Earnings response coefficients of Malaysia property stocks controlling for liquidity, profitability and debt/equity

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Abstract: This paper attempts to determine the earnings responds coefficients of Malaysia property stock between share price and accounting earnings controlling for liquidity ratio, profitability ratio, debt/equity ratio. The results show that share price is significantly affected by the accounting earnings and the return on assets at the individual company level; whereas, current ratio and debt to equity ratio have no significant impact on share price. Meanwhile, at the portfolio level, share price does not change ordinally in a statistically significant manner in response to the increasing and decreasing on current ratio, return on assets and debt to equity ratio, but share price can only be changed statistically significant manner due to the changing on accounting earnings or earnings per share.

Key words: Earnings response coefficients; Current ratio and debt to equity; Portfolio

1. Introduction

Accounting earnings can be defined as the amount of money that a company earned during the accounting period basically quarterly or yearly, as reported based on popper accounting standards like Generally Accepted Accounting Principles (GAAP). The information about the accounting earnings is very important especially to investors because its help to measure a company's profitability and also company's performance. In order to invest in a particular company, the investors should consider the earnings quality, not only earnings quantity in evaluating the company's accounting earnings.

Earnings per share is one of the extensively used statistics that is calculated from data associated with its stock market performance, not from the statement of comprehensive income and statement of financial position. Definitely, the earnings per share have to be reported in the statement of comprehensive income of publicly traded firms. The ratio indicates how much the firm has earned per share of stock outstanding despite of how much the individual stockholder has paid per share for the rights over that annual earnings and also how many assets a firm used to generate those earnings.

Financial ratios are variables derived from data disclosed in financial statements, and are widely used by investors to evaluate corporate financial performance. Financial ratios play a significant role in terms of financial analysis in order to describe the state of health of an ongoing firm for a given point in time as well as to make conclusion about changes in a particular firm's structure over time. The most important ratios that will be analyzed in this study are profitability ratio (return on assets), liquidity ratio (current ratio) and debt to equity ratio. Other than that, financial ratios tend to be most meaningful when the ratios are used to compare amongst organizations within the same field of industry.

Property is a sector where finance and the built environment meet, involving the buying and selling, planning and development, and management and investment of the property. The property sector is an unpredictable sector where it's driven by the economic climate, getting benefits from greater economic growth and facing losses when the economic downturn.

For example, one of the Malaysia's leader in the property sector is Gamuda Land which is the Property Development arm of GAMUDA BERHAD, a company listed on the Main Board of the Bursa Malaysia with an annual turnover of RM 1.4 billion (USD 400 million) and a market capitalization of about RM7.7 billion. Gamuda Land has completed more than 15,000 units of residential, commercial and industrial properties since its establishment in 1995. Another 75,000 homes are expected to be built over the next 10 years with its increased land bank in Kuala Lumpur, Selangor and South Johor as well as its recent entry into the Vietnam property market.

The relationship between accounting earnings, liquidity ratio, profitability ratio, debt/equity ratio and share price is very important especially to the investors in order to make any decision related to the investment in a particular company. The main research question in this study is there any relationship between accounting earnings, liquidity ratio, profitability ratio, debt/equity ratio and share price in property sector? Therefore the objectives of

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this study is to examine the relationship between accounting earnings and share price (ERC) controlling for liquidity ratio, profitability ratio, debt/equity ratio in property sector.

The findings of this study are useful in order to know the relationship between accounting earnings, liquidity ratio, profitability ratio, debt/equity ratio and share price of property. By discovering the significant relationship or association, the users especially investors will be able to decide in which condition of accounting earnings that they should buy the shares that might give the best return. Other than investors, the potential users that might use this study are regulators, security commission and academicians.

2. Literature review

The earlier research for Malaysia stock markets goes along the line of the usefulness of earnings studies in the paper by Cheng et al. (2001), Cheng and Nasir (2009), Cheng et al. (2013). Studies outlined by Cheng et al. (2001) report that share prices change significantly when accounting earnings changes are disclosed in an emerging capital market: the (a) strength, (b) consistency and (c) magnitude of the observed effect are not different from those reported in few institutionally more developed capital market. The findings suggest that accounting earnings change is a price relevant variable, and that earnings has a sole contemporaneous impact on share prices in the emerging market. Stock prices change ordinally and monotonically in a statistically significant manner in response to earnings increases and decreases are quite evident. The strength or magnitude of the correlation between the risk-adjusted price changes is quite high in the tests using long window figures. These results were robust with variations for firm size and industry effect. However, the finding on the firm specific variables on earnings-to –returns relation shows no significant effect. Therefore, only the unexpected earnings explained the abnormal returns during earnings announcement period.

The findings of Cheng (2008) in examining the earnings response of bank stocks and their factor suggest that accounting earnings is a price relevant variable for banks also in other Asia Pacific economies that earnings have a contemporaneous impact on share prices for banks in emerging and developed markets. That risks determinants affect the magnitude of the earnings response coefficients that stock prices change ordinally in a statistically significant manner in response to earnings increases and decreases is quite evident, as is the case of existing findings. The credit risk factor of banks contributed significantly to the returns-to-earnings relation, which suggests that this is an important factor that influences the investors' revaluation of bank share price.

Ball and Brown (1968) identified a significant relation between earnings information and stock returns. Reported earnings have been documented

as an important determinant of stock prices in both accounting and finance literature. But the relation between earnings announcement and price changes of property firms listed in Malaysia's stock market has not been well documented. This study intends (1) to examine the relation between stock price movements with earnings changes of banks listed on the Bursa Malaysia. (2) To determine the direction of stock prices response to the earnings announcements.

Bernad et. al. (1990) study the possibility that stock prices fail to fully reflect the implications of current earnings for future earnings. Seasonal random walk model has been used to estimate the expected returns for the study purpose. The main theory in this study is stock prices fail to reflect the extent to which the time-series behavior of earnings deviates from a naive expectation: a seasonal random walk, where expected earnings are simply earnings for the corresponding quarter from the previous year. The result shows that the stock prices partially reflect a naive market earnings expectation and it did not fully support the theory built.

Wild et al. (1994) studies the earnings expectations, firm size, and the in formativeness of stock prices. This study examines the relative prediction performance of alternative sources of earnings expectations. The performance has been evaluated by using a univariate time-series, a price-based model and financial analysts. The study is based on the hypothesis which is earnings predictions for the price-based model is not superior to those from financial analysts. Moreover, firm size is not systematically related to the relative prediction performance of the price-based model and financial analysts. The findings indicate that the prediction performance of both financial analysts and price-based models improve for large firms and the corresponding earnings information variables do not. While, the univariate time-series model is an inferior predictor relative to both financial analysts and price-based models. The study has been concluded that financial analysts' incorporate the information reflected in stock prices along with other information not captured in prices or not exploited by the price-based model. Other than that, earnings information variable measured by using analysts' forecast is highly correlated with returns than when measured using price-based or time-series models.

Liow (1996) study the strength of the relationship between the share price discount/premium and property market returns and to investigate whether the share prices of Singapore property companies are likely to settle at a discount or at a premium to the underlying net asset values by using a vector autoregressive model (VAR). The results indicate that the share prices of most Singapore property companies are above the book values of their net tangible assets and also the real estate stock returns may contain economically important and timely information about changing real estate market fundamentals. Moreover, the

changes in the all property, residential, commercial and industrial property returns by up to a maximum of six months are affected by the changes in property company ratings. This study concludes that although a few studies have separately examined the linkages between property equity and direct property returns, but the evidence relating to property companies' share price discount/premium to the underlying net tangible asset value and its relationship with the property market return is rather sparse.

Ali et al. (2006) study the comparison between matured market companies in UK and emerging market companies in Malaysia in terms of Corporate Real Estate (CRE) and its impact on financial performance. The relationship between CRE strategy and financial performance has been tested by using multivariate models for two time periods, 1998 and 2003. The CRE strategy framework provides the basis of this research which is an analysis that identified whether a company has a CRE strategy; then, mapping the strategy to the Nourse and Roulac (1993) framework or the alternative strategy relating to CSR for those companies that were having CRE. The results show that a majority of companies in the mature market and the emerging Malaysia market has a CRE strategy that matched to the Nourse and Roulac (1993) framework. Variations are apparent between UK and Malaysia in terms of the CRE strategy based on sectors and clarity of CRE reporting. The contribution of CRE to reporting performance was more significant in 2003. This study concludes that the significance of CRE strategy is more apparent in the mature market, while emerging market usually learns the experience of those in the mature market.

Saleem et al. (2011) aim to maintain the relationship between liquidity and profitability while in conducting day to day operations of every firm by revealing the relationship. This study was using linear regression

The results indicate that there is an insignificant impact of liquid ratio on return on equity (ROE) and return on investment (ROI) while only significant on return on assets (ROA). The results also indicate that the three ratios which are current ratio, quick ratio and liquid ratio will not significantly give an impact on ROE while ROI will be affected greatly by those three ratios. This study concludes that liquidity and profitability are directly related because one increases the other decreases. So that, companies have to maintain sufficient liquidity with the intention that liquidity greatly affects profits where some profits of which some portion will be allocated to shareholders.

Iqbal et al. (2011) carry out an event study analysis of announcement of earnings in an emerging market which is Karachi Stock Exchange that is the biggest and the most active stock exchange in Pakistan. This study used two types of methodology which are measuring abnormal returns that are the event is after tax quarterly profit announcement by listed companies; classification of

news that consist of good, bad and no news. The classification of news can be described as follows:

Good news: Actual Earning > 10% of Median Earning

No news: Actual earning within ± of Median Earning

Bad news: Actual Earning < 100% of Median Earning

Since if the earnings have outliers, mean is not a representative measure of typical earnings magnitude, so that this study has used median rather than mean as a benchmark. The extreme observation will give less effect to the median and the earnings distribution is normally positively skewed. The results indicate that individual sector's cumulative abnormal returns (CAR) are subject to higher fluctuation by reason of small sample size. There are no significant excess abnormal returns for the post announcement. Moreover, the findings also support the results of the earlier studies who documents symmetry of stock reaction of good and bad news. This study concludes that there is a bigger surprise element in bad news than in good news as the market responds to bad news is stronger.

The latest study from Cheng, Wong and Annuar (2016) to investigate whether there is a direct relationship exists between macroeconomic variables (interest rate, exchange rate, inflation and share price) and the Real Estate Investment Trusts (REITs) market in Malaysia and Singapore. The motivation behind this research effort is that the results can yield several insights that may assist more participants in this latest booming REITs' markets in Malaysia and Singapore. There are many research been carried out for developed countries about effects of several factors towards REITs, but only a few studies have been conducted for developing countries as well as both developed and developing countries together. This study is aimed to examine the monthly movement of REITs return which influenced by interest rate, exchange rate, inflation and share price in Malaysia and Singapore. The period of study will cover the latest 5 years from January 2010 until December 2014 in order to adopt the latest data available and monthly data will be collected for better analysis of variables movement. Besides, this will also provide the relevance of the results to current economic situations and better explain the relationship between macroeconomic variables (interest rate, exchange rate, inflation and share price) and REITs' return.

3. Research methodology

The standard events study method is applied to identify the direction and magnitude of the stock price revaluation effect of the changes on accounting earnings, liquidity ratio, profitability ratio and debt/equity ratio. Sharper's (1963) market model was used as a standard equilibrium model to estimate abnormal returns (AR):

$$AR_n = R_n - [\alpha_1 + \beta_1 R_{mt}] \qquad (1)$$

With $R_n = Ln (P_{it}/P_{i t-1})$ and $R_{mt} = Ln (I_t / I_{t-1})$. Where, in addition to the terms already defined, Ln is the natural logarithm and I refer to the market composite index. The market parameters α_1 and β_1 are estimated by ordinary least square regression over trading periods, -60 months to -3 months (estimation period) relative to the announcement month. The returns were adjusted for thin trading bias using Fowler-Rocker's method. The resulting risk-adjusted abnormal returns of each observation is added and averaged across all the observation as to obtain the AAR_t as the simple arithmetic average. Next the average returns over t = 1, T is cumulated as:

$$CAR = \sum_{(T=1)}^{T} [AAR_t * 100]^{\wedge} \qquad (2)$$

The cumulating is done over a price reaction window consistent with other studies in percentage and tested for statistical significance.

Analysis of Unexpected Accounting Earnings

Unexpected earnings are computed using the naive expectation model in Cheng et al. (2007)) that assumes the next period's expectation is simply the current period's earnings. Unexpected earnings (UEs) are computed using the naïve model:

$$UE_{it} = [E_{it} – E_{i(t-1)}] / [E_{i(i-1)}] \qquad (3)$$

Studies on returns-to-earnings relation also examine the coefficient in the linear regression analysis between the accounting earnings, current ratio, return on investment and debt to equity ratio as independent variables and cumulative abnormal returns as the dependent variables. Typically, inferences regarding the information content of earnings are based on the significance of the slope coefficient (b) and the explanatory power (R^2) of the following linear model estimated cross-sectionally and/or over time (pooled data):

$$CAR = a_1 + a_2 \Delta EPS \qquad (4)$$
$$CAR = a_1 + a_3 \Delta CR \qquad (5)$$
$$CAR = a_1 + a_4 \Delta ROA \qquad (6)$$
$$CAR = a_1 + a_5 \Delta DE \qquad (7)$$

Where,

CAR: cumulative abnormal returns in percentage over a specified window,

ΔEPS: changes in earnings per share,

ΔCR: changes in current ratio (current assets divided by current liabilities),

ΔROA: changes in return on assets (net income divided by total assets),

ΔDE: changes in debt-equity ratio (sum of short-term loans and long-term's loans divided by shareholders' fund)

Firm specific variables given that the price of stock price is determined not solely by accounting earnings but also by other sources of information about ratios, this study looks at the relation between accounting earnings and other information to control the effect of left-out variables in the return-to-earnings association. Four variables are identified, which are growth in revenue (Swaminathan and Weintrop, 1991), liquidity ratio, profitability ratio and debt-equity ratio (Ball Kothari and Watts, 1993). This study test the relationship between accounting earnings, liquidity ratio, profitability ratio and debt/equity ratio and share price in property sector by using the following ratios:

Liquidity Ratio:

Current Ratio=(Current Assets)/(Current Liabilities)

Profitability Ratio:

Return on Assets (ROA)=(Net Income)/(Net Assets)

Debt/equity Ratio: Debt to Equity Ratio=(Long Term Debt)/(Shareholder Equity)

All these ratios can be simplified in the following formula:

$$CAR = a_1 + a_2\Delta EPS + a_3\Delta CR + a_4 \Delta ROA + a_5\Delta DE \qquad (8)$$

Where,

CAR: cumulative abnormal returns in percentage over a specified window,

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3.1. Hypotheses

The major hypothesis of this study is that a direct relation in sign as well as magnitude exists between risk-adjusted abnormal returns, which represent changes in adjusted share price in property sector and changes in accounting earnings, liquidity ratio, profitability ratio and debt/equity ratio. The strategic hypotheses are:

The null will be accepted if there is no significant relation between changes in share price in property sector and changes in accounting earnings, liquidity ratio, profitability ratio and debt/equity ratio. If there is a significant relation between changes in share price in the property sector and changes in accounting earnings, liquidity ratio, profitability ratio and debt/equity ratio, we expect the null to be rejected in favor the findings in the changes in earnings per share, liquidity ratio, profitability ratio and debt/equity ratio.

3.2. Data

The data set relating to the period 2002 to 2012 came from the monthly closing prices and earnings information by using data stream and capital IQ. Data stream software is used to get data about the share price, while capital IQ used to get data about the companies' earnings. Other than that, this study also refers to the latest accounting standards which are Malaysian Accounting Standards Board (MASB), Financial Accounting Standards Board (FASB), International Accounting Standards Board (IASB) and International Financial Reporting Standards (IFRS).

The sample consists of listed and traded companies over the test period and covers property

sector in the market. The companies are subjected to the following selection criteria: the companies are Malaysian-domiciled and not foreign companies; the annual reports containing accounting statements are publicly available; and the selected observation does not have any other confounding information released during the test period. Monthly closing prices of the selected stocks traded during January 2002 to December 2012 were extracted. 23 companies were selected for this analysis and consisting of 199 earnings announcement were analyzed.is used to format your paper and style the text. All margins, column widths, line spaces, and text fonts are prescribed; please do not alter them. You may note peculiarities. For example, the head margin in this template measures proportionately more than is customary. This measurement and others are deliberate, using specifications that anticipate your paper as one part of the entire proceedings, and not as an independent document. Please do not revise any of the current designations.

4. Findings

Table 1: Descriptive statistics of CAR, ΔEPS, ΔCR, ΔROA and ΔDE

	CAR	ΔEPS	ΔCR	ΔROA	ΔDE
Mean	-0.632	-0.066	0.088	-0.551	0.167
S.Dev	33.424	5.028	0.430	5.969	1.116
Range	183.77	65.333	3.629	75.575	8.314
Min	-81.175	-17.667	-0.774	-48.254	-2.017
Max	102.59	47.667	2.855	27.320	6.298
Count	199	199	199	199	199

Note: CAR is cumulative abnormal returns, EPS is earnings per share, CR is current ratio, ROA is return on assets and DE is debt to equity ratio.

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4.2. Regression results at company level

Individual Company Level: Table 2 shows the regression results of the incremental information content of earnings and ratios. The first regression is between the cumulative abnormal returns as dependent variable and the earnings per share as independent variable for annual return window.

Table 2 shows the regression results of the cumulative abnormal returns with the earnings per share at individual company level. Regression (1) shows that the coefficient for EPS is 1.322 with t-statistics of 2.871, which is significantly different from zero at 0.01 levels. This suggests that for every one unit increase in earnings per share, there is a 1.322 percent increase in the abnormal returns during the analysis period. The R-squared value for EPS is 3.5 percent, which is consistent with the findings in other developed countries which reports low R-squared value of between 3 to 10 percent (Lev 1989). It shows that the abnormal returns are explained by the earnings per share by 3.5 percent. The regression (2) indicates that the coefficient for CR is 4.885 with t-statistics of 0.884, which is not

4.1. Descriptive statistics

The results of descriptive statistics of cumulative abnormal returns (CAR) and changes in earnings per share (EPS), current ratio (CR), return on assets (ROA) and debt equity ratios (DE) are summarized in Table 1. The numbers of observations are 199 for each variable. The mean for CAR is -0.632 with a standard deviation of 33.424, with return ranging from -81.175 and 102.598. For EPS, the mean is -0.066 with a standard deviation of 5.028: the range being -17.667 and 47.667. Besides, the mean for CR is 0.088 with a standard deviation of 0.430: the range being -0.774 and 2.855. Meanwhile, the mean for ROA is -0.551 with a standard deviation of 5.969: the range being -48.254 and 27.320. Lastly, the mean for DE is 0.167 with a standard deviation of 1.116: the range being -2.017 and 6.298.

The descriptive statistics presented here are CAR, ΔEPS, ΔCR, ΔROA and ΔDE variables for comparison. The numbers of observations are 199.

significantly different from zero. This implies that the current ratio does not explain the abnormal returns in annual analysis. While the R-squared for CR is 0, which designate that abnormal return does not explain by the current ratio.

Regression (3) shows the result of ROA where the coefficient is 0.872 with t-statistics of 2.213, which is significantly different from zero at 0.05 level. This proposes that for every one unit increase in return on assets, there is 0.872 percent increase in the abnormal returns during the analysis period. The R-squared for the ROA is 1.9 percent where we can say that the explanatory variable explains 1.9 percent of the variance of abnormal returns. Meanwhile, the result of DE shown in regression (4) with the coefficient of 2.276 (t=1.070), which is not significantly different from zero. Whilst for the R-squared, it is showing that ROA explains 0.1 percent of the variance of the abnormal return. Lastly, the regression (5) indicates that the coefficients for multiple regressions of ΔEPS, ΔCR, ΔROA and ΔDE are 1.074, 3.981, 0.331 and 2.623 with t-statistics of 1.632, 0.728, 0.586 and 1.207 respectively. None of the coefficients for multiple regressions is significantly different from zero at any acceptable level. Besides, the R-squared is 3.2 percent and shows that the explanatory variable explains 3.2 percent of the variance of abnormal returns.

Therefore, the null hypotheses are partially rejected in this annual window test where the hypotheses regarding the accounting earnings and

return on assets are rejected as there is a significant relation between stock price changes and both accounting earnings and return on investment changes. Whereas, the other two null hypotheses are accepted where the hypotheses regarding the liquidity ratio and debt/equity ratio are accepted since there are no significant relation between changes in stock price and both changes in liquidity and debt/equity ratio.

The regression results are from linear ordinary least square regression at individual company level where CAR as a dependent variable, while the independent variables are EPS, CR, ROA and DE for comparison. The sample consists of 199 observations for annual return window.

Table 2: Regression results between CAR, ΔEPS, ΔCR, ΔROA and ΔDE at company level

	Model 1	Model 2	Model 3	Model 4	Model 5
Const	-0.544	-1.063	-0.151	-1.012	-1.168
	(-0.234)	(-0.439)	(-0.064)	(-0.423)	(-0.485)
ΔEPS	1.332				1.074
	(2.871**)				(1.632*)
ΔCR		4.885			3.981
		(0.884)			(0.728)
ΔROA			0.872		0.331
			(2.213*)		(0.586)
ΔDE				2.276	2.623
				(1.070)	(1.207)
Adj-R^2	0.035	0	0.019	0.001	0.032
F-test	8.244	0.781	4.898	1.144	2.631

Note: CAR is cumulative abnormal returns, EPS is earnings per share, CR is current ratio, ROA is return on assets and DE is debt to equity ratio. Value in bracket is t-value, significant at (*) 0.05, (**) 0.01, (***) 0.001 Level.

4.3. Regression results at portfolio level

Portfolio Level: Table 3 shows the results of regression at the portfolio level. Grouping the observations using the dependent variable leads to portfolios. The lowest (negative) of the cumulative abnormal returns (CAR) formed the first portfolio, and followed by the next subsequent group to form next portfolio and so on. For this regression results, the sample consists of 20 observations.

Table 3 indicates the results for regression (1) to (5) from annual interval. The coefficient for earnings per share (EPS) is 11.593 with t-statistics of 3.057, which is significantly different from zero at 0.01 level. This implies that the earnings per share explains the abnormal returns in annual window where for every one unit increase in earnings per share, there will increase in abnormal returns by 11.593 percent. Whereas, the result for current ratio (CR) shown in regression (2) where the coefficient is 84.795 with t-statistics of 1.027, which is not significantly different from zero at any acceptance level. Besides, the R-squared value for CR is only 0.3 percent compared to the regression (1) which is 30.5 percent. Thus, it shows that earnings per share and current ratio explain 30.5 and 0.3 percent respectively of the variance of abnormal returns.

The regression (3) shows the result of return on assets (ROA) with the coefficient of 6.629 (t=2.026), which is not significantly different from zero. The value R-squared for ROA is 14.0 percent which means that the explanatory variable explain 14.0 percent of abnormal returns. The next result is from the regression (4) which is DE. The result is similar. The coefficient for debt to equity ratio (DE) is 23.264 with t-statistics of 0.939 which is not significantly different from zero at any level of acceptance. The value of R-squared is 0 and it indicates that abnormal return does not explained by DE.

Regression (5) which is multiple regressions of EPS, CR, ROA and DE shows all the coefficients are not significantly different from zero at any level of acceptance. The coefficients for EPS, CR, ROA and DE are 11.345, 27.443, 0.261 and 28.879 with t-statistics of 1.57, 0.33, 0.041 and 1.198 respectively. The R-squared value for regression (5) is 26.2 percent which is higher compared to the other R-squared values, excluding regression (1).

The regression results lead to the acceptance of null hypotheses excluding hypothesis regarding the accounting earnings since there is a significant relation between stock price changes and accounting earnings changes. Otherwise, the other null hypothesis regarding current ratio, return on assets and debt to equity ratio are rejected as there are no significant relation between stock price changes and the explanatory variables changes.

The regression results are from linear ordinary least square regression between CAR, ΔEPS, ΔCR, ΔROA and ΔDE at 20 portfolios level. CAR as a dependent variable and the others are as independent variables. The sample consists of 20 portfolios formed from 199 observations for annual returns window.

Table 3: Regression results between CAR, ΔEPS, ΔCR, ΔROA and ΔDE at portfolio level

	Model 1	Model 2	Model 3	Model 4	Model 5
Const	0.481	-7.737	3.392	-4.130	-6.639
	(0.075)	(-0.731)	(0.462)	(-0.472)	(-0.605)
ΔEPS	11.593				11.345
	(3.057**)				(1.570)
ΔCR		84.795			27.443
		(1.027)			(0.330)
ΔROA			6.629		0.261
			(2.026)		(0.041)
ΔDE				23.264	28.879
				(0.939)	(1.198)
Adj-R^2	0.305	0.003	0.140	0	0.262
F-test	9.344	1.055	4.104	0.882	2.689

Note: CAR is cumulative abnormal returns, EPS is earnings per share, CR is current ratio, ROA is return on assets and DE is debt to equity ratio. Value in bracket is t-value, significant at (*) 0.05, (**) 0.01, (***) 0.001 Level.

5. Conclusion

Some pertinent highlights of the findings are identified. This research addresses the issue of the relationship between accounting earnings, liquidity ratio, profitability ratio, debt/equity ratio and share price in property sector. The research design is adopted from price-to-earnings literature.

The findings presented in this paper is nevertheless a modest evidence suggesting that accounting earnings which is earnings per share is a price relevant variable, and it also has a contemporaneous impact on share price. This finding implies that the earnings per share explain the abnormal returns in this analysis period. Different thing goes to liquidity ratio (current ratio), profitability ratio (return on assets) and debt to equity ratio at the portfolio level. Share price does not change ordinally in a statistically significant manner in response to the increasing and decreasing on current ratio (CR), return on assets (ROA) and debt to equity ratio (DE). The findings indicate that the explanatory variables did not explain the abnormal returns in this annual window analysis.

Whereas, at the individual company level, the findings show that only EPS and ROA are significantly different from zero at 0.01 and 0.05 levels respectively. It indicates that share price change ordinally in a statistically significant manner in response to the increasing and decreasing on both earnings per share and return on assets. Every one unit increase in the EPS and ROA will lead to the increasing in abnormal returns by 1.322 percent and 0.872 percent respectively. While, for both CR and DE are not relevant variables where they have no contemporaneous impact on share price. Thus, share price does not change ordinally in a statistically significant manner in response to the increasing and decreasing of both CR and DE.

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