

Effect of investments on fundamentals and market reaction on pre-operational and operational Brazilian companies for the period 2006-2012

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RESUMO

Efeito dos investimentos nos fundamentos e na reação de mercado de empresas brasileiras pré-operacionais e operacionais do período de 2006 a 2012

O trabalho fornece evidências sobre a reação do mercado às decisões de investimento de empresas cujo valor acionário é predominantemente atribuído às opções de crescimento. A pesquisa exploratória levantou empresas pré-operacionais e seus pares operacionais dos mesmos segmentos da economia. Investigou-se a existência de diferenciação estatística a partir de indicadores financeiros que refletissem os ativos instalados e os ativos de crescimento para, em seguida, estudar a reação do mercado às variações do ativo não circulante como elemento de sinalização acerca das decisões de investimento. Destaca-se nas empresas pré-operacionais o processo de formação do ativo operacional e o valor acionário quase exclusivamente dependente dos ativos de crescimento. Como resultado, os testes de diferenciação confirmaram que as empresas pré-operacionais têm seu valor especialmente derivado das opções de crescimento. A reação do mercado foi maior nas empresas pré-operacionais, apresentando retornos anormais negativos, enquanto que nas operacionais tais retornos foram positivos, o que pode indicar que a qualidade do investimento é julgada a partir da divulgação financeira. Ademais, a divulgação é aguardada pelos investidores de empresas operacionais para ajustarem seus preços. Conclui-se que os resultados estão de acordo com as evidências empíricas e que atenção especial deva ser dada aos investimentos de formação de capital de longo prazo pelos participantes dos mercados financeiros.

Palavras-chave: investimento de capital, estudo de evento, ativos instalados, opções de crescimento.

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1. INTRODUCTION

The investment decisions in the company are recognized as the main sources of value creation. Without investments, the growth becomes limited and few opportunities for profit increase are created. Furthermore, investment provides capital formation leading to the continuity of the company's operations, the renewal of supply and a superior competitive position.

Foreseeing the success of investments in the company is one of the capital markets functions. In this sense, investment announcements are constantly evaluated and incorporated into the shareholder value of the company according to investor expectations.

Although it is expected that stock investors fully incorporate to the stock value of the company the net present value of the investment announced, it does not happen for several reasons, including: lack of credibility of the managers, errors when estimating the assumptions, asymmetry information between managers and investors, uncertainty on monetary and tax policies, uncertainty about demand and future supply, among others (Kiley, 2004; Campbell & Shiller, 1998; Hu & Schiantarelli, 1998; Hubbard, 1998; Woods & Randall, 1989). But if the complete incorporation of value does not occur, there is evidence that the market reacts positively to the announced investments (Lucchesi & Famá, 2007; Antunes & Procianny, 2003; McConnell & Muscarella, 1985), depending on the own company circumstances (Chung, Wright, & Charoenwong, 1998; Szewczyk, Tsetsekos, & Zantout, 1996; Blose & Shieh, 1997; Chan, Gau, & Wang, 1995).

In general, it is recognized that the company's value consists of the value generated by the installed assets and the opportunities for growth, also known as growth assets or growth options, or even as investment opportunities. In essence they do not generate operating cash flows in the present, but represent expectations of future generation as the investments are announced. The problem is the practical difficulty to separate these two elements (Hirst, Danbolt, & Jones, 2008; Alonso-Andrés, Azofra-Palenzuela, & Fuente-Herrero, 2006; Myers & Turnbull, 1977).

Thus, investment in pre-operating companies should be highlighted because their share value is entirely dependent on expectations about its success. There is no history of earnings or operational capital installed to support their value, and their securities aptly named growth options, referring to the financial options that investors acquire with the expectation that its future price reaches the desired levels. Therefore, pre-operational companies segment offers a good opportunity to analyze the results related to the value generated by growth opportunities.

The research explores the market reaction to investments made by companies whose value is based on growth opportunities. The purpose, when analyzing the effect of investments in these companies and the reaction of investors,

is that it can indicate possible market efficiency failures in the pricing of assets and contribute to its corrections. Thus, it follows the research line for identification of special features in companies and the application of tests to the verification of the market reaction to investment announcements (Chung et al., 1998; Szewczyk et al., 1996; Chen & Ho, 1997; Blose & Shieh, 1997). Brailsford and Yeoh (2004) emphasized the importance of analyzing these reactions within specific contexts as a way of obtaining explanations of their behavior and, in particular, in the presence of growth opportunities.

The justification for this work lies in the few studies on the effects of investment in the company's value on the stock market and especially in the absence of an approach to pre-operational companies as a proxy of value based on growth opportunities.

2. THEORETICAL FRAMEWORK

What investors capitalize when they buy shares? Finance theorists have raised this question repeatedly. To say it is simply a result of the capitalization of future cash flows tells only part of the story. In 1961, Miller and Modigliani understood that the value of the company derived from installed assets and investment opportunities. These two components are responsible for the future cash flows.

Several authors of corporate finance have this idea as elementary (Ross, Westerfield, & Jaffe, 2007; Copeland, Weston, & Shastri, 2005; Damodaran, 1997; Brealey & Myers, 1992). Additionally, Myers and Turnbull (1977) suggested the company as a portfolio of tangible and intangible assets representing, respectively, the installed production capacity and options to acquire additional units of capacity in future periods.

Thus, installed assets generate cash flows in the present and maintain it for a certain, and generally predictable, period of time. However, the renewal and increase of cash flows in the future would come from growth opportunities.

Regarding the proportion of the value of growth opportunities, Pindyck (1988) says: "As we will see, numerical simulations suggest that for many firms 'growth options' should account for a substantial fraction of market value, and the more volatile is the demand, the larger is this fraction" (p. 970). About its origin, he explains that the options are assets that can arise from several sources: results of a patent, real estate, natural resources, management of resources, reputation, market position, manufacturing scalability etc.

As for risk, Myers and Turnbull (1977) and Luehrman (1998a, 1998b) consider the present value of growth opportunities as the sum of the options value on the investments and the risk of an option cannot be considered the same as the assets risk to which it is subject. Therefore, it is suggested that the risk of growth assets is bigger than the risk of installed assets.

Although the distinction between the value of installed assets and growth assets is a relevant concept for assessing

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