

St. Petersburg University
Graduate School of Management
Master in Corporate Finance

**THE IMPACT OF CORPORATE NEWS ON THE COMPANY'S
PRICE**

Master's Thesis by the 2nd year student
Concentration – Corporate Finance
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St. Petersburg, 2020

АННОТАЦИЯ

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Название ВКР	Влияние корпоративных новостей на стоимость компании
Образовательная программа	38.04.02 «Менеджмент»
Направление подготовки	«Корпоративные финансы»
Год	2020
Научный руководитель	Ильина Юлия Борисовна
Описание цели, задач и основных результатов	Цель работы – оценить краткосрочное влияние различных корпоративных новостей на стоимость акций компаний. Выборка состоит из 6 компаний нефтегазового сектора и 283 новостей за период май 2014 – май 2019, касающихся объявления дивидендов, сделок слияния и поглощения, публикации корпоративной отчетности и объявления доходов. Исследование проведено с помощью событийного анализа в STATA. Результатом исследования стали выводы об незначительном влиянии отдельных видов корпоративных новостей на среднюю аномальную доходность акций, а также подтверждение разного количественного влияния регулярных и нерегулярных новостей на стоимость акций.
Ключевые слова	Стоимость акций, корпоративные новости, дивиденды, сделки

ABSTRACT

Master Student's Name	Arina Bulanenko
Master Thesis Title	The impact of corporate news on the company's price.
Educational Program	38.04.02 "Management"
Main field of study	"Corporate finance"
Year	2020
Academic Advisor's Name	Yulia B. Ilina
Description of the goal, tasks and main results	The purpose of the work is to assess the short-term impact of various corporate news on the value of stocks of companies. The sample consists of 6 companies in the oil and gas sector and 283 news for the period May 2014 - May 2019 regarding the announcement of dividends, mergers and acquisitions deals, the publication of corporate reports and the announcement of income. The study was conducted using event study in STATA. The result of the study was the conclusion about the individual insignificance of certain types of corporate news on average abnormal return of the stocks, as well as confirmation of the different quantitative effects of regular and irregular news on stock prices.
Keywords	Stock price, corporate news, dividends, deals

ЗАЯВЛЕНИЕ О САМОСТОЯТЕЛЬНОМ ХАРАКТЕРЕ ВЫПОЛНЕНИЯ ВЫПУСКНОЙ КВАЛИФИКАЦИОННОЙ РАБОТЫ

Я, Буланенко Арина Андреевна, студентка второго курса магистратуры направления «Менеджмент», заявляю, что в моей магистерской диссертации на тему «Влияние корпоративных новостей на стоимость акций», представленной в службу обеспечения программ магистратуры для последующей передачи в государственную аттестационную комиссию для публичной защиты, не содержится элементов плагиата.

Все прямые заимствования из печатных и электронных источников, а также из защищенных ранее выпускных квалификационных работ, кандидатских и докторских диссертаций имеют соответствующие ссылки.

Мне известно содержание п. 9.7.1 Правил обучения по основным образовательным программам высшего и среднего профессионального образования в СПбГУ о том, что «ВКР выполняется индивидуально каждым студентом под руководством назначенного ему научного руководителя», и п. 51 Устава федерального государственного бюджетного образовательного учреждения высшего образования «Санкт-Петербургский государственный университет» о том, что «студент подлежит отчислению из Санкт-Петербургского университета за представление курсовой или выпускной квалификационной работы, выполненной другим лицом (лицами)».

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STATEMENT ABOUT THE INDEPENDENT CHARACTER OF THE MASTER THESIS

I, Bulanenko Arina Andreevna, second year master student, program «Management», state that my master thesis on the topic «The impact of corporate news on the company's price», which is presented to the Master Office to be submitted to the Official Defense Committee for the public defense, does not contain any elements of plagiarism.

All direct borrowings from printed and electronic sources, as well as from master theses, PhD and doctorate theses which were defended earlier, have appropriate references.

I am aware that according to paragraph 9.7.1. of Guidelines for instruction in major curriculum programs of higher and secondary professional education at St.Petersburg University «A master thesis must be completed by each of the degree candidates individually under the supervision of his or her advisor», and according to paragraph 51 of Charter of the Federal State Institution of Higher Education Saint-Petersburg State University «a student can be expelled from St.Petersburg University for submitting of the course or graduation qualification work developed by other person (persons)».

_____ (Student's signature)

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INTRODUCTION

One of the key questions of corporate finance is assessing the influence of financial decisions on the market value of the company. In most cases, the stock price is used as an indicator of the efficiency of decisions made. The stock market is significant for the world economy, because it is one of the first signal warning about instability of current economic situation and the lag between event and stock price fluctuation is small, which allows reacting quickly. The recent case of Rosneft deal against RBC is an example, how one announcement can impact the capitalization of the company. Rosneft filed a lawsuit against RBC for 43 billion rubles because of one heading, which according to the company was detrimental to the actual capitalization of Rosneft, which at the end of the trading session was 43 billion rubles lower than industry index¹.

The hypothesis of market efficiency, offered by E. Fama in 1970 [16] proves this statement and states that on efficient market asset price fully reflects all available information and no one can earn excess returns. There are 3 forms of market efficiency: weak (information set consists of information of past prices), semi-strong (information set consists of all publicly available information) and strong (information set consists of all information, including insider trading). The corporate news is included in both semi-strong and strong market efficiency types.

The following events are considered corporate news: annual reports issuance, dividend payment announcement, capital structure changes (for example, buybacks), analytical notes from rating agencies, M&A deals announcement, changes in the company management, law issues etc.

There are many research papers devoted to studying of corporate news effect as there many aspects to be taken into account: the emotional effect of news (positive or negative), the type of event, stage of development of the company, stock market phase, etc. It is needed to add, that sometimes the exact event, but the announcement of it influences the stock price. It is well seen on the example of a dividend announcement. The recent studies about signaling theory (Bozos, Nikolopoulos and Ramgandhi, 2011) [6] confirmed, that management through dividend policy sends signals to investors and stock exchanges on the status of enterprises under their control.

The topic of the thesis is of interest now, because understanding the mechanism of corporate news impact helps the company manipulate the events to make benefits. Fluctuations of the stock prices result from investors' behavior and their desire to buy or to sell the stock. Investing strategy is built on several assumptions made by investors, which they create from

¹ https://www.vedomosti.ru/media/articles/2020/05/21/830767-rosneft-otsenila-uscherb-rbk?utm_source=yxnews&utm_medium=desktop&utm_referrer=https%3A%2F%2Fyandex.ru%2Fnews

corporate news as the main bridge between them and the company. Also, the research topic is relevant, because it is aimed to close the research gap, analyzing the short-run effects of corporate announcements on Russian oil market that reflects the specifics of emerging market.

The research goal of the thesis is to assess the influence of corporate news on the stock price of Russian companies. On Russian stock exchange several industries are of particular interest, because the most liquid companies refer to them: oil&gas, mining and metallurgy. In this paper, oil industry was chosen for the future analysis. To achieve the research goal, it is necessary to answer some research questions:

1. How do corporate news impact stock price in short-run?
2. What corporate announcements influence the stock price most of all?
3. How does market react to the regular (non-self-selected) and irregular (self-selected) news in short-run?

Thus, several objectives are stated:

1. To analyze the literature and highlight the most important types of corporate news;
2. To form a sample of corporate news on Russian oil market for the period of May 2014 – May 2019;
3. To formulate hypotheses about potential effects of the different types of news;
4. To conduct event study in order to assess the effect from the chosen types of news and their significance;
5. To provide a conclusion on the results of the study and discuss possible managerial application of the work;

The traditional methodology for such type of research is event study, described by Brown and Warner (1985) [8] and Mackinlay (1997) [29]. For this paper, the short event window of 7 days is used in order to assess the short-term effects of news on company's stock return. CAPM model is used for normal returns calculation. The hypotheses were analyzed by means of several statistical tests in STATA.

The sample consists of 283 items and includes information about six companies and four types of events: dividend and earnings announcement, M&A deals and financial statements publication. The study showed, that the specific type of news does not affect the company's stock return, but the fact of announcement. Moreover, there is a difference in reaction to the regular and irregular news.

The structure of the paper is organized in the following manner. First chapter is devoted to the theoretical background of various types of news and their impact on stock price in order to highlight the most interesting announcements to analyze in this paper. Second chapter explains the methodology of the event study, describes the sample to be tested, presents the results of the analysis and provides the conclusions and managerial implications.

CHAPTER 1. THEORETICAL BACKGROUND OF MARKET REACTION TO CORPORATE ANNOUNCEMENTS

1.1. Distinctive features of the stock market in emerging countries

According to International Monetary Fund [24], all countries are commonly divided into two segments according to their economic climate: advanced (also known as developed or industrialized) and developing (emerging) economies. In the IMF classification, countries are ranked by the GDP per capita and developed economies has this ratio above \$12000, by export diversification and by the level of global integration. Generally speaking, developed countries make up the first 50,1% of the total world GDP and developing countries – the rest 49,9%. The following countries are classified as advanced economies:

Developed countries	Share of total GDP in 2019
United States	15,2%
Euro Area	13,7%
Japan	4,13%
United Kingdom	2,24%
Canada	1,36%
Other	13,47%

Table 1. Shares of developed countries in world GDP in 2019. Source: International Monetary Fund, author.

Euro area is mostly represented by Germany (3,21%), France (2,19%) and Italy (1,77%). As it can be noticed, the countries mentioned in the table above form the Group of Seven (G7), international annual forum for the leaders of these countries.

The following countries refer to developing economies:

Developing countries	Share of total GDP in 2019
China	18,67%
India	7,74%
Russia	3,12%
Brazil	2,49%
South Africa	0,58%
Other	27,7%

Table 2. Shares of developing countries in world GDP in 2019. Source: International Monetary Fund, author.

The developing countries, shown in the table above, established BRICS – association of five main emerging economies: Brazil, Russia, India, China and South Africa. BRICS represents 32,6% of the world GDP.

Despite having a share in world GDP bigger, than the US does, China is considered a developing country, because its GDP per capita remains low and there are several criteria that are not satisfied to be called a developed country. Advanced states have to meet the following requirements to have a developed economy²:

1. High industrialization, which means the dominant position of industrial production and accelerated pace of new technologies implementation.
2. Stable birth and death rates because of the high level of medicine and healthcare.
3. High percentage of working women on executive positions.
4. Higher level of debts due to the higher level of trust.

As we can see, Russia is not considered as a developed country as it now balances among high per capita GDP, low living standards and lack of production diversity (the prevailing industry is oil&gas).

In general, the level of financial development in emerging countries is lower, than in developed ones. There are two aspects, that can characterize the financial markets in the developing countries.

1. Smaller capitalization, but faster growth. Financial markets in the emerging countries obviously have shorter history, than that in the advanced countries, so the trading volume is lower, too. For example, New York Stock Exchange (NYSE) has been existing for nearly 225 years and its capitalization reached \$28 trillion in 2018, while National Stock Exchange of India has been operating for only 25 years and its capitalization was equal to \$2,3 trillion in 2018³. It was also shown in the research of Dashkin et.al (2019) [43], that capitalization to GDP ratio is, on average, bigger for developed countries (87%), than for developing ones (52%) However, stock exchange in emerging countries have more significant growth than that in advanced countries. Some analysts⁴ suppose, that emerging markets can increase by \$160 trillion by 2030 with CAGR of 12%. According to Snopova (2017) [44], the capitalization in China grew 13 times in the period of 2000

² <https://www.investopedia.com/updates/top-developing-countries/>

³ <http://capitalgains.ru/fondovyj-rynok/20-krupnejshih-birzh-mira.html>

⁴ <https://www.rbc.ru/money/15/02/2017/58a1dd729a79476cd8cef5fc>

– 2015, while the stock market in the US increased 1,5 times in the same period. According to Dashkin et.al (2019) [43], it can be explained by the low base effect, when the same absolute growth will result in high percentage growth for developing economy and low percentage growth for developed country.

2. Greater return on invested capital, but riskier financial situation. This feature of emerging markets creates an interest for the foreign investors. Due to high volatility of main economic rates, such as inflation, and strong dependence on the world leading currencies (US Dollar and Euro), investors tend to ask more for their contribution to cover the risks. Such markets are at political, liquidity, currency and corporate risks⁵. Developed markets support free economy with minimal government intervention, while developing economies suffer from it. In addition, sanctions from leading countries imposed on China, Russia etc. result in the decreasing of production and, thus, investment attractiveness. Illiquid markets do not allow to quickly sell the stocks, which cause a problem for the investor as he forced to accept unfavorable conditions for the deal. Corporate risk refers to rigid management systems in the companies and low impact of shareholders together with active participation of management and even government. Inability to influence the company's performance leads to investment attractiveness declining, which bring us back to liquidity risk.

To sum up, the specifics of the emerging markets, such as Russia, India, China etc. do not allow to apply the same conclusions and interconnections as for developed markets. Despite the faster growth and higher returns, investors are faced with big number of risks, which can unexpectedly impact company's performance.

1.2. Factors of the news impact on stock prices

All prior research considers several types of events and characteristics of communication between companies and the market. The impact of informational field on company's performance has been analyzed since the second half of XX century. Previous research is devoted to the market reaction to announcements depending on the emotional coloring, specific types of events, regularity of news and characteristics of investors. There is an analysis of theoretical aspects presented below.

1.2.1. Emotional coloring.

The first factor refers to the emotional coloring of the news: positive or negative. If the announcement causes an increase in the company's market value, then the news is positive and vice versa. The main problem with this factor is establishing the criteria, by which every news

⁵ <https://www.seb.lv/ru/info/investirovanie/finansovye-rynki-v-razvityh-i-razvivayushchihsya-stranah>

belongs to the group. It is quite often noticed in research papers, that there is an asymmetric reaction of the market to positive and negative news, called “leverage effect”, which is the situation, when the absolute stock return after bad news publication is higher, than that after good announcements.

Unfortunately, it is difficult to assess the net effect of the emotional coloring of the news, as the previous research tried to solve the problem in conjunction with other factors. Thus, the paper by Conrad, Cornell and Landsman, released in 2002 [12], has more factors to consider and investigates the news effect on stock prices with respect to market conditions. The authors presupposed, that bad news makes investors admit the lower probability of the fact, that the market is in a good condition in reality, and in terms of rising uncertainty forces risk-averse investors to require higher risk-premium. The research paper was aimed to examine two hypotheses. The first is that “the market responds asymmetrically to unexpected good and bad earnings news in good and bad states”. The second hypothesis is that “the degree of asymmetry depends on the level of the market”. The study is based on 24 108 announcements of companies’ earnings in the period of 1988 to 1998. The authors use the price-to-earnings ratio to define the situation on the market. The study showed, that indeed the stock price reacts more seriously to negative news in good times, which create a large difference between investors’ expectations and the current situation. The response to positive news is less strong and, according to regime-shifting models, the difference between bad news and good news reaction is increasing with rising market level.

Skinner and Sloan (2002) [40] in their research paper were aimed to explain the reason of the economic phenomenon of that growth stocks underperformed by stocks returns over a five year after portfolio formation comparing to other stocks. Investors buy shares considering two factors: either they get income when stocks will become more expensive in the future or get dividends. Growth stock, as it can be seen from the name, are those ones, which are expected to grow in the future and have very high relative ratios such as market-to-book and price-to-earnings. In most cases, growth companies increase their value faster, than the overall market. Value stocks belong to companies, that are currently undervalued comparing to their financial position and assumed to generate income in the future.

The scientists (Skinner and Sloan, 2002) [40] see the possible cause in the asymmetric response of stock prices to the negative and positive earnings news. The paperwork reconciles the fact, that investors, in most cases, have overconfidence about the growth stock returns, which result in the following lower returns, when the expectations are not met.

The research conducted proves the basic hypothesis: asymmetric response to negative earnings fully explains the return difference between growth and value stocks. Moreover, the

authors confirmed, that the little part of return difference is observed on the date of the official announcement because the management of the company tends to announce negative results earlier official date to smooth the effect on the stock price.

Many researchers relate the asymmetric answer to the bad and good news to the agency problem, when managers and shareholders of the company pursue different interests concerning firm's performance. Obviously, managers possess more internal information and have incentives to withhold it in certain cases. Kothari et al (2009) [25] indicated, that managers tend to postpone the bad news to the specific threshold and accelerate the good news, which leads to stronger reaction of the market to bad news than that to the good news.

1.2.2. Type of event.

One large group of research is devoted to analysis of different types of news on the stock market. The news that covers the issues of buybacks, stock splits, dividend payments, etc. impact the stock prices. The type of news can influence not only stock characteristics but also market reaction, which accompanies news releasing. Market under- and overreactions are scrutinized in articles written by Bernard and Thomas (1989) [4], Ikenberry (2002) [23], Michaely, and Womack (1995) [32].

Stock split.

The researchers, previously analyzing the reasons of using stock splits came to conclusion that the main purpose of such event is to give a signal to investors about future earnings (Grinblatt, Masulis and Titman (1984) [19], as it is the event, which is not connected to cash flow movement (Ikenberry and Ramnath, 2002) [22]. The role of split factor was then specified more in the paper written by Brennan and Copeland (1988) [7], who concluded, that there is defined range of split factor depending on stock price and company's internal information. McNichols and Dravid (1990) [28] developed this thesis proving, that managers choose split factor according to their expectations of future earnings and investors' estimation of company' value coincides with the stock split factor choice.

Ikenberry's (2002) [22] research paper is based on previous theories of underreaction of stocks or drift. Stock splits are interesting to analyze in terms of stock returns because the procedure of split itself has little impact on the company's profitability but can send signals to investors and to the market.

The underreaction of the investors can be expressed in two ways: the inability to predict new analyst coverage or, as in Chan's theory (2003) [10], the sluggishness of revising their expectations on the current situation. As can be seen from previous research referring to the first view, some managers tend to use stock splits as an instrument for communicating and drawing the attention of analysts. The researchers, who stick to the theory of investors' slowness, state

that we see abnormally low return expectations at the moment of the announcement of a stock split if the investors slowly react on managers' signals. Ikenberry [23] in its research checks these two assumptions. The sample consists of 3028 cases of 5-for-4 or greater stock splits announced by NYSE, AMEX, and NASDAQ in the period of 1988 to 1997. The results show that not the whole underreaction is explained by both assumptions. The author also examined, that there is no intermediate element in the connection such as significant changes in risk after stock split, which influences the stock price. And second, the impact of dividends was analyzed to reject the possibility of outside influence. In the research, it was proven, that the return drift after the stock split announcement is not a result of risk shift.

Dividend policy.

Dividend payments, like stock splits, are considered a signal of future earnings. In the circumstances of asymmetric information, shareholders try to analyze the corporate announcements to forecast the earnings. There are two approaches to the signaling theory of dividends. On the one hand, basic research on this topic consider dividends a sign for increasing earnings, so-called cash flow signaling model. Lintner (1956) [28] presupposed, that firms announce dividends, when they strongly believe in future good performance and will afford higher dividends, while Watts (1973) [42] concluded, that current dividend policy depends on previous and future company's profits. On the other hand, dividend payments can be perceived as a signal of a firm reaching maturity stage and declining investments. Grullon et al (2002) [20] provided alternative hypothesis – maturity hypothesis. The authors stated, that company starts to pay dividends, when the systematic risk is low and company finish the growing stage.

There are two models, allowing to assess the reaction to dividend announcements: naive and surprise. Naive method, used in Teplova's research (2008) [47], is simply a difference between current and previous dividend payments. Nevertheless, this approach seems not fully correct, as the market tends to accept all public information available and the stock return may omit some reaction of the market (Berezinets et.al, 2016) [44]. The second, surprise model, solves this problem, because it implies the expected value of dividend equal to the forecasts provided by financial analysts that already include all public data of the market and correct the investors behavior and expectations (Berezinets et.al, 2016) [44].

There is still no consensus on how the market reacts to the dividend announcements. Michaely et al. (1995) [32] compared immediate reaction (up to 3 days) to initiation or omission and long-term reaction after the event. The research was built by analogy with the work of Bernard and Thomas [4] about post-earnings-announcement drift and authors expected to see the

same drift in prices after changes in dividend policy. The results show that the immediate reaction to the omission is negative, while that to initiation is positive. Moreover, the absolute value of stock returns after the omission is greater than that of stock returns after initiation, which reconciles the theory of Conrad and Cornell (2000) [10]. Michaely et al (1995) [32] also proved, that there is a long post-announcement drift both for omission and initiation, which coincides with the theory of Bernard and Thomas. Overall, the managers give signals to the market about the intrinsic value of the stock.

On the contrast to Michaely et al. (1995) [32], Firth (1996) [18] in his paper proved and specified the fact that only unexpected dividend payments cause positive abnormal returns, while dividend reductions, on the contrary, result in negative returns. Positive reaction to unanticipated dividends is reached by investors' expectation of cash flow changes. Firth also found evidence, that the market reaction to the dividend announcement extrapolates to the similar companies in the same industry.

In Teplova's research (2008) [47] the negative reaction was also proved, however the distinction between foreign and Russian market was made. As it turned out, the reaction to the dividend increasing is negative for both markets, however foreign stock exchanges (NYSE and LSE) tend to have more dramatic response to the announcement, which is proved by the specifics of developed and developing markets, that were mentioned above. Despite the hypothesis about positive reaction to the dividend announcements was not proved, there was no confirmation of the opposite hypothesis and declining of dividends is considered negative signal about future earnings and strategy of the company.

The distinctive features of the market and the specifics of the industry analyzed can also impact the result. While Teplova's research [47] was based on the naïve model of dividends and revealed stronger negative reaction of the Russian market to the both "good" and "bad" news referring to the dividends, Berezinets et.al (2016) [44] proved this statement by using a surprise model, confirming the negative response of the Russian market. There are several possible explanations to such investors' behavior.

a. Investors' expectations of company's future development and growth.

While some shareholders believe that dividends evidence the existence of extra cash flows (according to Linther's theory, 1956 [28]) and forecast further expansion of the firm, the company, in its turn, can go into maturity phase, according to Grullon et al (2002) [20].

b. Possibility of conflicts between majority and minority shareholders and disagreement regarding cash distribution (Berezinets et.al, 2016) [44].

c. Since the research was conducted on the data for the period of 2010 – 2014, the pessimistic mood of the investors concerning the overall crisis situation on the Russian market can influence the reaction to the dividend surprises (Berezinets et.al, 2016) [44].

d. The industry of “dividend distributor”. Teplova (2008) [47] also showed that Russian oil market reacts almost the opposite to the general trend. As oil industry is traditionally considered leading in Russia, the shareholders response positively to dividend announcements, because they believe that oil companies have enough money both to invest in future projects and M&A deals and to distribute it to the investors.

Earnings announcement.

The importance of earnings announcements has been scrutinized for a long time. At first sight, this announcement seems to be the most obvious and unequivocal way to communicate with investors about company’s performance. However, some scientists note, that such type of news can lack informational value. Dechow et al (2014) [14] highlighted, that earnings announcement can provide information to the investors, which was already transmitted through other signals, for example, dividend announcements or unaudited results of the company. It is also can be difficult to isolate the effect of earnings announcements on company’s stock price, because the reaction can be impacted by the fact of financial statements publication, which goes along with the news about company’s performance or by existence of extraordinary items or asset write-downs, that are included in earnings and can cause stock price movements (Burgstahler, Jiambalvo & Shevlin, 2002) [9].

The reaction to the earnings announcements is characterized by Post-Earnings-Announcement Drift (PEAD), which implies, that the positive (negative) tendency of abnormal stock returns remains the same for the several months after positive (negative) earnings announcements (Ball and Brown, 1968) [2]. Bernard and Thomas in 1989 [4] offered two approaches to the explanation of what causes post-earnings-announcement drift. One side of the view refers to the supposition, that the delay of response to new information occurs because of managers’ inability to quickly assimilate to the current situation (Ikenberry in 2000 [23] developed this viewpoint) or because of the costs of implement new strategy exceeding profits. The other side implies, that Capital-Asset-Pricing Model (CAPM), used for calculating abnormal returns, is incomplete and fails to take risk into consideration in an appropriate manner. The analysis conducted does not confirm CAPM misspecification as an explanation for post-

earnings-announcement drift. The research does not prove the suggestion of beta shifts influence on after announcement stock drift. Moreover, the model also rejects the impact of different risks other than a systematic one. This statement was continued in Ikenberry's work [23], mentioned earlier. The drift can be somehow explained by the second suggestion about investors' delay. If transaction costs interpret the drift, then this drift should lay under the upper bound of transaction costs.

When considering the market response to the earnings announcements, many researchers tend to analyze the secondary effects, which can influence stock price. Thus, Barberis et al. (1998) [3] confirmed, that people tend to overvalue the significance of the event strength and undervalue the statistical weight of it. In other words, "one-time strong news events should generate an overreaction" [3]. Moreover, Pevzner et al. (2015) [35] appealed to the cultural factors of the market. They established the fact, that high level of societal trust reduces the uncertainty and increases the investors' reaction to the earnings announcements. It is an additional factor, explaining the difference among stock market responses over the countries, as it is known, that developing countries are characterized by lower level of trust, than developed countries do.

Mergers and acquisitions.

First research, devoted to company's performance after merger or acquisition, indicated the decline of firm's value over the next years after the deal. While Jensen and Ruback [38] in 1983 linked this phenomenon with efficient-market anomaly, Agrawal, Jaffe and Mandekler (1992) [1] confirmed, that company underperformed by 10% over the next five years after merger deal, however disproved the nature of it. They assumed, that negative result could be caused by some lag in market reaction to the announcement. This hypothesis could not be proved in their work, but became a challenge for the next research generations.

Many researchers tried to approach the issue of company's underperformance after M&A deal from different angles. In the paper written by Mitchell, Pulvino and Stafford (2004) [34] the authors investigated the phenomenon of price pressure caused by merger arbitrage short selling of stocks within merger announcement dates. They clarified that this effect appeared only with portfolio rebalancing, i.e. the deal, when companies use their stock as a consideration in both fixed- and floating-exchange-ratio mergers. Mitchell et al (2004) [34] found out, that the abnormal stock price return after cash-financed mergers was -1.20%, while after stock consideration the figure was -2.65%, which tells us, that stocks are overvalued by acquirers.

The research of Rosen (2006) [37] was devoted to analyze specific market conditions during after merger or acquisition announcements. The author introduced the definition of momentum, which means a correlation between market reaction to the deal announcement and special market conditions. Rosen proved, that in so-called hot markets (where there have been some deals occurred recently) the reaction to the announcement is perceived more favorable than in cold markets. While the short-run returns are higher in hot markets, the long-run ones are higher in cold markets, which is explained by momentum.

Capital structure changes.

Changes in capital structure such as stock repurchase, SPO (secondary public offering) etc., have been a subject of interest since the second half of XX century. The researchers highlighted two possible reasons, why companies decide to repurchase their shares. First, the limited growth opportunities and inability to dispose of internal funds more profitably force managers to announce the buyback. Second, this type of news can be a signal of company's undervaluation (Vermaelen, 1981) [41], because it is not profitable for managers to announce the buyback, when the stocks are overvalued, as they will suffer losses in that case. According to Bonaime and Ryngaert (2013) [5]: "Consequently, repurchases might not convey positive information if management is selling their stock at the same time the repurchase is undertaken". Ikenberry et al. (1995) [22] evidenced, that market underreacts to such event. While the average stock return after the news release is 3.5 % and abnormal return is equal to 12.1 %, the abnormal return of value stocks would be 45.3 % as they usually the most undervalued. The same figure for glamour stocks, which are unlikely to be undervalued, is close to zero, which means that underperformance of stock is the main reason to repurchase. Nevertheless, the effect of undervaluation can be weakened, if there is significant insider selling exists, and strengthen, when insiders buy stocks themselves (A.A. Bonaimé and M.D. Ryngaert (2013) [5].

The effect of the stock repurchases is still under consideration. The paper of Ikenberry, Lakonishok and Vermaelen (1995) [22] analyzed share repurchase announcements in the period of 1980 and 1990 and market reaction to them. They found out that the reaction does not always finish over short time periods, but can continue to exist in the following several years. However, the paper written by Liano, Huang and Manakyan (2003) [28] disproved the conclusion of previous paper regarding long-term effect of repurchase announcement. The authors found evidence, that "stock repurchasing firms do not outperform their industry peers in the long term" (Liano, Huang and Manakyan, 2003) [28], but also tend to underperform them. They also

noticed that investors reacted to the stock repurchase announcements differently depending on the industry firms belong to.

1.2.3. Type of investor

Corporate news primarily impact investors and then stock prices. The type of investor is a key factor when analyzing the correlation between announcements and stock returns. It is necessary to define, that institutional and private (or individual) investors have different material and informational resources, use various investment strategies and expect diverse returns, thus their reaction on public announcements differs. Such issues are considered in the following articles.

Previous works mentioned above tend to solve the problem of the stock price over- and underreaction from the position of the market conditions and the firm's actions. However, the article of Cohen et al (2002) [11] is devoted to the behavioral aspect of market reaction – investors' characteristics. The authors' goal in these researches is to examine the behavior of stock returns comparing individual and institutional investors. The results show, that institutional investors not only know but also use the effect of underreaction to generate profits. In the case of positive corporate earnings announcements about cash-flow changes, institutional investors buy stocks and in case of negative news, sell them. During the study, it was shown, that nearly 2% of stocks are bought by institutional investors after corporate news release concerning cash-flow changes. In the case of the absence of corporate news about price changes, institutional investors have another strategy: they buy stocks from individual investors during the decline period and sell them during the growing period. The authors suggest, that institutions use their knowledge manipulating the reaction effects for gaining surplus. Nevertheless, institutional investors actively use several research methods, which lead to exploring new facts about expected stock returns.

Ekholm (2002) [15] in his research confirms the results of the study conducted by Cohen, Gompers, and Vuolteenaho [11] testing the sample of Finnish companies, dividing all investors into 6 groups: companies, financial institutions, general government, nonprofit organizations, households, countries and international organization. The sample consists of 53 631 observations.

It was investigated, that most parts of investors start selling stocks after positive earnings announcements and buying stocks after negative news or financial statements of the company. However, the largest investors use a contrary strategy.

Lee's (1992) [26] research based on the American stock exchange shows similar results. The author stated, that after earnings surprises publications, the total number of deals of buying stocks increases, and in case of negative news releases the situation is opposite.

1.2.4. Type of announcement

The other factor, influencing stock price, is the scope of news. The scale of news distribution is determined by the fact of the public release of the company's message or analytical review.

Momentum defines the rate of the rise or fall in stock prices. Historically, rising price moment (refers to the bull market) lasts longer, than declining price momentum (refers to bear market). So, momentum investing is a strategy to buy stocks relying on the existing trend. In the late 90s, many of portfolio theories assumed, that an increase in the past results in current increase and decline results in decline now.

There are many explanations of driving forces of momentum, which can be divided into two groups: overreaction and underreaction of prices as a speed of price's reaction to the news. The aim of Hong's and Stein's (2000) [21] study is to find the evidence that momentum reflects the gradual diffusion of information on firm-specific information. So, the first hypothesis of the research is that "if momentum comes from gradual information flow, then there should be more momentum in those stocks for which information gets out more slowly". There are two options what to choose as a rate of information flow: firm size or analyst coverage. Another objective of this paper is to prove that momentum strategies are more efficient in low analyst coverage stocks. The second hypothesis is that under low analyst coverage small stocks should show more positively autocorrelated returns at medium horizons. The study shows that smaller stocks decrease the profitability of momentum strategy and, if the size is fixed, low analyst coverage contributes profitable momentum strategies. Thus, low coverage stocks tend to react to bad news more slowly.

Pritamani and Singal (2001) [36] explored that the stock price increase with announcement will result in a growing return in contrast to the price increase without the news, which will return to the normal level of price in time. The authors also stated that return predictability is greater when public announcement occurs.

Chan (2003) [10] in his work tries to answer the same question as Pritamani and Singal [36], whether the stock returns after large corporate news and after big price movements without the announcement differ. This study is aimed to exclude any data clustering to find a common trend. In Chan's research, the reaction drift, i.e. insufficient reaction, of the stock market after an

appropriate announcement is explored. The drift for stocks assisted by negative news is negative, too, and lasts nearly 12 months and for stocks, with positive news, the drift is shorter. As mentioned earlier, the prices of stocks without publicly announced news return to their average mean next month, which is an evidence of investors' overreaction on the insignificant information.

In the case of excluding cheaper stocks, all effects become less significant. Thus, the overall effects have a dramatic impact on cheap stocks, which are more illiquid. Such a phenomenon can be linked to the slow reaction of the market on information releases together with huge transaction costs, which do not allow companies to reduce the difference between the news and stock price fluctuates.

There is a summary of theories presented in the review.

The type of announced event	The results of research
The type of event	
Stock Split	<p data-bbox="850 875 1453 1070">McNichols and Dravid (1990): managers and investors consider stock split factors a signal and a way to predict future earnings.</p> <p data-bbox="850 1093 1453 1400">Ikenberry (2000) showed that managers intend to use stock splits as a signal to the market and the market has underreaction to the stock splits because of investors' inability to quickly adapt to such signals.</p>
Dividend payments	<p data-bbox="850 1480 1453 1675">Signaling theory: Linther (1956) implies, that firms announce dividends if they strongly believe in future good performance and ability to pay higher dividends.</p> <p data-bbox="850 1697 1453 2060">Maturity hypothesis: The research of Grullon (2002) showed that company starts to pay dividends when it reaches the maturity stage. Michaely and others (1995) showed, that there is underreaction to dividend announcements. The immediate reaction to the omission is negative, while that to</p>

	<p>initiation is positive.</p> <p>Firth (1996) proved, that unexpected dividend payments result in high abnormal return as they refer to cash flow changes in the company. The reaction of the market to the dividend announcement tend to extrapolate to the similar companies.</p> <p>Teplova (2008), Berezinets et.al (2016): In Russia the overall market reaction to the dividend payments is negative except for oil industry.</p>
Earnings announcement	<p>The research of Bernard and Thomas (1989) proves, that post-earnings-announcement drift occurs because of investors' delay.</p> <p>Barberis et al. (1998): one-time significant event causes overreaction.</p> <p>Pevzner et al. (2015): investors in countries with high level of trust tend to react more significantly.</p>
Mergers and acquisitions	<p>Agrawal, Jaffe and Mandekler (1992) assumed, that company underperformed by 10% over five-year period after M&A deal because of lag in reaction.</p> <p>Mitchell, Pulvino and Stafford (2004) stated that the price pressure around M&A deal exists only with portfolio rebalancing.</p> <p>Rosen (2006) showed, that in hot markets the reaction to the M&A deal is more favorable, than that in cold market.</p>
Capital structure changes	<p>Vermaelen (1981) identified two reasons to repurchase price: inability to distribute cash more effectively and undervaluation of the company.</p> <p>Ikenberry, Lakonishok and Vermaelen</p>

	<p>(1995) stated that market underreacts to the stock repurchase.</p> <p>Liano, Huang and Manakyan (2003): investors' reaction to the stock repurchase depends on the industry company operates in.</p>
Emotional coloring	
Positive news	<p>Skinner D. and Sloan R. (2000) proved, that the differential returns between value and growth stocks are driven by a large asymmetric response to adverse earnings news in growth stocks.</p>
Negative news	<p>Conrad J. (2000) and others in their study showed, that indeed the stock price reacts more seriously to negative news in good times, which create a large difference between investors' expectations and current situation.</p>
The type of investor	
Individual investor	<p>Cohen R. and others (2002), Ekholm and others (2002) and Lee C. (1992) all stated that in case of positive corporate earnings announcements about cash-flow changes, institutional investors buy stocks and in case of negative news, sell them. In case of absence of corporate news about price changes, institutional investors have another strategy: they buy stocks from individual investors during decline period and sell them during growing period.</p>
Institutional investor	
Regular announcements	
Analyst coverage	<p>Michaely and Womack (1999) showed, that market reacts with delay.</p>
Financial statements publication	<p>Bernard and Thomas's study (1989)</p>

	evidences the drift after surprise news announcement.
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Table 3. Summary of theoretical background. Source: made by author

1.3. Hypotheses statement

This paper is aimed to provide the answers for 3 research questions about short-run company's performance after the announcement. In this paper, it is assumed, that short-rung period is expressed in 7 days' window.

1. How do corporate news impact stock price in short-run?
2. What corporate announcements influence the stock price most of all?
3. How does market react to the regular (non-self-selected) and irregular (self-selected) news in short-run?

All news can be separated into two categories according to the specifics of its appearance. It can be either self-selected or non-self-selected (Ikenberry and Ramnath, 2002) [23]. First group refers to the announcements, which can be manipulated by managers on if and when to present it to the investors. Such news are publications about future M&A deals, dividend payments, earnings announcements etc. The second group is about "mandatory" news or regular announcements, which cannot be postponed. The common type is financial statements publications.

Based on the literature review, presented above, and research questions to be solved, several hypotheses are planned to be tested. The hypotheses consider the following corporate announcements as the most frequent on the Russian oil market: dividend payments, M&A deals, earnings announcements and financial statement publications.

Hypothesis 1: Announcements on dividend increase in oil industry positively impact the stock price in the short-run.

In other words: $CAAR_{div(-3;3)} > 0$

Hypothesis 2: Announcements on dividend decrease in oil industry negatively impact the stock price in the short-run.

In other words: $CAAR_{div(-3;3)} < 0$

Where $CAAR_{div(-3;3)}$ is cumulative average abnormal return for 7- days event windows after dividend announcement. For positive dividend announcements we accept the events, when the sum of the dividends for the given period is more than, the sum of the dividends for the

previous comparable period. For negative dividend announcements we accept the events, when the sum of the dividends for the given period is less than, the sum of the dividends for the previous comparable period.

Unlike the general trend of the negative market reaction to the dividend announcements, oil industry in Russia sends the opposite, positive signal to investors (Teplova, 2008) [47]. However, the previous research in this area provides some external explanations to this phenomenon, linking such reaction to the investor uncertainty in the period of crisis (Berezinets et. al, 2016) [44].

Hypothesis 3: Announcements on earnings increase positively influence the stock price of oil companies.

In other words: $CAAR_{gearn(-3;3)} > 0$

Hypothesis 4: Announcements on earnings decrease negatively influence the stock price of oil companies.

In other words: $CAAR_{bearn(-3;3)} < 0$

For positive earnings announcements we accept the events, when the profitability figures (EBITDA, net profit) for the given period are more than, the figures for the previous comparable period. For negative earnings announcements we accept the events, when the profitability figures (EBITDA, net profit) for the given period are less than, the figures for the previous comparable period.

Where $CAAR_{earn(-3;3)}$ is cumulative average abnormal return for 7- days event windows after earnings announcement.

Hypothesis 5: M&A deals positively impact the stock price of the oil companies in short-run.

In other words: $CAAR_{ma(-3;3)} > 0$

Where $CAAR_{ma(-3;3)}$ is cumulative average abnormal return for 7- days event window after M&A deal announcement.

Generally, oil industry is considered one of the most active in M&A sphere in Russia, as it is the one of the few Russian industries, which have funds for expansion and huge investments (Teplova, 2008) [47]. And according to Rosen (2006) [37] “hot” markets tend to be more favorable to the M&A deals, which can result in positive abnormal returns.

Hypothesis 6: Financial statements publication positively impacts the stock price of the oil companies in short-run.

In other words: $CAAR_{fin(-3;3)} > 0$

Where $CAAR_{fin(-3;3)}$ is cumulative average abnormal return for 7- days event window after financial statement publication.

Hypothesis 7: There is a difference between the reaction to self-selected (irregular) and non-self-selected news.

In other words: $CAAR_{reg(-3;3)} \neq CAAR_{irreg(-3;3)}$

Where $CAAR_{reg(-3;3)}$ is cumulative average abnormal return for 7- day event windows after regular events and $CAAR_{irreg(-3;3)}$ is cumulative average abnormal return for 7-days event window after irregular events. In this paper, regular events are presented in the form of financial statements and irregular events are presented in the form of M&A, dividend and earnings announcement.

Sharkasi et al. (2006) [39] in their research showed, that the reaction of the investors to the unexpected events depends on the stage of market development. While developed markets provides flat and homogeneous reaction to the unexpected news, the emerging markets tend to have mixed reaction to such events. Moreover, if the investors know the date of the announcement and have defined expectations about it, the abnormal return should be smoothed and less, than that to unexpected events.

In the next chapter, the methodology and the results of the empirical study are provided.

CHAPTER 2. EMPIRICAL STUDY

2.1. Event study methodology description

The research strategy corresponds to the research questions needed to be answered. The most suitable research method is event study that allows to assess the impact of event on the value of a firm. The event study was invented by Fama, Fisher, Jensen, and Roll in 1969 [17]. The general idea of the method is the calculation of abnormal stock returns which are assumed to reflect the event, in our case, some corporate news (McWilliams and Siegel, 1997) [31]. It is reasonable to use returns instead of real stock prices, because the returns are comparable. First, it is assumed, that the reaction of the market will appear in a short time after the announcement of the event. The date of announcement (not the date of event itself), then the event window and estimation window are chosen. The event window is a time period, when we gather the data of stock prices. The estimation window is a period, when we assess the model parameters. After that, we calculate actual returns of stocks in event window, model normal returns and then deduct the second from the first to get abnormal returns. In the end, the regression model is built and abnormal returns as dependent variable are tested for significance (t-test).

The event study is chosen as the main method of research, because we need to establish and explain relationship between the corporate announcement and market reaction. As explanatory study it can not only show the correlation between them, but also define the causal linkage between two variables, so we can watch the how corporate news affect stock price. The study is supposed to be cross-sectional, because we cannot predict future stock prices on the basis of current news.

The event study process is the following:

Stage 1.

All the events we are interested in were chosen within the determined period. They are all financial news about leading Russian oil companies during the period from May 2014 to May 2019, excluding news about operational results such as production volumes, development of new fields announcements etc. The characteristics of the sample in details will be presented in the next section.

Stage 2.

The data consisting the stock prices of the chosen companies during the five-year period is received and transformed to the comparable view of stock returns. Stock return in one trading session is defined as a ratio of a stock price on this day to the stock price on the previous session and minus one. In this paper, the lognormal distribution is used to be able to compare only positive returns. Daily stock returns are calculated as following:

$$R_t = \ln(P_t/P_{t-1}), \quad (1)$$

Where R_t is actual stock return on day t;

P_t is the closing price on day t;

P_{t-1} is the closing price on previous day (t-1);

It is necessary to notice, that our dataset consists not calendar days, but trading ones. It is important factor, when we determine the dates included in the event window.

Stage 3.

Next step is to define event window. According to Pogozheva (2013) [46], in the most research the authors use 31 days event window, i.e. 15 days before and 15 days after the event. It can also be seen, that some papers offer big event windows of several years, however it is suitable for the analysis of specific events occurring irregularly. In this paper, both 31 event window and the narrower event window of 7 days are used, i.e. 3 days before and 3 days after the announcement, because the information field is saturated and news appear quite often and the effect from them lasts a few days only. Thus, we can prevent event windows' overlapping and avoid combined effects among different types of events.

Stage 4.

To calculate abnormal returns we have to define, what is normal return. There are three models that can be used for it: mean model, market model and CAPM model. Mean model is the easiest one, however it allows to get relevant results when the event window is not very wide. It is supposed, that average normal return is constant for every event day and is usually calculated as average stock return for the period of 120 days before the first day of event window ($-123 \leq t \leq -4$). So, in our case it would be showed as the following:

$$\bar{R}_i = \frac{1}{120} \times \sum_{t=-123}^{-4} R_{it}, \quad (2)$$

Where \bar{R}_i is average normal return;

R_{it} is a stock return on a day t;

t is a trading day within interval $-123 \leq t \leq -4$;

Market model allows to take into account the inconstancy of the normal return and to decrease the variance of abnormal returns. The equation would be the following:

$$\bar{R}_i = R_{mt} + \varepsilon_t, \quad (3)$$

Where \bar{R}_i is average normal return;

R_{mt} is a market return on a day t;

t is a trading day;

ε_t is a random error;

Market return is a weighted-average return of the portfolio, i.e. daily return of the market index such as MOEX etc. Market return (R_{mt}) is calculated as a stock return by using lognormal distribution:

$$R_{mt} = \ln(P_t/P_{t-1}), \quad (4)$$

Where R_{mt} is actual stock return on day t;

P_t is the closing price on day t;

P_{t-1} is the closing price on previous day (t-1);

CAPM is the most detailed model, providing the stock return dependence on the market return. The normal return is defined as in the following formula:

$$\bar{R}_{it} = \alpha_i + \beta_i \times R_{mt}, \quad (5)$$

Where α_i and β_i – model's parameters, evaluated by means of Ordinary Least Squares (further, OLS), where α_i is a constant value and β_i – linear regression coefficient;

R_{mt} – actual market return;

In this paper, CAPM is used for calculation normal returns. It is also important to notice, that the analysis is conducted with daily stock prices and stock returns, so there is no need for inflation correction.

Stage 5.

The calculation of abnormal returns is provided for each day of event window and for every news. Abnormal return is a random variable left above normal return. The cumulative abnormal return (CAR) model suppose that the value of abnormal return reflects the corporate news announcement impact on financial market. The formula of abnormal return is the following:

$$AR_{it} = R_{it} - \bar{R}_{it}, \quad (6)$$

Or

$$AR_{it} = R_{it} - (\alpha_i + \beta_i \times R_{mt}), \quad (7)$$

Where: AR_{it} is abnormal return of a company on day t;

R_{it} is actual stock return observed on day t;

\bar{R}_{it} , is expected stock return on day t, which is equal to normal return according to CAPM model.

For event study, the main purpose is the calculation of average abnormal return (AAR). It is calculated for each event window as following:

$$AAR_t = \frac{1}{N} \sum_{i=1}^N AR_{it}, \quad (8)$$

where: AAR_t - average abnormal return on day t;

N – number of corporate news.

For the observation of return of definite time period, we need to aggregate time series data. For each event day we calculate cumulative abnormal return (CAR). For each day it is computed as:

$$CAR_i(t_1, t_2) = \sum_{t=t_1}^{t_2} AR_{it}, \quad (9)$$

Where $CAR_i(t_1, t_2)$ is cumulative abnormal return for each corporate news in event window.

For this paper we take $t_1 = -3$, $t_2 = +3$. We assume that positive cumulative abnormal return is a signal of increasing company's value due to corporate news issuance, and negative ones is an evidence of company's value decreasing.

Stage 6.

To finish the event analysis, we need to assess the significance of certain events. In case if the corporate news publication impacts the stock market, we expect that the value of average abnormal return on day of corporate news release will be other than zero. For significance test, Student's t-distribution is used. On this stage, it is necessary to indicate whether the average abnormal return is other than zero in the period before and after the corporate announcement. The reason is that if the event is forecast, that the part of abnormal return will appear before the news release. The analysis of time period after the announcement can be of interest for testing market efficiency, because it shows the speed of data processing appearing on financial market. When there is a systematic distinction of abnormal return from zero, than the market is inefficient, because allows the possibility of profitable trading strategy.

The significance of the factors is tested by means of regression equation.

$$AAR_{it} = \alpha_i + \beta_1 \times x_1 + \beta_2 \times x_2 + \beta_3 \times x_3 + \beta_4 \times x_4 + \beta_5 \times x_5 + \beta_6 \times x_6 + \varepsilon_t, \quad (10)$$

Where β_i is a sensitivity coefficient,

X_1 – is a dummy variable for the news regarding M&A deals;

X_2 – is a dummy variable for the news regarding positive dividend announcements;

X_3 – is a dummy variable for the news regarding negative dividend announcements;

X_4 – is a dummy variable for the news regarding financial statements publication;

X_5 – is a dummy variable for the news regarding positive earnings announcements;

X_6 – is a dummy variable for the news regarding negative earnings announcements;

So, the $H_0: \beta_1^2 + \beta_2^2 + \beta_3^2 + \beta_4^2 + \beta_5^2 + \beta_6^2 = 0$

2.2. Description of the sample

The oil industry was chosen for the tested sample as it is one the most shown industry on Russian stock market. To form the list of the companies, which will be included in the sample,

we considered the blue-chip index on the Moscow Stock exchange. Initially, 6 companies were chosen: PJSC “LUKOIL” (further LUKOIL), 15,2% of the index; PJSC “TATNEFT” (further TATNEFT), 4,3% of the index; Rosneft, 4,5% of the index; Surgutneftegaz, 3,6% of the index; Novatek, 6% of the index; and Gazprom Neft PJSC (as PJSC “GAZPROM” represents 18,20% of the index and is a parent company of Gazprom Neft). Overall, oil industry makes up more than 50% in the blue-chip index. All the announcements were taken manually from official websites of the companies in the section “Press Center”. The ordinary stock prices were taken from Moscow Stock exchange at the time of closing.

There are four types of news, which were analyzed and chosen. The announcements refer to:

1. M&A deals,
2. Dividends announcements,
3. Earnings announcements,
4. Financial statements publication.

No news about operational results of the company, such as operational reports, development new fields etc. was analyzed, as this paper is devoted to the impact of financial news only.

The initial sample was reduced during the analysis. The received sample had inappropriate items, which can result in errors occurred during the event study analysis. Thus, it was decided to exclude the events that fall under several criteria:

1. If the announcements refer to the same event, but have clarifications, provide additional information, it is reasonable to remove them, because we analyze the type, but not the content of news, so they can be irrelevant and can mistakenly affect the results. We leave only first message regarding the event. Moreover, if the initial news occurred beyond the period of analysis, while repeated news is within the required period, we also extract such announcements. In general, it concerns two categories: M&A deals and dividend announcements. For instance, the details of the M&A deal are presented in the next announcements or there were two news about dividends: recommendation and approve of payment.

2. We also remove the events, that occurred on the same date and referred to the different categories, as we would not be able to assess “clean” result due to overlapping.

3. To provide the analysis of AARs and CAARs we exclude the events that get into other event windows in order to avoid clustering.

Overall, the final sample consists of 283 items. The final distribution of news among the companies is the following:

Company name	Number of news
Lukoil	51
Rosneft	76
Tatneft	32
Gazpromneft	39
Surgutneftegas	48
Novatek	37
Total number of news	283

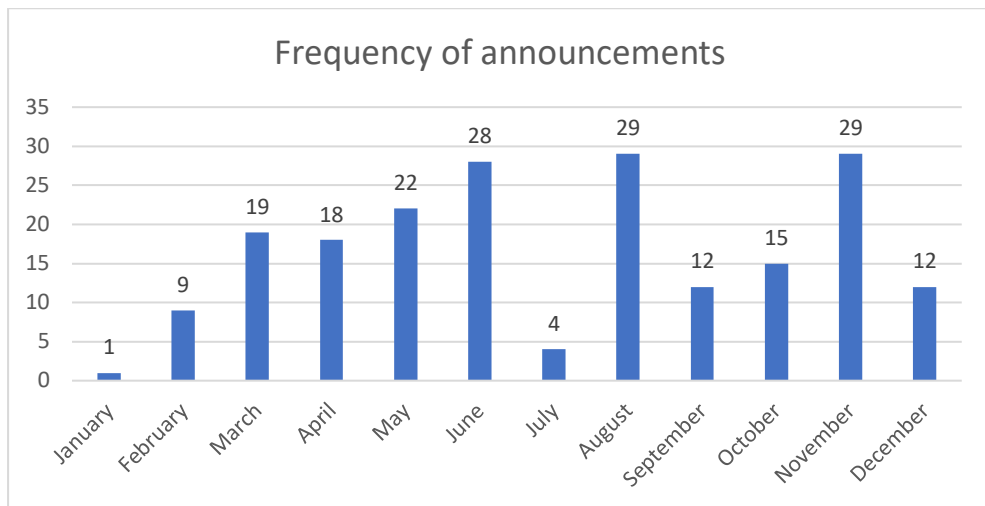
Table 4. The distribution of news by the companies. Source: made by author

The final distribution of news among categories is the following:

Category name	Number of news
Dividends	52
Earnings announcement	34
M&A	77
Financial statements publication	120
Total number of news	283

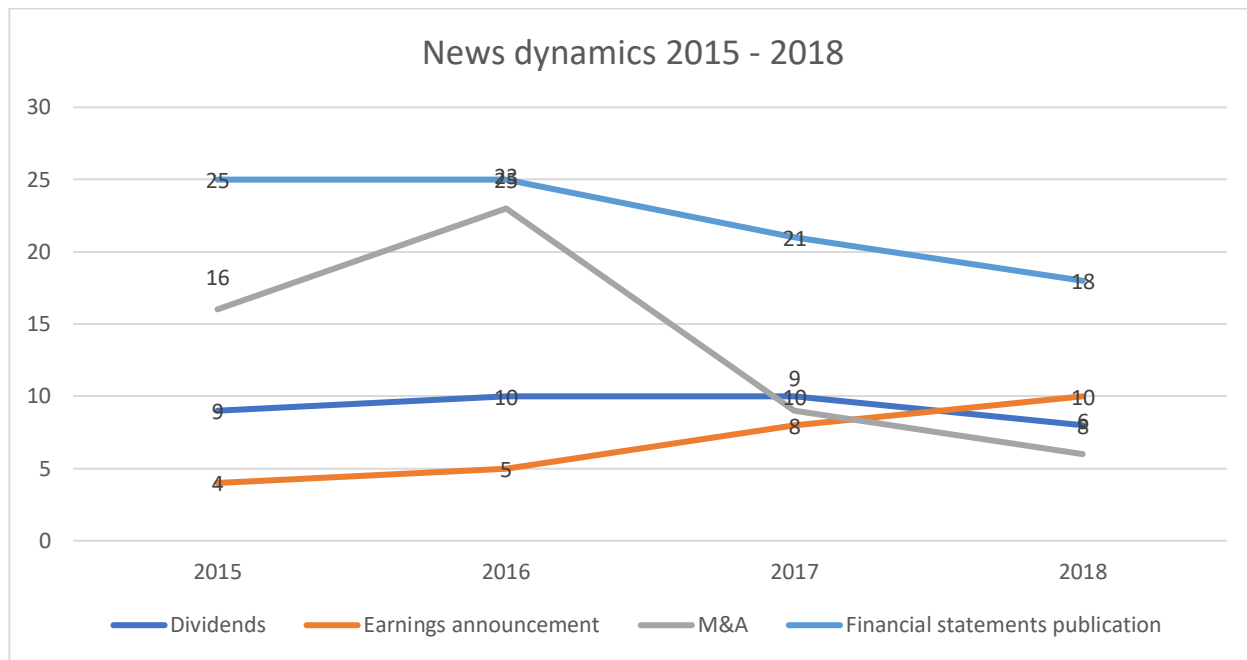
Table 5. The distribution by the types of news. Source: made by author

The overall statistics shows, that the most popular months for announcements are May, June, August and November. It is obvious, because during these periods, companies publish financial statements and make decision about dividends. June is also active month because of Saint-Petersburg International Economic Forum and all companies from the sample participate in it and conclude many partnership agreements.



Graph 1. Frequency of the news over the months. Source: made by author.

It is also interesting to assess the dynamics of news appearing during the full years (2015 – 2018):



Graph 2. News dynamics over the years. Source: made by author.

As it can be noticed, the dynamic of financial statement publication is flat, because it is a regular event, however the number of M&A deals dropped around four times in 2018, which can be a result of economic instability and gradual weakening of the Russian ruble and thus, inability to participate in mergers and acquisitions.

The results of the analysis are presented in the third chapter.

2.3. The results of the empirical study

The event study was applied for conducting the analysis of 6 companies' stock prices (LUKOIL, TATNEFT, Rosneft, Gazprom Neft, Surgutneftegaz and Novatek) during the period of May 2014 – May 2019 and how they are affected by financial corporate announcements, such as M&A deals, dividends, financial statements publication and earnings announcements. The event window is equal to 7 days, including 3 days before and 3 days after the announcement. The estimation window for calculating normal returns is equal to 120 days. Normal return is evaluated by means of CAPM model. In this paper, return of the market is equal to MOEX index return, calculated manually. In the research, only ordinary shares were analyzed.

The tickers of the companies are shown below:

Company	Ticker
Lukoil	LKOH.ME
Rosneft	ROSN.ME
Gazpromneft	SIBN.ME
Tatneft	TATN.ME
Surgutneftegaz	SNGS.ME
Novatek	NVTK.ME

Table 6. Companies' tickers. Source: *finance.yahoo*

The average predicted normal returns of the companies for the given five-year period are presented in the following table:

Lukoil	Rosneft	Gazpromneft
-0,044%	0,047%	0,066%
Tatneft	Surgutneftegas	Novatek
0,152%	0,055%	0,055%

Table 7. Companies' predicted normal returns. Source: *made by author*

There are the names of variables, that were used in STATA.

Name of variable in STATA	Variable
Ma	Mergers and acquisitions deals
Gdiv	“Good” dividend announcements
Bdiv	“Bad” dividend announcements
Fin	Financial statements publication

Gea	“Good” earnings announcements
Bea	“Bad” earnings announcements
CAARreg	CAAR for regular news
CAARirreg	CAAR for irregular news

Table 8. The list of variables used in STATA. Source: made by author

The overall result of average abnormal returns (AARs) for all categories of news according to the event window are presented in the table below:

Event days	Financial statements	M&A deals	Dividends (+)	Dividends (-)	Earnings (+)	Earnings (-)	Average AAR
-3	0,001	-0,004	0,001	0,001	0,007	0,001	0,001
-2	0,006	-0,005	0,006	0,008	-0,009	-0,001	0,001
-1	-0,011	-0,002	-0,011	-0,011	0,003	-0,005	-0,006
0	0,011	-0,007	0,011	0,002	-0,003	0,003	0,003
1	0,008	0,007	0,008	0,000	0,000	0,006	0,005
2	0,002	0,000	0,002	-0,01	-0,01	-0,002	-0,003
3	0,007	0,005	0,007	0,003	-0,01	0,002	0,002

Table 9. Average abnormal returns by the types of news. Source: made by author

As it can be noticed, the overall reaction to the corporate announcements is fluctuating and the abnormal return reaches its lowest point (-0,006) the day before the event and its peak (0,005) one day after the announcement. We also can see, that there is no reaction to the dividend announcements the day after the event. It can be related to the waiting position of the current investors, which may happen because of the market saturation by news and regularity of the events.

Now we can take a closer look on all categories of news separately.

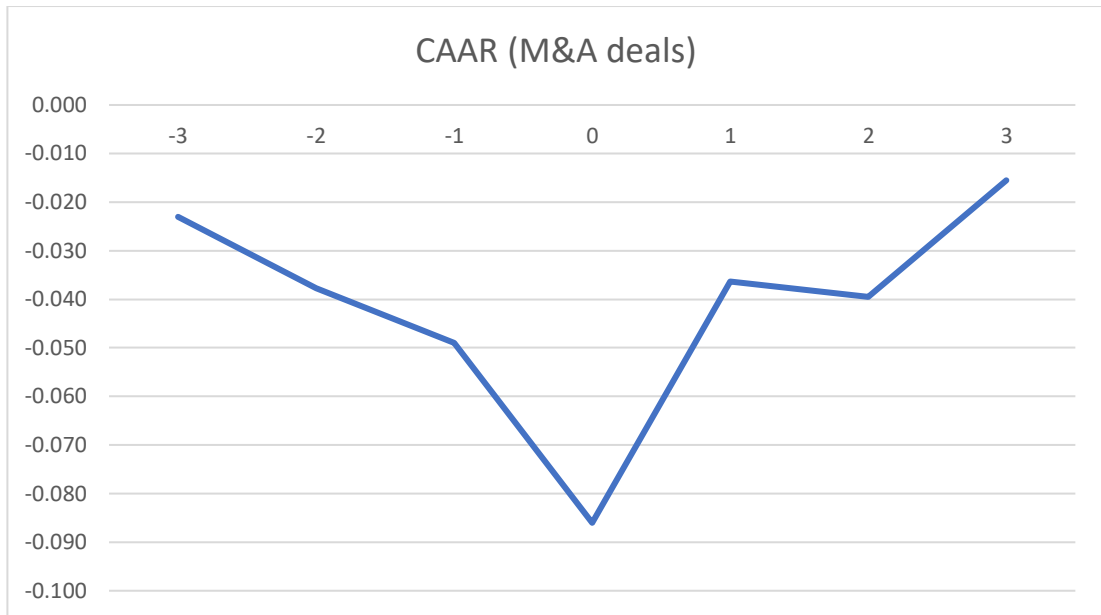
Mergers and acquisitions announcements.

The CAAR for M&A deals announcement is shown in the table below and in the graph:

	CAAR for M&A deals
-3	-0,023
-2	-0,038
-1	-0,049
0	-0,086

1	-0,036
2	-0,039
3	-0,016

Table 10. Cumulated average abnormal returns for M&A deals. Source: made by author.



Graph 3. Cumulated average abnormal return for M&A deals. Source: made by author.

As we can see, the reaction to the M&A deal announcement is strictly negative, which can evidence that shareholders perceive this news with disapproval. The lowest point is reached at the day of the announcement (CAAR is -0,086), but then the trend improves and strives the positive values and as it can be seen from the table 1, the AARs starting from day 1 after the event are positive. As it was analyzed in the previous research, according to Rosen (2006) [37], hot markets (when there are several M&A deals occur in a row) are more favorable to such deals and react positively. Mitchell, Pulvino and Stafford (2004) [34] stated that the price pressure around M&A deal exists only with portfolio rebalancing, when there is no cash payment. Thus, such wave-like behavior of the cumulative abnormal returns can be a result of the attempt to average external characteristics of the deals.

At first glance, it was seen that CAAR for M&A deals is negative, but we need to prove it by means of one sample t-test. The null and alternative hypotheses are the following:

$$H_0: CAAR_{ma(-3;3)} = 0$$

$$H_1: CAAR_{ma(-3;3)} > 0$$

The results of the test are presented below:

```

. ttest Ma == 0

One-sample t test

```

Variable	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
Ma	7	-.0410242	.0085889	.022724	-.0620404	-.020008

```

      mean = mean(Ma)                                t = -4.7764
Ho: mean = 0                                       degrees of freedom = 6

      Ha: mean < 0                                Ha: mean != 0                                Ha: mean > 0
Pr(T < t) = 0.0015                                Pr(|T| > |t|) = 0.0031                                Pr(T > t) = 0.9985

```

Picture 1. Results of one-sample t-test for M&A deals. Source: made by author.

As it can be noticed, we cannot reject the null hypothesis in favor of alternative hypothesis, as the p-value is 0,9985, which is more, than 0,05 (95% confidence interval).

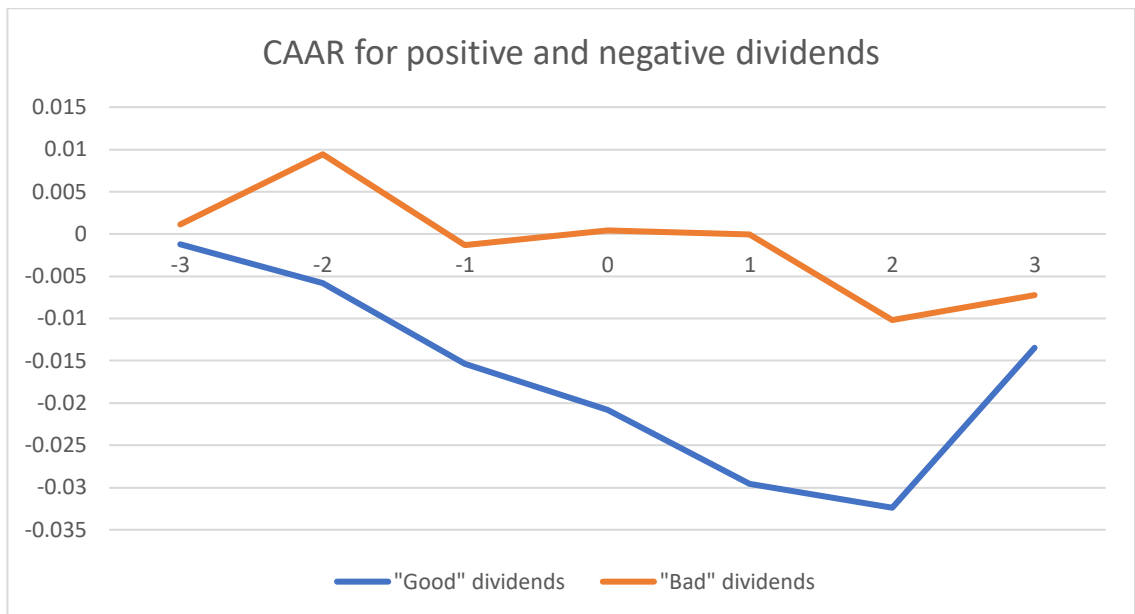
To prove the hypothesis number 3, that M&A deals should cause positive reaction of the market, the criteria of $CAAR_{ma(-3;3)} > 0$ was established. However, as we can see, the trend is $CAAR_{ma(-3;3)} < 0$ and the statistical hypothesis about $CAAR_{ma(-3;3)} = 0$ is not refused. So, our hypothesis about short-term positive impact of M&A deals on stock price is rejected.

Dividends.

The CAAR for 7-days event window for both positive and negative dividend announcements are in the following table and graph.

	CAAR for dividend announcements (+)	CAAR for dividend announcements (-)
-3	-0,001	0,001
-2	-0,006	0,009
-1	-0,015	-0,001
0	-0,021	0,000
1	-0,030	0,000
2	-0,032	-0,010
3	-0,013	-0,007

Table 11. Cumulated average abnormal returns for dividend announcements. Source: made by author.



Graph 4. Cumulated average abnormal return for dividend announcements. Source: made by author.

As it can be observed from the graph, the general trend is negative and it becomes more dramatic after the positive dividend announcements. However, the reaction to the dividends declining is flatter. It coincides with general research view about negative reaction of the market to the dividend announcements, referring to that market considers this event as a signal of company's slowdown and reduction of the investment projects. At the same time, the statement of Teplova (2008) was not confirmed. The author maintained the idea, that dividends in oil companies cause positive reaction of the shareholders as they believe, that company will continue to grow unlike other industries.

To test the hypotheses, it is needed to conduct one-sample t-test, assuming the hypothesis to be:

Hypothesis 1: Positive dividend announcements in oil industry positively impacts the stock price in short-run.

$$H_0: CAAR_{div(-3;3)} = 0$$

$$H_1: CAAR_{div(-3;3)} > 0$$

Hypothesis 2: Negative dividend announcements in oil industry negatively impacts the stock price in short-run.

$$H_0: CAAR_{div(-3;3)} = 0$$

$$H_1: CAAR_{div(-3;3)} < 0$$

The results of the hypotheses testing are provided in the tables below:

```

One-sample t test
-----
Variable      Obs      Mean      Std. Err.   Std. Dev.   [95% Conf. Interval]
-----
Gdiv          7      -.0169346   .0043617    .0115401    -.0276074   -.0062618

      mean = mean(Gdiv)                                t = -3.8825
Ho: mean = 0                                          degrees of freedom = 6

      Ha: mean < 0                                     Ha: mean != 0                                     Ha: mean > 0
Pr(T < t) = 0.0041                                   Pr(|T| > |t|) = 0.0081                             Pr(T > t) = 0.9959

```

Picture 2. Results of one-sample t-test for “good” dividend announcements. Source: made by author.

As it can be seen from the extract from STATA, we cannot reject the null hypothesis about positive dividends announcement in favor of H1, as the p-value is more than 0,05 (95% confidence interval). So, the hypothesis 1 is not accepted: positive dividend announcements do not positively affect the stock price in the short-run.

```

One-sample t test
-----
Variable      Obs      Mean      Std. Err.   Std. Dev.   [95% Conf. Interval]
-----
Bdiv          7      -.0011165   .0023887    .00632      -.0069615   .0047285

      mean = mean(Bdiv)                                t = -0.4674
Ho: mean = 0                                          degrees of freedom = 6

      Ha: mean < 0                                     Ha: mean != 0                                     Ha: mean > 0
Pr(T < t) = 0.3283                                   Pr(|T| > |t|) = 0.6567                             Pr(T > t) = 0.6717

```

Picture 3. Results of one-sample t-test for “bad” dividend announcements. Source: made by author.

Nevertheless, we cannot determine the exact effect of negative news on stock price. Perhaps, there is no enough data for it.

In this paper, the hypotheses about immediate positive impact of dividend announcements was not proved, as the $CAAR_{div(-3;3)} < 0$. The results provide the area for the discussion about side factors, that can influence the effect from dividend announcements. This research was conducted for the period of 2014 – 2019, which was difficult for Russia in terms of external politics (sanctions towards Russia on the grounds of Crimea joining Russia). For example, the CEO of Surgutneftegaz Vladimir Bogdanov hit the sanctions list⁶. Thus, the

⁶ <https://www.vedomosti.ru/business/articles/2018/04/06/756090-polnii-spisok>

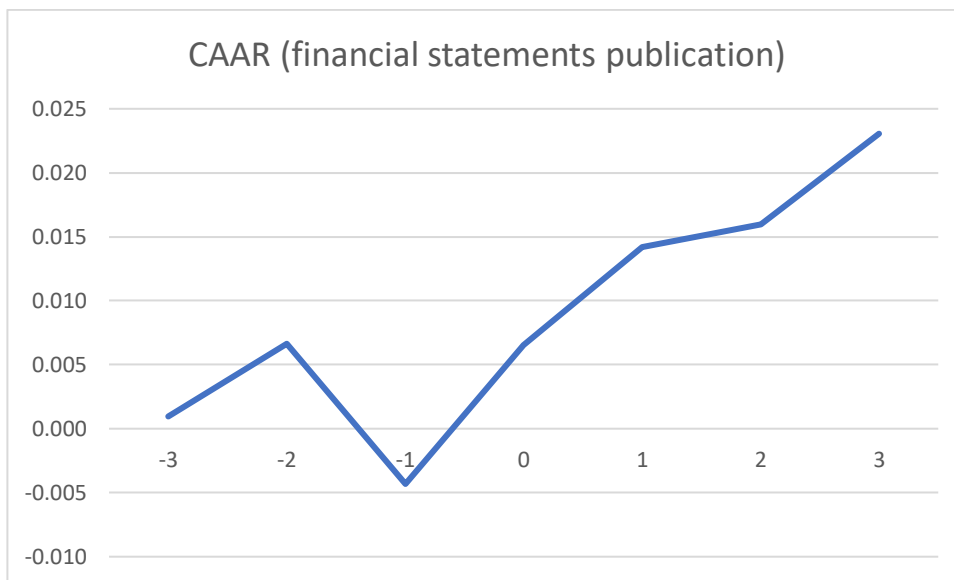
shareholders could exercise the caution about future performance and the ability of oil companies to participate in investment projects.

Publication of financial statements.

The CAAR for financial statements publications is shown in the table below and in the graph. In our research, financial statements publication is the only type of news, which has positive CAAR.

	CAAR for financial statements publication
-3	0,001
-2	0,007
-1	-0,004
0	0,007
1	0,014
2	0,016
3	0,023

Table 12. Cumulated average abnormal returns for financial statements publication. Source: made by author.



Graph 5. Cumulated average abnormal return for financial statements publications. Source: made by author.

One-simple t-test was conducted to assess the effect of financial statements publication.

The hypotheses are the following:

$$H_0: CAAR_{fin(-3;3)} = 0$$

$$H_1: CAAR_{fin(-3;3)} > 0$$

The results are shown in the picture below:

```
. ttest Fin == 0

One-sample t test
```

Variable	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]
Fin	7	.0089931	.0035425	.0093726	.0003249 .0176613

```

mean = mean(Fin)                                t = 2.5386
Ho: mean = 0                                     degrees of freedom = 6

Ha: mean < 0                                     Ha: mean != 0                                     Ha: mean > 0
Pr(T < t) = 0.9779                               Pr(|T| > |t|) = 0.0442                             Pr(T > t) = 0.0221

```

Picture 3. Results of one-sample t-test for financial statements publication. Source: made by author.

The test showed, that p-value is 0,0221, which is less, than 0,05 (95% confidence interval), so we can reject the null hypothesis and accept alternative hypothesis about positive impact of financial statement publication.

The financial statements' announcements are usually regular and should not cause such dramatic reaction of the market. However, we can see the significant growth of stock price in 3 days after the announcement with one decreasing stage one day before the publication, which can be linked to shareholders' awaiting for future results, as the date of the financial statement publication is known well before the event date.

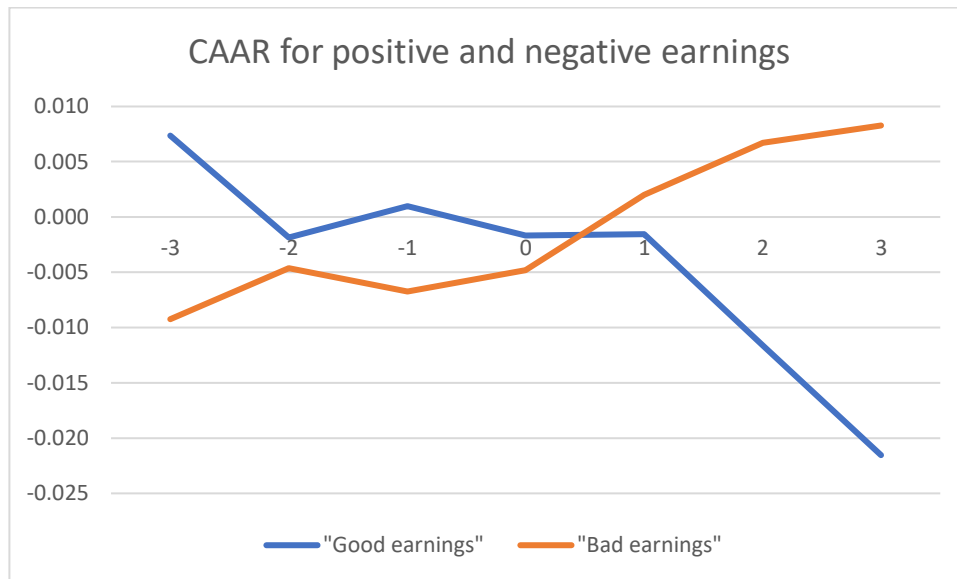
Earnings announcements.

Earnings announcements are connected to financial statements publication, however, has different dynamic. We observe a fluctuation around the day of the announcement of positive earnings and then a huge decline. However, the dynamics of negative earnings announcements is the opposite and raise question.

	CAAR for Earnings announcements (+)	CAAR for Earnings announcements (-)
-3	0,007	-0,009
-2	-0,002	-0,005
-1	0,001	-0,007
0	-0,002	-0,005
1	-0,002	0,002
2	-0,012	0,007

3	-0,022	0,008
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Table 13. Cumulated average abnormal returns for earnings announcements. Source: made by author.



Graph 6. Cumulated average abnormal return for earnings announcements. Source: made by author.

Despite the financial statement's publication has positive dynamic, there is no such reaction for earnings announcements. We assume, that the hypotheses number 2 about earnings announcement positive influence on the stock price is rejected, as $CAAR_{earn(-3;3)} < 0$. But one sample t-test is conducted to prove the results statistically. The hypotheses stated are the following:

Hypothesis 3: Positive earnings announcements positively influence the stock price of oil companies.

$$H_0: CAAR_{gearn(-3;3)} = 0$$

$$H_1: CAAR_{gearn(-3;3)} > 0$$

Hypothesis 4: Negative earnings announcements negatively influence the stock price of oil companies.

$$H_0: CAAR_{bearn(-3;3)} = 0$$

$$H_1: CAAR_{bearn(-3;3)} < 0$$

The results are presented in the pictures below:

Paired t test						
Variable	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
CAARreg	7	.0089931	.0035425	.0093726	.0003249	.0176613
CAARir~g	7	-.0207443	.0036719	.0097149	-.0297291	-.0117595
diff	7	.0297374	.0055277	.0146249	.0162116	.0432632

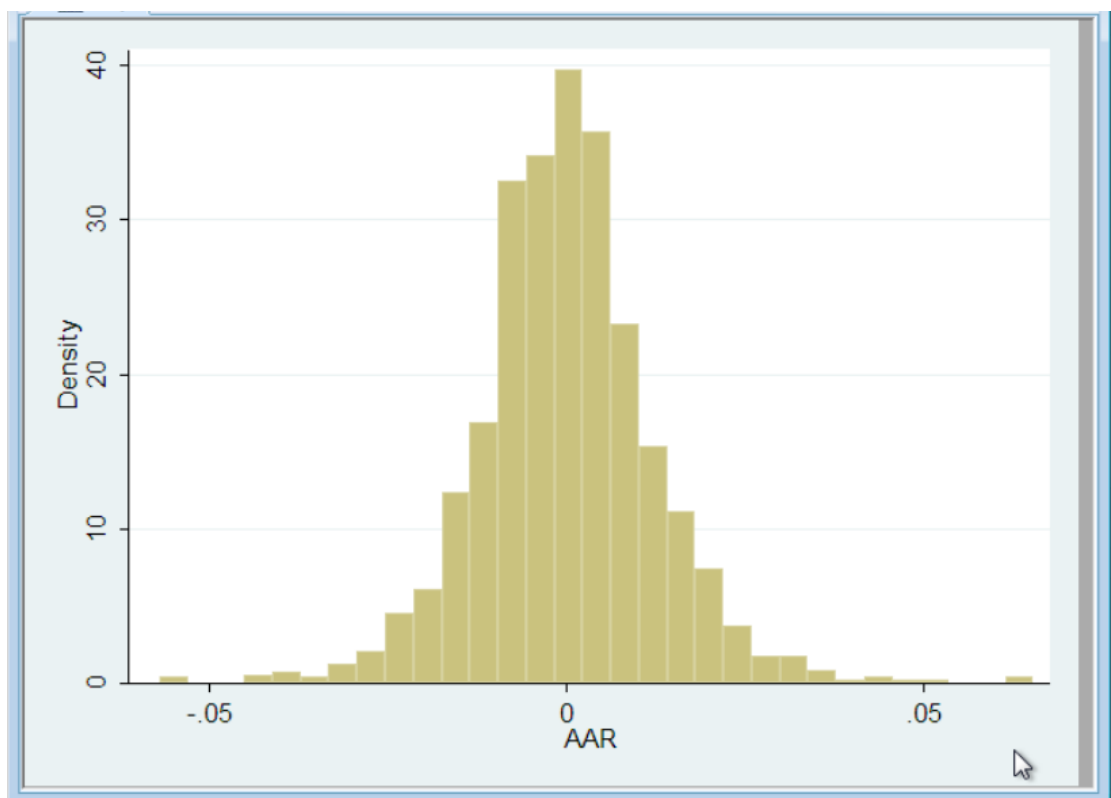
mean(diff) = mean(CAARreg - CAARirreg) t = 5.3797
 Ho: mean(diff) = 0 degrees of freedom = 6
 Ha: mean(diff) < 0 Ha: mean(diff) != 0 Ha: mean(diff) > 0
 Pr(T < t) = 0.9992 Pr(|T| > |t|) = 0.0017 Pr(T > t) = 0.0008

Picture 6. Paired t-test for regular and irregular CAARs. Source: made by author.

The results of the test showed, that H_0 is rejected, because the probability is less than 5% (with 95% confidence interval), which means, that the magnitude of the reaction to the regular events is higher than that of irregular (self-selected) announcements.

Significance test.

To evaluate the significance of the factors, it is necessary to provide a regression and assess the significance by means of Student's t-test. However, at first, we need to check the normality of distribution. The results are presented below.



Picture 7. AAR histogram. Source: made by author.

The distribution is close to normal. So, we can check the significance of factors.

At first, we need to test the AAR for the difference from zero in order to assess the overall necessity of further tests of factors. One-sample t-test is used for it.

For analysis, the statistical hypothesis is the following:

H_0 : AAR (mean) = 0

H_1 : AAR (mean) \neq 0

```
One-sample t test
```

Variable	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
AAR	1503	-2.28e-11	.0003155	.0122323	-.0006189	.0006189

```

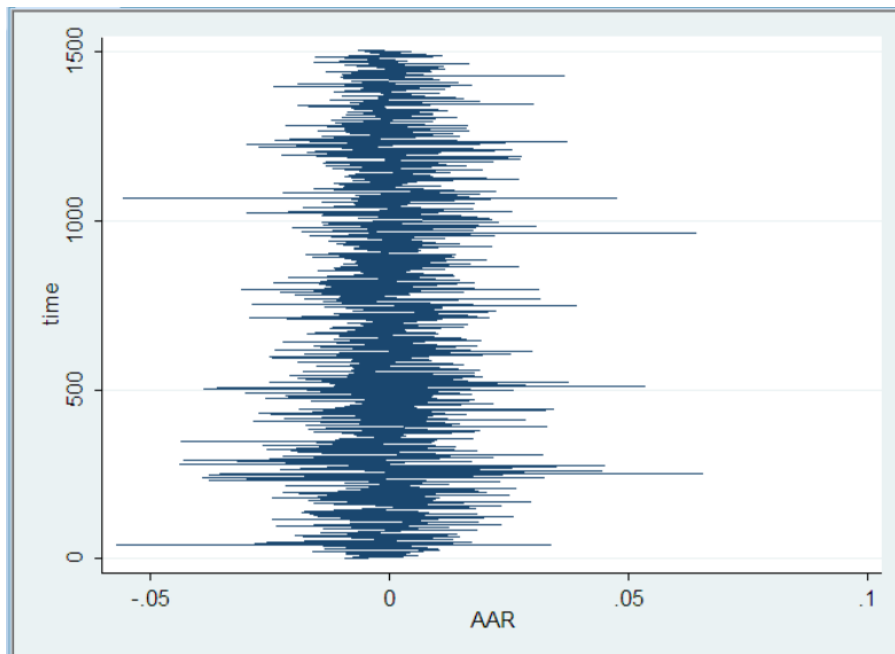
mean = mean(AAR)                                t = -0.0000
Ho: mean = 0                                     degrees of freedom = 1502

Ha: mean < 0                                     Ha: mean != 0                                     Ha: mean > 0
Pr(T < t) = 0.5000                               Pr(|T| > |t|) = 1.0000                             Pr(T > t) = 0.5000

```

Picture 8. One-sample t-test for AAR. Source: made by author.

As we can see, the probability is more than 0,05 (95% confidence interval), so we cannot reject the null hypothesis and the AAR does not differ from zero and the further regression building is not relevant.



Picture 9. Graph of AAR. Source: made by author.

To sum up, the research showed, that hypotheses about positive reaction of the market to the dividend announcements, m&a deals and earnings were not confirmed, unlike to that of

financial statements publication. We also proved, that market response to the regular news (financial statements) and irregular ones is different.

In the next section, the conclusion and managerial implications of the work will be presented.

2.4. Managerial and theoretical implications.

In this section, the theoretical and managerial implications are considered.

The theoretical impact of the conducted study is the fact, that previously there were no such papers devoted to short-term reactions of stock market in emerging country such as Russia.

As for the possible managerial implications, the results of the work can be suitable for two sides of the market: managers and shareholders.

For shareholders, the conclusions presented in the paper can be helpful in terms of speculative stock trading. Understanding of direction of the immediate reaction on the market can bring additional profits to such type of investors.

For managers, this paperwork can become a source of risk mitigation for the short period of time. Managers can plan the publication of self-selected news in order to smooth the expected negative impact of some external events.

2.5. Limitations of the study

In this paper, limited types of events were analyzed. Despite the presence of the most spread news on the Russian market, there is a risk of omission some additional factors.

The sample is narrowed to 5 years, following the crisis in 2014, which can influence the results of the study by increasing investors' concerns. For the further studies in this sphere it is reasonable to describe the issue in different periods of Russian economic history, including quiet periods.

CONCLUSION

The aim of the research was to assess the short-term influence of corporate news on the stock price of Russian companies. The study was conducted for the Russian oil sector in the period of May 2014 – May 2019. There are four categories of the announcements tested in this paper, all of them refer to financial sphere and published by company itself: M&A deals, dividend and earnings announcements and financial statements publication. There are six oil companies, representing significant part of blue chips index on Moscow Stock Exchange: PJSC “LUKOIL”, PJSC “TATNEFT”, Rosneft, Gazprom Neft PJSC, Surgutneftegaz and Novatek. The final sample consisted of 283 items.

In this paper, the author tended to answer 3 research questions. How does corporate news impact stock price in short-run? What corporate announcements influences the stock price most of all? How does market react to the regular (non-self-selected) and irregular (self-selected) news in short-run?

The analysis was conducted by means of event study methodology in statistical package STATA. The event window is equal to 7 days (3 days before and after the announcement), the estimation window is 120 days. For the analysis of news types impact on corporate news, cumulated average abnormal returns (CAARs) were calculated. For significance test, average abnormal returns (AARs) were calculated and announcement types were represented as binary variables (0;1).

The results of the study showed that the overall trend of market reaction to the event fluctuates, so the investors consider the announcements differently. As the abnormal returns of the stocks are not equal to zero, we can conclude that market indeed is affected by corporate announcements in a varying degree. Among all the types of news, that were analyzed, only the fact of financial statements publications causes the positive response of the shareholders. Unexpectedly, the dividend announcements in oil industry follows the trend of the whole market and do not show positive movement. It also was proved, that there is a difference between abnormal returns after regular and irregular announcements. Unexpectedly, the magnitude of the reaction to the first one is bigger, that that of irregular events, which can evidence about more trustful attitude to the regular news.

However, the one-sample t-test for Average Abnormal Returns (AAR) showed that none of the events separately impacts the stock price significantly as the AAR's mean does not differ from zero, which leads to the conclusion that investors reacts to the emergence of the news itself, not to the specific kind of announcements.

Nevertheless, the topic still raises the debates and provides interest for the future research.

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