Abstract

This paper extends Leemakdej (2007) study on the use of stock split as a positive signal for subsequent new issues. Leemakdej (2007) argued that stock split might be used as a signal by firms with good investment prospect. However, other financing channels of the firm reach the point where it needs to issue new stocks to raise fund. The pecking order theory suggests that raising fund through new issuance might confuse the market of the prospect, the stock split is then used to signal the market and lessen the potential negative impact from new issuance. This study employs an event study to investigate 33 stocks listed on the Stock Exchange of Thailand that split their stocks 200 days before the issuance dates. The result clearly shows significant positive abnormal return for these stocks around the new issues date. On the contrary, non-split firms do not show any significant abnormal returns. Further test by cross-section regression provides strong support on the use of stock split as a signal before issuance. The signal is so reliable that firms with sufficient alternative financing sources such as retained earnings or debt cannot pretend to have good prospect by splitting their stocks.