Company's Share Prices Reaction to News

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Company's Share Prices Reaction to News, A Case Study of Tesco Retail Company

Introduction

News can well be defined as the act of disseminating information to a mass of people or groups of people at a particular time. The disseminated information may have both negative and positive impacts as they provide crucial information relevant to the targeted population. Some people may react violently to the news while others may respond to news happily. This is the case in business. Intonation sharing in business have an important impact on the running and the future of the firm. Stock prices are majorly affected by the news leaked or disseminated to stakeholders and the clients. Whether a person is a long-term investor or a short-term investor, they always take it important to review news daily so as to forecast and determine the next step in their stock. Markets react to any news regardless of the harm caused.

Every investor is always smart, and they are in a position to decode the story and respond quickly by determining its fate on the stock market. If, in any case, the news will negatively affect their market, they ascertain the degree of which the impact will have on the stock. In the share prices, there are two types of news with different effects. There is positive and negative news, and in the case of the positive news, they are the news that has positive impacts on the shares where the impact will be that there will be an observation of an increase in shares prices (Ng et al., 2013). In anytime positive news that is connected directly or indirectly to the shares are out in the open, the stock prices soon begin to rise. The positive news can include joint ventures agreement, healthy sales numbers, securing of new orders, a discovery of new oil field in country or province, excellent financial results of an individual company. All these news makes stock prices to rise. Positive News has a feature on the response by the share prices that they respond to positive news slowly but steadily.

The positive news is not always impacting positively on capital markets. Boudoukh et al. (2013) observes that good news does not always translate to a sharp rise in the share prices. Indeed, this positive news may introduce a slight drop in the stock prices. The authors gave the reason that unofficial news, also referred to as rumours in business, can add an impact on the share prices more than official factual report. Stock markets anticipate the stories as well as the prices accordingly. When the investors make any confirmation of the rumours, the stock exchange prices automatically drop at a sharp rate. However, the impact on the stock market that may be caused by the rumours, the reverse may occur too. If at any point the rumours swirling around the stock status are confirmed as false news, the investors sometimes respond in unexpected ways.

Sometimes the surprise caused by the rumours are the good one, and in that scenario, the stock prices may be driven upwards. This is the reason why most of the investors who are successful in buying and selling of shares like watching actual news online as well as rumours that are deemed to predict an inevitable turn of events shortly of their niche in business. In support of that observation, Foucault et al. (2016) contends that good news at home together with bad news abroad or in faraway places can undesirably push stock prices down immediately. The fact behind this statement, concerning the two markets, is that the international market is intertwined hence a quick share response to any news in both points.

The negative news has far-reaching impacts on the stock prices that positive news may have. Stock prices react or respond massively to the negatively disseminated news. This can seriously stop people from buying the shares from the business that they have heard about negative news concerning their financial and any other crucial status of business.

Alexander and Gentry (2014) give advice to the investors on how to react to any news and also on determining the type of communication, which sometimes can be seen as bad but in the real sense they are good news. Most of the bold actions that are taken by the board of directors in a company may be perceived as negative. A real instance is in the case when we see some companies may take action to undertake layoffs. This is always the best way and a bold step to the company as well as the share prices because expense in the business or enterprise will significantly be reduced in a quick way. As a result of lay-offs, the earnings of the company will rise right away.

However, this step is taken by some other investors as the warning sign and also to worsen it, the rumours come in that the company is struggling and is about to fall. The fact is that it is only a reaction to the economic and financial status of the company and also a strategy to increase profits that may lead to rising in stock prices. Layoffs are among the quickest methods applied by the companies in trying to cut expenses in case the sales do not meet the expectations.

Bad news on Tesco Company

Just as is always known that the bad news has a negative impact on the reputation of the company that may lead to drop in the pieces, Tesco Company has been going through the bad news for a long time. The bad news which appeared on 1st October 2014 adversely impacted on the share prices of the company. Most of the investors were scared away. The worst news that ever impacted on the share prices of the Tesco Company was that the company had a misstatement in the month of August the same year. The misstatement was on profit forecast which was predicted as much as £250 million (Wearden, 2017). The exaggeration became a whole lot serious that attracted the attention of all the competitors who took advantage of the bad news later.

As the news spread, the financial conduct authority announced to begin a formal investigation into the matter. The initiating of the inquiry by the financial conduct authority implies that it was considered that the news and information concerning the profits that were disseminated by the Tesco Company, in September the same year on their accounts, give a full warrant of the full application of its authority. The company was then compelled to provide the documents or documentation that may include phone records that were connected to the misstatement. As part of the investigation that was going on, the financial conduct authority ordered the executives to attend as a way to make the investigations official and open.

Then news that was released by the research team as they progressed was that it was a crime or a breach of contract by the Tesco Company to give misleading information concerning the forecasted profits. The powers of the financial conduct authority covered the stock market listing rules that were applied in the provision of evidence against the Tesco. The issues of disclosures of misleading news and information to the public were deemed to be a grave offense by the Tesco Company.

The story that was spread all over Britain had a central theme that Tesco had been plunged into a severe crisis following profit inflation. The company had to suspend its four senior most executive officers who allowed for further investigation. Shocking news that was in the media also had it that, approximately £2 billion had been wiped off the value of the Tesco retail company (Tesco, what went wrong? - BBC News. 2017). It was a result of its chief executive officer disseminating information and the forensic accountant, as well as the accounting lawyers, had been drafted to carry out a thorough scrutiny of the case. This was as a result and in response to the news from a whistle-blower that payments from the then suppliers to the company had been booked as well as closing the business costs being glossed over in the retail Company.

The changes are what compelled the company to release official information which breaks the silence that the variations in the accounting systems had boosted and totally exaggerated profits by £250 million. This only happened in the first six months of the year and was forecasted and anticipated to rise even higher. After a serious scrutiny by the accounting and auditing firms, the retail company was said to have banked £1.6 billion profit in the first six months of the year 2013 (Balash, 2013). However, the earnings of the company following the news that had been released about excessive benefits and misleading information was projected to 50% of that profit this year. This means that the firm was going to face a drop of 50% in its previous year's profits.

Reaction of the Tesco Company Shares to Bad News

Following the overstatement of the business's profits, the share prices of the company have been reacting unpredictably over the years. Up to the beginning of 2016, the share prices had not recovered its initial graph. It was in early 2016 that the company was to release its third quarter trading statement. However, there was pressure over them. At the time the news was being waited, the investors on their side were anticipating to see a revenue of £56.46 billion as well as an adjusted net income of about 435 million (Odendaal, 2014). The forecasts apparently give a representation of share reaction which is a drop of 9.3% in revenue which also translates to a 43 decline in the adjusted net income.

What also worsened the situation and an adverse reaction to the share prices of the company was its step to offload its South Korean business for a revenue of 4.2 billion which was used by the firm to pay down debts. It was the strategy by the company to reducing a net debt that was anticipated to keep the rating agencies of the company on their part hence benefiting the firm in the long run (Brennan, 2015). The company, in its announcement in the same period, made it clear that the business accounted for a 9.4% group sales. However, what was astonishing was an apparent revenue drop for the last five years.

The image below indicates the share prices and their reactions to bad news over the period.

Source: https://www.theguardian.com/business/live/2014/sep/22/tesco-launches-inquiry-after-overstating-profit-forecasts-by-250m-business-live [Accessed 21 Feb. 2017].

Tesco faced a lot of challenges over its scandal that led to bullish of equity analysts on Tesco. In this case, out of the 26 ratings, ten are buys, 4 are sells while 12 are holds. The average target price of the company 44% is over the price that was existing at the time. More badly than ever, the investment banks were too bullish on the retail company. After an intense first three months in the year 2015, the shares of the company fell back into a downward trend never realized in Tesco Company before (Chesney et al., 2017). The stock prices were deemed to have fallen by 71%. Investors were scared away, and there was a further drop in share prices.

Conclusion

Stock prices are flexible and can be swayed to all sides by news disseminated. Stock prices are majorly affected by the news leaked or distributed to stakeholders and the clients. There are different types of communication each with the different forms of reaction from the share prices. The bad news causes an adverse reaction which is also an acute reaction, while good news causes a positive response, but it is slower and gradual. There is also sometimes the bad-good news that may cause a significant impact to the company. Following the overstatement of the Tesco Company's profits, the share prices of the company have been reacting unpredictably over the years. The reaction of an over exaggeration of the benefits by the enterprise shares caused a severe drop in the stocks of the enterprise.

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