

THE EQUITY PERFORMANCE OF MALAYSIAN COMPANIES EMERGING FROM FINANCIALLY DISTRESSED CONDITION

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ABSTRACT

Financial distress occurs when a company cannot meet its debt obligations or has to restructure its debt to avoid default. In Malaysia, Bursa Malaysia Berhad has set up Practice Note 4/2001 (PN4) in order to have separate classification for financially distressed companies. A financially distressed company will be de-listed if it fails to regularize its financial condition within the period stipulated by Bursa Malaysia. From the period of 2002 to 2004, 67% of PN4 companies have successfully implemented their restructuring plans. Consequently, this study attempts to investigate the stock price performance of emerging PN4 companies, which have restructured their financial condition using event study methodology. All thirty-five successfully restructured PN4 companies were taken as a sample in this study. Findings reveal that there are large, negative abnormal returns in 200 days following emergence from PN4. The results are a stark contrast compared to the findings in United States which have documented positive abnormal returns for companies emerging from financial distress.

Keywords: Malaysia; Event study; Restructuring

