CORPORATE SOLVENCY AND STOCK RETURNS

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Abstract

The purpose of this study aims to test the relationship between corporate solvency and stock returns in The Stock Exchange of Thailand (SET) during the 173 months ranging from January 2005 to May 2019. The portfolios are held for six comprehensible periods: 3, 6, 9, 12, 24, and 36 months. Portfolios are sorted based on solvency ratios, including debt to assets ratio, long-term debt to assets ratio, debt to equity ratio, equity multiplier, interest coverage ratio, fixed charge coverage ratio, cash flow coverage ratio, and cash flow to debt ratio. This study group sample was stocked into five portfolios following these eight solvency ratios. The most portfolios are claimed as the high solvency portfolio and the low solvency portfolio. The trading strategies based on solvency ratios involve going long (buying) on high solvency stocks and going short (selling) on low solvency stocks to find solvency premiums or solvency discount. Nevertheless, this solvency premiums or solvency discount is an indicator of the relationship between corporate solvency and stock returns.

Keywords: *Corporate Solvency, Solvency Ratio, Stock returns.*

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