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The Effects of Asset Growth to the Cross-Section of Hospitality Stock Returns

Murat Kizildag
Texas Tech University

Ben K. Goh

THE EFFECTS OF ASSET GROWTH TO THE CROSS-SECTION OF HOSPITALITY STOCK RETURNS

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ABSTRACT

This study aims to estimate the effects of hospitality firm's asset growth (year-on-year percentage change in total assets) to cross-section of stock returns by exploring the univariate relations between market value equity (ME), book-to-market equity (B/ME), and beta (β) over the period of 1999-2009. By utilizing the two-pass cross-sectional regression methodology, this paper uncovers the roles of ME, B/ME, β, and the effect of asset growth on returns in the analysis of the cross-sectional stock return behavior. The results of this study are expected to provide a broad outlook for the major segments of the hospitality industry (hotel, restaurant, and airline firms) for their strategic asset investment and disinvestment decisions. For instance, the findings of this study are believed to (1) establish fundamental grounds for asset expansion strategies (mergers & acquisitions, bank loan initiations, public equity offerings, etc.), asset contraction policies (share repurchases, spinoffs, stock splits, dividend initiations etc.), and optimal asset allocation in their portfolio management for their shareholders and (2) demonstrate any abnormal stock returns – high and low – followed by these corporate events. Furthermore, the effects of asset growth associated with ME, B/ME, and β in cross-section stock returns analysis are evidenced by many scholars as both economically and statistically significant predictor of the cross-section of U.S. stock returns since the early 1960s. Hence, we conjecture that the results of this study should help understand whether a firm's asset growth is a robust predictor in the cross-section of stock returns for the major segments of the hospitality industry.