However, the data provided by the SET is very limited such that the proprietary investors trading information is not available. From the on-hand data, the behavioural aspect of each investor type can be studied.

The higher the magnitude is, the higher the value investor buys or sells. In fact, the mean comes from the total value of buy (+) or sell (-) divided by total shares registered (referring to market capitalization), as denoted in Equation (8).

$$\frac{(\text{net buy} - \text{net sell value})}{\text{total share registered}} \quad (1)$$

If the mean is more than zero, or positive, it implies that this investor is a net-buyer. Vice versa, the mean less than zero, or negative, denotes that the investor is a net-seller. The result is shown in Table 3, again the asterisk defines the standard practice of significant level.

IV. Results

Table 3 presents how each investor type reacts to SEO events using the announcement dates in different window, negative number implies that that specific group of investors buy stocks (from the total market picture) and vice versa. From database, investors can be classified into individuals, foreigners, and institutions, however, proprietary investor information is not fully available. The number of asterisks show the significant level.

TABLE III. INVESTOR REACTION TO SEO EVENTS

Event	Individuals	Foreigners	Institutions
1D	0.13% ***	-0.08% ***	-0.10% ***
5D	0.23% ***	-0.14% ***	-0.17% ***
1M	0.33% ***	-0.26% ***	-0.08% **
6M	1.03% ***	-0.85% ***	-0.16% ***
1Y	1.64% ***	-1.13% ***	-0.47% ***
3Y	2.62% ***	-1.70% ***	-0.85% ***
5Y	3.21% ***	-2.04% ***	-1.10% ***

Table 3 reports the behavior of each investor type with 1% significant level that individuals are the buyers of stocks right after SEO, while foreigners and institutional investors are the sellers.

Further, the reaction of investors around announcement date and stock issuance date is investigated and compared. Figure 1 illustrated the comparison between announcement date (A) and issuance date (I), which is written in the description. However, as the result shows only the investor behavior, it can be concluded that either the event is signaled by announcement of SEO or the actual date of stock issuance, there is no impact to investors' reaction. The day after SEO, individuals cumulatively buy 0.13%, while the foreigners and institutional investors sell at 0.08% and 0.10%, respectively. The cumulative number, in terms of magnitude, gradually increases – as presented in Table 3, and illustrated in Figure 1.

Therefore, from Figure 1, individuals will buy the stocks from foreigners and institutional investors. The trend is the same regardless of event widows.

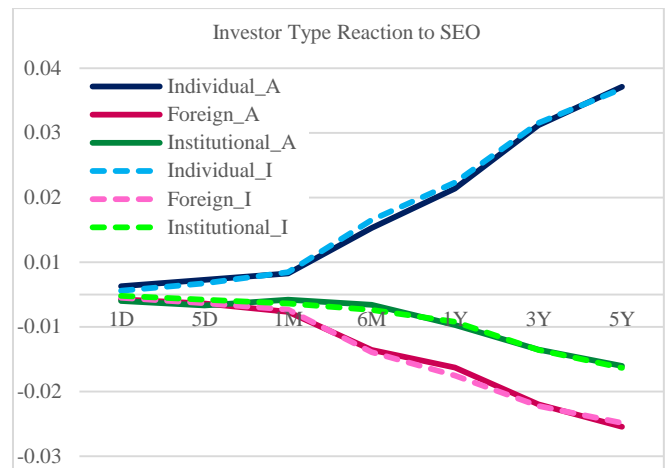


Figure 1. Reaction to SEO by Each Investor Type – Initial Analysis

Looking by each type of SEO at a deeper level, there are some key differences in the investor type behavior or reaction, but please be noted that there are some limitations in the number of samples. The study holds the investor type as the controlled variable, PO has relatively less number of samples, say 50-60 samples, versus other types: PP, XRS, and XRW, in which the numbers of samples are all above 300 samples. This makes the result of PO is less statistically significant. Figures 2, 3 and 4 show the behaviors of individual, foreign and institutional investors to different offering type, respectively.

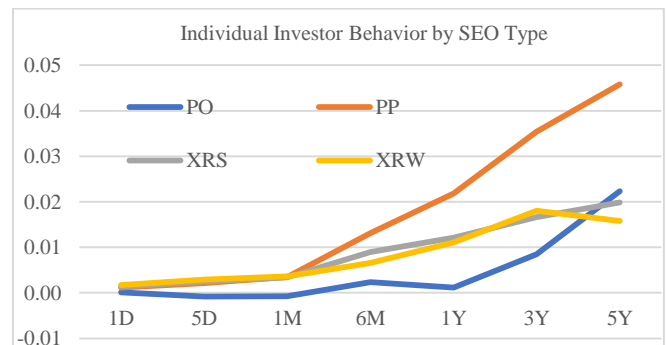


Figure 2. Reaction of Individuals to Different SEO Type

Figure 2 shows the individual behavior after SEO. This is in-line with the Figure 1 that individual investor is the net-buyer. Figure 2 points out at a deeper level of analysis. When it comes to SEO offering type, individual investor prefers to buy more if the offering type is private placement. The cumulative purchase can go up to 2 times more than other types of offering over the long run; this is significant at 1% level for rights offering with common stocks and with warrants. However, public offering information is too less to statistically conclude that individuals prefer this type the least even though the graph points out that way.

From the sellers' point of view, Figure 3 and 4 breaks down the initial analysis into foreign and institutional investors, respectively. Both below figures illustrate that foreign and institutional investors prefer to sell more if the listed company issue private placement rather than rights offerings. Public offerings show the least movement, corresponding with the low number of samples in this study;

consequently, the result shows for public offering is not statistically significant.

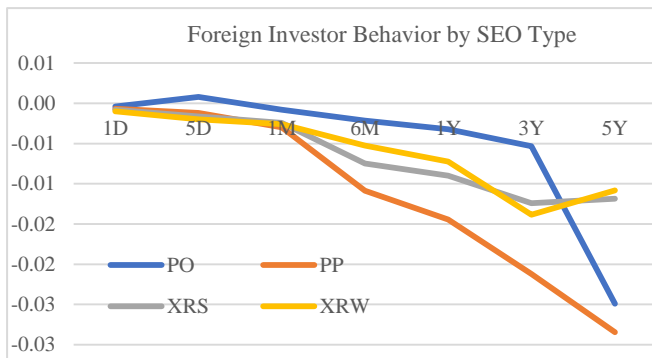


Figure 3. Reaction of Foreigners to Different SEO Type

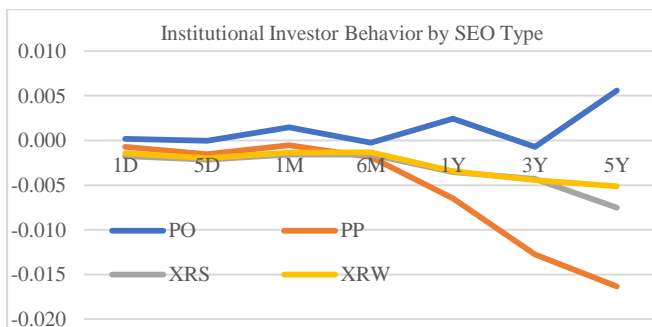


Figure 4. Reaction of Institutions to Different SEO Type

Nevertheless, it might not be effective to conclude the studies over the long-run as there are uncountable variables/factors that induce investors to sell or to buy. In addition, the effect of event might be negligible by that time since there are also social, economic and political changes along the way, especially in the Stock Exchange of Thailand as the market condition is relatively unstable.

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