

Impact Of The News Of Economic Transformation Programe On Various Sectors In Malaysia Stock Market

Assoc. Prof. Dr. Cheng Fan Fah
Mr. Tan Kim Foo
Ms. Cheng Seow Voon
University Putra Malaysia
University Kebangsaan Malaysia

ABSTRACT

The Economic Transformation Programme (ETP) is a comprehensive effort that will transform Malaysia into a high-income nation by 2020. This study investigates the impact of (ETP) on Malaysian capital market. The data that used in this study consists of daily returns in Kuala Lumpur Composite Index and various sector indexes. Event study method is used to analyze the effect during the announcement of various announcements of transformation news. The market model is used to analyze the effect of these ETP events. The results expected to show that the shocks provided by (ETP) are likely diversified away at the market level for Malaysian market, but the effect of these extreme (ETP) events is varying across these different market sectors in this market. This study suggests that the impacts of (ETP) on Malaysia indexes will be significant.

Keywords: Economic Transformation Programme (ETP), event study, announcement effect, information. Abnormal returns, market model.

INTRODUCTION

Governments are the key enabler to enhance the economic growth of the country and shape the environment in which the private sector operates. They enhance the economic growth in many ways; they create a favorable business environment, they provide subsidies, reduce tax rate, regulate competition, define environmental policies and etc. In recent year, government has established The Performance Management & Delivery Unit (PEMANDU) and is a unit under the Prime Minister's Department. PEMANDU's main role and objective is to monitor implementation and assess progress of the Economic Transformation Programme (ETP) and the Government Transformation Programme (GTP).

Malaysia Government has begun a major Economic Transformation Programme (ETP) in year 2010. The ETP is a comprehensive effort that will transform Malaysia into a high-income nation by 2020. The ETP program led by YB Senator Tan Sri Dr. Koh Tsu Koon, Chairman of the Performance Management & Delivery Unit (PEMANDU, 2010) board and assisted by YB Senator Dato' Sri Idris Jala, Deputy Chairman and Chief Executive Officer of PEMANDU is held by Minister in the Prime Minister's Department (PEMANDU, 2010).

It targets to lift Malaysia's gross national income (GNI) per capita from RM23,700 (USD6,700) yearly in 2009 to more than RM48,000 (USD15,000) yearly in 2020, lifting the nation to the level of developed countries' high income nations. This GNI growth of six per cent per annum will allow us to achieve the targets set under Vision 2020 (PEMANDU, 2010),.

The ETP will see Malaysia's economy develops significant changes to achieve developed nation. It's will continue to focus on a service-based economy, Under the ETP, estimated more than 3.3 million new jobs will be created by year 2020 (PEMANDU,2010) nationwide including urban and rural areas, these new jobs will result nations income shift towards middle and high-income salary levels. Greater Kuala Lumpur/Klang Valley will be transformed into a world-class acclaimed city. Finally, growth will be achieved in a sustainable manner, without additional cost or environmental destruction to future generations.

The Malaysia ETP strategy and its implementation are totally varies from last attempts to enhance and grow Malaysia economy. A bold and brand new strategy and execution approach have been taken to ensure the success of ETP. It is the first time ever in history of Malaysia that special effort has been undertaken. The private sectors and the business community have been largely involved in this ETP. In view of the involvement of the private sectors and the business community and mostly

of these private sectors and business community involve in ETP are listed in Bursa Malaysia, it will raise a question on how the ETP program effect on Bursa Malaysia Indices performance.

Generally, the FTSE Bursa Malaysia KLCI is used by investors to gauge the overall stock market performance in Malaysia. The private sectors and business community companies included in the index calculations are usually the ones which are primary market movers listed in the nation's stock exchanges that have strong linkages to the country's economic development. There are also specific indices that are narrower in scope, such as indices that represent specific sectors or industries.

The Bursa Malaysia indices consist of FTSE Bursa Malaysia Indices, Sector indices and etc. In this study, Bursa Malaysia sector indices will be analyzed, sector indices consist of six markets sector namely, Industrials Index (INDI), Financial Index (FINI), Utilities Index (UTII), Consumer Index (CONI), Oil & Gas Index (OIGI) and Construction Index (COSI).

Therefore, the questions is "How is the ETP News Announcement Bring Effect to the performance of Bursa Malaysia Sector Indices?" The study suggest that the ETP announcement especially announcing news on major projects award to private sector or companies will have an impact on Bursa Malaysia Sector Indices' performance. Furthermore, to the knowledge of the researcher, there is no similar study focusing on the ETP media news announcement effect on Bursa Malaysia Sector Indices' performance yet.

The objectives of this study are firstly to analysis the degree of the effect of the ETP media news affect the performance of Bursa Malaysia Sector Indices. This will indirectly correlate to the ETP projects have been awarded to private sector or companies or government link companies (GLC) contribute to the growth of Malaysia share market. Furthermore, as an enabler to Malaysia economy growth. Secondly, to identify which business community sectors gain most of the benefits under the ETP projects and lastly The study also tests whether the investor can make an above normal return in Bursa Malaysia Indices by relying on the ETP official Information news announcement.

This study, upon completion, will provide better understanding of the relationship between the ETP media news announcement and the performance of Bursa Malaysia Indices. This study will provide an insight view on whether it is positive or negative correlation between the ETP deployment and the public listed companies or GLC companies. Indeed, the finding also indicates which business sectors gain financial benefit from the ETP projects. The finding also tell the investor or researcher on the sign of insider trading activity up to how many days prior the ETP news announcement if any.

LITERATURE REVIEW

In Zaman (2005) research paper six top companies belonging to six different sectors of the Pakistani industries have been chosen which are registered at Pakistan Stock Exchanges at Karachi, Lahore and Islamabad and different type of news relating to these companies have been analyzed. Some news like declaration of dividends, changes in top management structures, declaration of annual financial results, insider trading, actions taken by competitors and various other key decisions relation to the companies have impact on its stock price movement. The study had concluded that the effect of insider trading, declaration of financial results or dividend declaration have maximum effect on stock price movement in Weak Form Efficient Market Hypotheses(EHM) in Pakistan Stock Market.

Ryan and Taffler (2004) study seek to determine whether companies' largest price changes and trading volume movements are driven by reported firm news events or, alternatively, driven by non-information related events or noise. They adopt a novel methodology to explore the relationship between information events and firm price changes and trading volume activity. They measure the information content of news using two metrics of news importance. Firstly, examine the relative frequency with which different news categories drive firm price changes and trading volume activity. Secondly, rank the magnitude of the price changes/trading volume movements and use a Mann Whitney Rank Sum test to measure the differential price/trading volume impact of the news events that occur with the greatest frequency. They find that reported corporate news events drive a significant proportion of companies' economically significant price changes and trading volume activity that inconsistent with the thesis that such large price changes and trading volume movements are not related to news in any meaningful manner in British Stock Market.

In Zhang (2006) research examine the role of information uncertainty in short-term price continuation anomalies and cross-sectional variations in stock returns. He use analyst forecast revisions and price momentum to distinguish good news from bad news and use firm size, firm age, analyst coverage, dispersion in analyst earnings forecasts, stock volatility, and cash flow volatility to proxy for information uncertainty. The study showed there is clear evidence that the initial market

reaction to new public information is incomplete, which implies that bad news predicts relatively lower future returns and good news predicts relatively higher future returns.

In order to understand the effect of media news coverage affect stock price, Scheufele, Haas, and Brosius (2011) study presented here tried to answer the question whether media have an impact on stock markets (macro level). According to theoretical and methodical considerations, they decided to combine a secondary analysis of stock market data with a content analysis of media coverage and applied a time-series strategy. At first sight, the results support the semistrong form of the market efficiency hypothesis, claiming that investors relying on publicly available information make no profit at stock markets (cf. Fama, 1970). However the study found strong correlations between widespread media coverage about listed German companies and the development of stock prices and trading volumes.

In the study of how changes in government policy affect stock prices, Lubos Pastor and Pietro

Veronesi (2010) analyze how changes in government policy affect stock prices. Their general equilibrium model features uncertainty about government policy and a government that has both economic and non-economic motives. The government tends to change its policy after performance downturns in the private sector. Stock prices fall at the announcements of policy changes, on average. The price fall is expected to be large if uncertainty about government policy is large, as well as if the policy change is preceded by a short or shallow downturn. Policy changes increase volatility, risk premium, and correlations among stocks. showed that averaging across all policies changes; the expected announcement return should be negative.

Indeed, Belo, Gala, and Li (2009) find empirically those firms with higher exposures to the government sector (measured by the fraction of sales generated by government spending) earn higher average stock returns.

Furthermore, Chen, Bin and Chen (2005) investigate the possible impact of various political events on Taiwan's stock performance. Where market-adjusted techniques are applied, seemingly Taiwan's stock market often reacts to the occurrences of political incidents with a significant abnormal price performance. The study find that Taiwan's stock market support Bilson, Brailsford, and Hooper (2002) finding which suggest that equity prices in emerging markets be specifically sensitive to the political event and its risk.

In the study of investor psychology, Daniel, Hirshleifer and Subrahmanyam (1998), develops a theory based on investor overconfidence and on changes in confidence resulting from biased self-attribution of investment outcomes. The theory implies that investors overreact to private information signals and under react to public information signals. In contrast with the common correspondence of positive (negative) return autocorrelations with under reaction (over reaction) to new information. The theory also offers an explanation for the phenomenon of average public event stock price reactions of interpreted as market under reaction to the public information event as post-event long-run abnormal returns.

In the research of company stock split effect on stock price, Pavabutr and Sirodom, (2008) explore the impact of stock splits on stock price and various aspects of liquidity using daily and intraday data from the Stock Exchange of Thailand between 2002-2004. The research finds evidence that stock splits can have favorable impact on stock price through reduction of trade frictions such as bid-ask spreads and price impact measures. The reduction in bid-ask spread and price impact is a consequence of increased trading frequency of market participants who are expected to have a preferred trading range. Indeed Andoain, Carlos and Bacon, (2009) study is to test whether the investor can make an above normal return by relying on public information impounded in a stock split announcement. Using risk adjusted event study methodology, this study tests "how" and "when" public announcements of forward and reverse stock splits affect stock price. The research suggests that the firms' public stock split announcements did not affect stock price on the announcement day. Rather, stock price exhibited a significant positive reaction up to 27 days prior to the announcement. For the reverse split sample, stock price exhibited a significant negative reaction up to 30 days prior to the announcement. The finding supports the semi- strong form efficient market hypothesis since stock prices adjust so fast to public information that no investor can earn an above normal return by trading on the announcement day. Investors greet forward stock split announcement with a positive sign, whereas they view reverse splits as bad news. In the study there is a clear signs of insider trading activity up to twenty-seven days prior to the announcement of the stock split.

Dennis and Strickland (2002) research study on the impact of firm ownership composition on both the abnormal returns at the announcement of a stock split and liquidity changes following a stock split. The study find the largest post-split increase in institutional ownership occurs for firms that had low institutional ownership prior to the split. Secondly, changes in liquidity are negatively related to

the level of institutional ownership prior to the split. Lastly, the abnormal return following a split is negatively related to the level of institutional ownership prior to the split.

Outcome of Malaysia New Economic Plan and Policies

Malaysia has achieved significant social and economic progress over the past several decades. However, the world economy and environment is changing, and Malaysia needs a fundamentally new economic model in order to become a high-income nation. The Government defines high income as a per capita income USD15,000 or RM48,000 in 2020, based on the World Bank's current definition of high income (PEMANDU, 2010). Therefore Government is embarking the Economic Transformation programme (ETP) to accelerate the high income objectives.

In the study of Malaysia seeks to escape from the middle income trap and realize the objective of 2020 vision to become a high income nation. H. Hill, T.S. Yean and R. H. M. Zin, (2012) study examines the Malaysian development record in the light of the current discussion concerning the alleged existence of a 'middle-income trap'. Malaysia is a highly suitable case study. It is a relatively prosperous upper-middle income developing country, with a history of generally rapid economic development. The study found that the major problems appear to be homegrown: a dominant party in continuous rule for over half a century, displaying all the symptoms of a long period in government – arrogance, complacency and corruption.

In additional, Doraisami, (2012) This paper analyses the policy response to economic crisis, in particular, the role of the New Economic Policy (NEP) which was introduced in 1970 and which remains in force today. The study find that macroeconomic management will require a paradigm shift away from the New Economy Plan (NEP) in order to become a high income for all Malaysian. However, the dominant party faces a dilemma. For Malaysia to become a high-income country, the government needs to undertake policy reforms that may lead to its demise, as it would no longer be safeguarding the interests of its supporters who have benefited from the NEP and would wish to have these policies preserved.

In Jarman and Chopra (2007) research paper aims to argue that the World Bank-sanctioned strategy of investing in knowledge economy infrastructure will not make a developing country competitive in the highest value activities such as research, design and innovation. Despite the creation of a world-class infrastructure, the Malaysian government has not been successful in realizing its original aim of creating a cutting-edge multimedia research and development hub. Instead a thriving business support services sector has developed. Therefore, it is by no means a guaranteed way to close the gap between rich and poor nations.

DATA AND METHODOLOGY

Sources of Data

The data that applied in this study can be divided into two sets. First data set are the daily and monthly closing prices for the Malaysian Kuala Lumpur Composite Index (KLCI), and six sector indexes which are construction (CON), consumer product (COP), finance (FIN), industrial (IND), Oil and Gas (OIG) and Utility (UTII). Since this paper studies the effect of ETP news, therefore a benchmark index is needed. This study uses KLCI Composite index, as the benchmark. All events effect are measured adjusted to KLCI.

First set of data is obtained electronically from Thomson DataStream. Daily closing price data is used to compute daily returns, while monthly closing price data is used to compute Alpha (α) and Beta (β) which to be discussed in later section.

Second data set consist of the ETP news that was announce in the local news paper. The study is assuming that each of the ETP projects announced is as equal important and significance as announcing a major milestone of the ETP activities to boost economic growth. This study also assuming most of the ETP projects are awarded to the public listed companies or public listed GLC companies. Although the study has achieved its objective, there are some unavoidable limitations. First because of time limit, this study only conducts 41 ETP media released news (from 1st media news released on 19th Sept 2010 to latest media news is on 1st March 2013) since the ETP program launched in year 2010 till now. There is more ETP media news going to announce later that this study won't be able to capture it.

Event Study Approach

This study adopts event study approach to investigate the behavior of KLCI and sector indexes around the catastrophic events. Event study method is the most common and widely accepted method to analysis relationship between the effect of the events and the market returns. Event study also used to test the Efficient Market Hypothesis (EMH). The hypothesis states that when new information happen to be available (unexpected events such as natural disasters and terrorist attacks), investors taken the information into consideration by evaluating its current and future impact and immediately reassess their companies and ability to adapts to possible external factors (social, demographic, economic, environment and politic) changes resulting from the event. The reassess actions results in changes of stock price and value of current and future companies' performance. The impact of the events reflects (significant positive or negative) on the stock price changes. In capital market research, event study methodology also provides an important purpose as a way to testing market efficiency.

Hypothesis Development

This study examines whether the natural and disasters have effects on Malaysian capital market.

Hypothesis

$H_0: \mu = 0$

$H_1: \mu \neq 0$

Where

H_0 = the event has no impact on the market returns; and

H_1 = the event has impact on the market returns.

With this null hypothesis, either a mean effect or a variance effect will represent a violation. In this study, hypothesis tests for a mean effect.

FINDINGS AND RESULTS

This chapter primary focused on interprets the results. The impacts of the 38 ETP announcement on Malaysia capital market have been computed and the results are presented.

Cumulative Average Abnormal Returns

This section shows the cumulative average abnormal returns (CAAR) of Malaysian KLCI and six sectors which are construction (CON), consumer product (COP), finance (FIN), industrial (IND), Oil and Gas (OIG) and Utility(UTI)

Figure 4.1 presents the CAAR of KLCI following the natural disasters and the KLCI CAAR trend during pre-event (-21, -1), event date (0) and post-event (+1, +10). The KLCI CAAR shows a increasing trend (-21days, +10days) in between the event date (0). It shows that the KLCI reacted positively before the occurrence of ETP announcement and reacted positively after the occurrence of ETP announcements. This indicates that the some leakage in the news announcement before and the market reacted continuously after the announcement.

Figure 4.2 presents the CAAR of three sectors which are construction, consumer product and finance indexes following the ETP announcements and the CAAR trend of three sectors during pre-event (-21, -1), event date (0) and post-event (+1, +10). There are two sectors which are construction and Finance have similar increasing CAAR trend. Consumer product sector CAAR trend is flatter compare to other two sectors. This can be explains by the consumer product sector is less impacted by the ETP announcement.

The impact of ETP announcement on construction is also similar with KLCI. This shows that investors have high expectations about future demand on raw material for reconstruction such as case of the Announcement of infrastructure project, like greater KL, MRT and etc that boosted Malaysia's construction, benefits from the ETP.

While the impact of ETP announcement on consumer product sector is less compare to others two sectors. The consumer sector CAAR trend is flat during pre-event, event date and post event. This can be explains by the impact of ETP is less of consumer sector.

Figure 4.3 presents the CAAR of three sectors which are industrial, Oil and Gas and Utilities indexes following ETP announcement and the CAAR trend of three sectors during pre-event (-21, -1), event date (0) and post-event (+1, +10).

Figure 4.3 shows that the CAAR trend of oil and gas and industrial product sectors similar with CAAR of KLCI. While the CAAR trend of utility sector is has less impacted by ETP announcements.

The impact of ETP announcements on the oil and gas, industrial and industrial product sectors can be explains by increase in oil and gas investment and the industrial production stimulated from the ETP.

The ETP announcement however caused pronounced downward shift on utility sector. This can be explained by the utility areas less affected the incentives announced in the ETP.

Statistical Analysis On Abnormal Returns Across Sectors

This section tests on hypotheses and the significant of the impact of ETP events on KLCI and sector indexes and determines whether ETP events have significant impact on Malaysia capital market. As a rule, market returns are expected to be higher when ETP were announced event occurs. A null hypothesis is tests of the ETP events have no impact in influencing market returns.

Table 4.1 present the results of the t-statistic of the ETP announcements of CAR(-5,+5), CAR(-5,+1), CAR(-1,+1), CAR(-1,+5) and CAR(-1,+10)KLCI and six sectors. From the results of t-statistic for ETP announcements on KLCI and six sectors, the results shows that KLCI, construction, industrial, oil and gas sectors have statistical significance on CAR(-5,+1).. Thus, the null hypothesis is rejected for these sectors at the significance level. The oil and gas shown the biggest impact from the ETP.

CONCLUSION

This study investigates the impact of ETP announcements on Malaysian capital market. The data that applied in this study consists of daily returns in Kuala Lumpur Composite Index and six sector indexes which are construction, consumer product, finance, industrial, oil and gas, and utility. The market model is used to analyze the effect of these events.

The results show that the shocks provided by ETP are varying across sectors. This study suggests that the impacts of ETP on sector indexes are short-term. The sectors that mostly affected by the ETP are Oil and gas, finance and industrial sector.

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FIGURE 4.1: CAAR Of KLCI Following The ETP Announcements

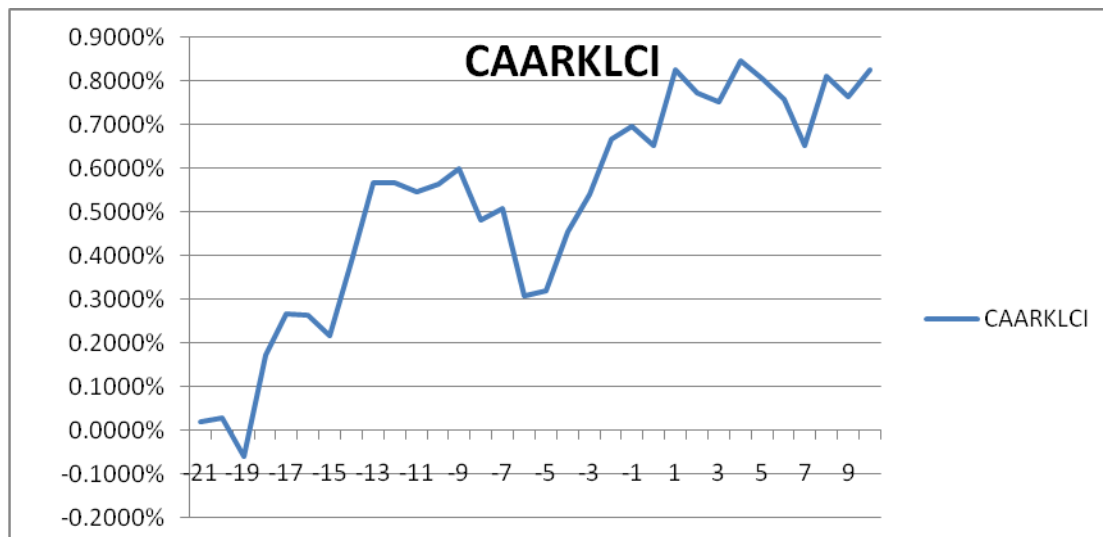


FIGURE 4.2: CAAR Of Consumer Product, Construction And Finance Indexes Following The ETP Announcements

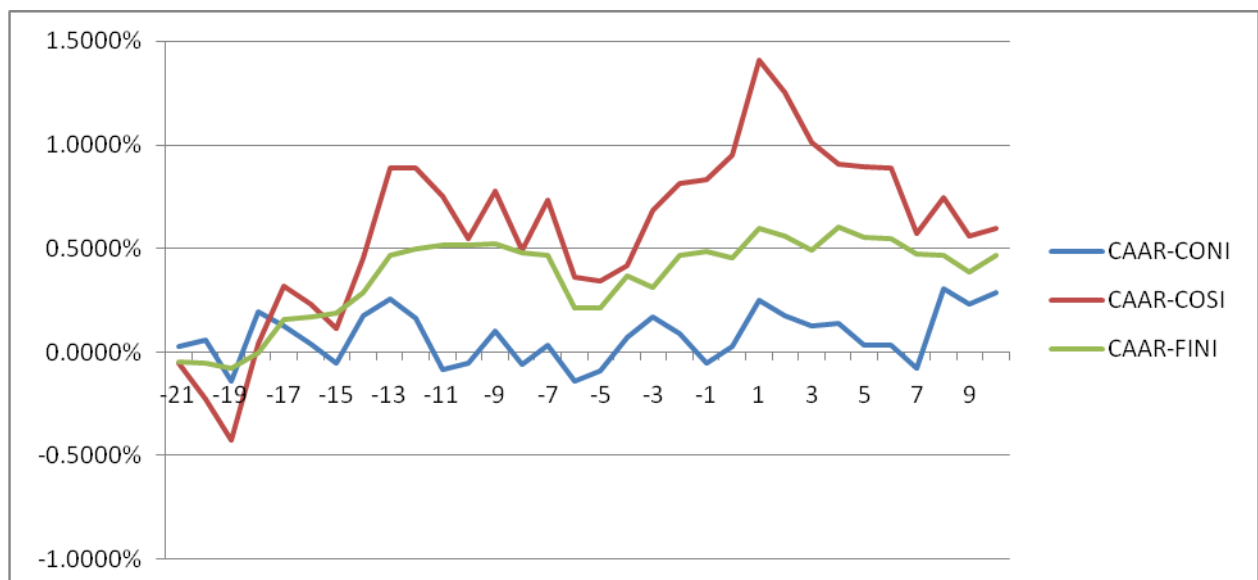


FIGURE 4.1.3: CAAR of Trade & Service, Industrial, Industrial Product and Plantations Indexes following the Natural Disasters

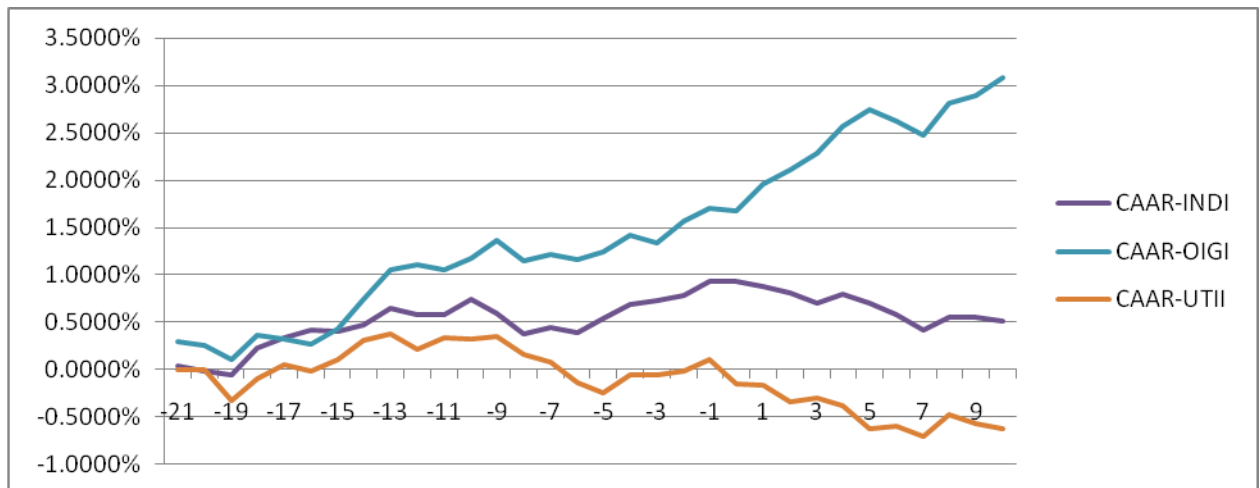


TABLE 4.1: t-statistic for ETP announcements

		CAR(-5, +5)	CAR(-5, +1)	CAR(-1, +1)	CAR(-1, +5)	CAR(-1, +10)
Consumer	Average	0.002	0.004	0.002	-0.001	0.002
	SD	0.023	0.017	0.013	0.017	0.026
	t_test	0.456	1.449	0.777	-0.206	0.459
Construction	Average	0.005	0.010	0.006	0.001	-0.002
	SD	0.035	0.027	0.023	0.028	0.035
	t_test	0.924	2.420**	1.569	0.172	-0.381
Finance	Average	0.003	0.004	0.001	0.001	0.000
	SD	0.019	0.016	0.012	0.016	0.023
	t_test	1.092	1.475	0.690	0.337	0.005
Industrial	Average	0.003	0.005	0.001	-0.001	-0.003
	SD	0.023	0.014	0.011	0.021	0.027
	t_test	0.795	2.107*	0.506	-0.259	-0.612
Oil and Gas	Average	0.016	0.008	0.004	0.012	0.015
	SD	0.032	0.024	0.015	0.025	0.026
	t_test	3.082***	1.994*	1.626*	2.916**	3.676***
Utility	Average	-0.005	0.000	-0.002	-0.006	-0.006
	SD	0.029	0.020	0.014	0.024	0.031
	t_test	-1.029	-0.110	-0.682	-1.578	-1.226
KLCI	Average	0.005	0.005	0.002	0.001	0.002
	SD	0.017	0.013	0.010	0.014	0.021
	t_test	1.769*	2.387**	1.025	0.598	0.474