Three Essays on the Financial Capital Markets (https://ir.lib.uwo.ca/cgi/viewcontent.cgi?article=7452&context=etd)

Author

Diep Nguyen, *The University of Western Ontario* (https://ir.lib.uwo.ca/do/search/?q=%28author%3A%22Diep%20Nguyen%22%20AND%20-bp_author_id%3A%5B%2A%20TO%20%2A%5D%29%20OR%20bp_author_id%3A%28%22548829b1-347e-4634-9689-277d5b02229d%22%29&start=0&context=674312) Follow (https://network.bepress.com/api/follow/subscribe?user=NzJiZThmZDA2YTc1ZTMxMw%3D%3D&institution=ZjMwMzRkN2Q5ZDRhZmI5YQ%3D%3D&format=html)

Degree

Doctor of Philosophy

Program

Business

Supervisor

Sapp, Stephen G.

Abstract

This thesis is comprised of three integrated studies highlighting the financial capital markets and corporate finance decisions in response to market conditions.

The first study (Chapter 2) looks at the stock-like/bond-like behavior of Canadian income trusts, in particular how the sensitivities of income trusts' returns to stock and bond market factors change over time, around different events, and depending on corporate strategy and firm characteristics. We find that income trusts are priced more like bonds compared to matched corporations before a surprise announcement that removes the tax advantage of income trusts (the Tax Fairness Plan announcement), while they become more stock-like and have risk profiles similar to matched corporations after this event. Income trusts with characteristics related to the stronger ability to maintain cash distribution, more suitability to the trust structure, and higher tax shield prospect still behave more like bonds even after the Tax Fairness Plan announcement. This chapter shows how organizational structure choice and firm characteristics are related to an asset's risk profile, in particular, the pricing behavior as bond-like or stock-like.

The second study (Chapter 3) discusses a potential valuation premium for Canadian income trusts through looking at the valuation throughout the life cycle of the income trust structure. We find there is a valuation premium for the trust structure, as shown by the increase in valuation around the conversions into income trusts. The higher valuation of income trusts can be largely attributed to tax motives, as evidenced by the positive (negative) abnormal returns after positive (negative) tax-related events. However, we find a higher valuation premium enjoyed by income trusts early in the life cycle, which exists even after we account for tax and trust characteristics. Characteristics pertaining to the suitability of firms to the income trust structure also seem to deteriorate over time. The evidence suggests that other factors, including behavioral factors from both investors' and managers' sides, can influence income trusts pricing besides the tax rationale.

The third study (Chapter 4) investigates whether firms are able to diversify the maturity structure of their bond profiles given the availability of the offshore bond markets. I look at average maturity, maturity structure, and the inverse of the Herfindahl index to explore the maturity diversification effect. This chapter finds that while the average maturity of offshore bonds is different from that of domestic bonds at the aggregate level, over the years, a firm issues new offshore bonds and new domestic bonds into similar maturity ranges. The degree of maturity diversification as measured by the inverse of the Herfindahl index is also lower in the years a firm issues new offshore bonds. By looking at how firms manage the yearly maturity structures of new and pre-existing offshore and domestic bonds, the study finds that new offshore bonds may diversify the maturity structure of pre-existing domestic bonds, but this happens only in the middle maturity ranges. Taken together, the study challenges the maturity diversification motivation and suggests that other motivations such as asset matching and foreign currency hedging also matter in bond maturity management with the presence of offshore bond markets.

Overall, the thesis shows an interrelationship between financial capital market conditions and firms' financing and strategical choices.

Included in

Corporate Finance Commons (https://network.bepress.com/hgg/discipline/629) , Finance and Financial Management Commons (https://network.bepress.com/hgg/discipline/631)