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Capital Market Reaction on Rights Issue Announcement

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ABSTRACT: Corperation actions carried out by companies have the potential for information content as a signal. The purpose of this study is to retest and obtain empirical evidence regarding market reactions as mea sured by abno rmal ret urns on the announcement of a rights issue. Testing the information content will be done by looking at the significance of the cumulative abnormal return. Thi s rese arch was con ducted o n 65 com panies li sted on the Indo nesia St ock Exc hange (BEI) that conducted rights issues in 2014-2019. This research is an evaluation study with an observation period when the announcement of the right issue. The sam pling met hod us ed was nonprobability purposove sampling technique. T he data analysis technique u sed is the one sample t-test. The re sults of the one sa m ple t-test sho wed th at the ma rket did not react to the ann ouncement of the right is sue.

KEYWORDS : *rights issue, abnormal return, capital market*

I. INTRODUCTION

The capital market has become a very important economic instrument. The cap ital market is a p lace whe re various parties, espe ciallycom panies sell stocks (st ocks) and bo nds (bonds) with the a im of the sale proc eeds to be tra ded as addi tional fun ds or to strengthen the co mpany'scap ital. Go public companies use the capital market as a forum or alternative for the fulfillment of corporate financing sources. Companies need funds to work effectively with the aim of helping the company's operations sustainably (Dewi&Wirama., 2017). Companies that are registered in the capital market sometimes need fresh funds again if internal sources or loans from banks are deemed inadequate or less profitable.

One of the alternatives available for companies to obtain additional funds is through offering new shares to existing shareholders at a lower price than the share price in the market. This share offering is generally referred to as a right issue. Right is sue is the iss uance of new sh ares by a com pany where the ri ght to buy n ew shares is given to the ol dsha reholders(Kusuma and Suryanawa, 2015). In Indonesia, this right is known as the Pre-emptive Rights (HMETD). Pre-emptive rights (HMETD) are rights inherent in shares that enable existing shareholders to purchase new securities including shares. Securities that can be converted into shares and warrants before being offered to other parties. Companies will tend to conduct rights issues because the benefits that will be obtained are greater than the costs (Happ&Shiereck, 2017).

Ev entstu dy is a stu dy that studies the ma rket'sreacti on to an event wh oseinfor mation is pub lished as an anno uncement(Hartono, 2017). If the announcement contains information, the expectation is that there will be a reaction from the market when the announcement is issued and rec eived in the ma rket. The reactions due to the implementation of the rights issue can be divided into two, namely positive reactions and negative reactions. A positive reaction will be able to push the stock price to increase, this can be seen when investors make a purchase. If the market reaction is negative to the stock price in the market, it means that the event is not what investors want(Apsari & Yasa, 2017). Based on various previous research results, and also because the right issue is one of the information needed by investors to make an investment decision. This research was conducted to clarify the market rea ction to the announcement of the rights issue using the latest data. The date used in this research is when the announcement is announced to the public, because when the announcement is made, investors first find out information about the occurrence of a right issue.

II. CONCEPTUAL MODEL AND RESEARCH HYPOTHESES

2.1 Si gnaling Theory

*Sig nalingthe ory*sugg ests about ho w a com panysho uldprov idesig nals to us ers of finan cialstat ements. This sig nal is in the fo rm of inf ormationabo ut wh at mana gementha s do ne to rea lize the ow ner'swis hes (Lee &Sinnakkannu, 2014). Signaling theory provides signals to the market with the aim of attracting investors' attention. When the announcement is published, market participants analyze and choose good information (good news) or bad information (bad news). If this information is considered a good signal, there will be a change in share trading volume (Sandyaswari&Yasa, 2016). Good information (good news) is characterized by changes in stock prices, conditions for increasing stock prices, and there is a positive abnormal return that is profitable for the company.

2.2 Efficient Market Concept

An efficient capital market can be defined as a market in which the price of securities reflects all relevant information. This information can affect share prices. The concept of an efficient market indicates that there is a process for adjusting the price of a security towards a new equilibrium price (Cotterell, 2011). Efficiency in this sense is often referred to as market efficiency in an information manner (informationally efficient market), na mely, how the market reacts to the information available (Hartono, 2017: 606). So, the prevailing stock price in t heca pitalmar ket reflects al l the infor mation th at occurs. If t he market occurs very quickly, future price changes and investment returns are unpredictable and it is very difficult for investors to get an abnormal return (Ziobrowski et al., 2011).

2.3 Corporate Action

Corporate action is a form of ac tivitycar ried ou t by a pu bliclytra dedco mpany which is one of the information that attracts the attention of shareholders. Right issue, stock split, bonus announcement, and dividend distribution are some examples of corporate actions. Corporate action is submitted by the company's board of directors at the General Meeting of Shareholders (GMS) to obtain approval from shareholders(Samsul, 2006). This corporate action must also be approved by the shareholders both at the GMS and in the Extraordinary General Meeting of Shareholders (EGMS). Shareholders must really understand and be thorough about corporate action, because it will be the basis for decision making by these shareholders. The company's shares must be registered in the name of the shareholder, if the shareholder wants to get their rights over the corporate action.

2.4 Right Issue

Right issue or HMETD (Pre-emptive Rights) is a derivative product of shares (Herlianto, 2013). Ri ghtiss ue is the iss uance of ne w sha res by a com pany whe re the right to buy new sh ares is giv en to the old shar eholders(Kusuma and Suryanawa, 2015). Issuers conduct rights issues to save issuance costs, obtain additional funds and to incr ease the nu mber of sha res outstanding b y giving the old shareholders the rig ht to purchase new shares issued by the issuer in less than 6 (six) months. A limited public offering in the sale of new shares is g iven to the o ldshar eholders so that the proportion of their ownership can be maintained. Usually the price offered is below the market price.

If in practice it turns out that the price is above the market price, investors are more likely to exchange rights with shares because investors consider the stock price to be cheaper if they buy it on the market. (Fahmi & Saputra, 2013).

2.5 Abnormal Return

*Abnormal return*is an event where there is an excess of return that actually occurs against normal returns (Hartono, 2017: 667). The return difference wil lb eposit ive if the retu rn obtained is gre ater than the exp ectedretu rn or calcu latedret urn, while the ret urn will be ne gative if the ret urnobtai ned is sma ller than the expe cted return or the calc ulatedret urn. An announcement that contains information will give an abnormal return to investors and vice versa an event that do es not cont aininfo rmation will n ot give an abn ormalret urn to inve stors (Pratama, 2014).

2.6 Study Event

An ev ent study is a st udy th at stud ies the mar ket reaction to an ev ent whose infor mation is pub lished as an annou ncement. The ev ent study can be us ed to test the infor mation content of an ann ouncement and can al so be used to test the eff iciency of the semi-st rongmar ket. Tes ting the info rmationcon tent and te sting the effi ciency of the se mi-st rongmar ket are t wodif ferentte sts. Te sting the info rmationcon tent is inte nded to see the re action of an anno uncement. If th eannou ncementcon tainsinfor mation (inform ationcon tent), it is exp ected that the mar ketwi llrea ct when the annou ncement is rec eived by the ma rket. The ma rket reaction is indicated by a change in the price of the security in question. This reaction can be measured by using return as the va lue of price ch anges or by u sing abnormal ret urns. If the return is abnor mal, it can be said that an an nouncement that contains inf ormation will give an ab normal return to the m arket. Con versely, those th at do not contain info rmation do not provide abnormal returns to the m arket (Hartono, 2016: 643).

2.7 Capital Market Reaction on Rights Issue Announcement

In Indonesia research conducted by Endriani (2015)found that the mean value of abnormal returns on days t + 5 to t-5 days af ter the ann ouncement of the rig htsis sue is not significant. T his indicates that the announcement did not contain information because it did not cause a market reaction. The results of Apsari's research (2017) state th at the re was a sign ificant negative ma rketrea ctionbef ore the ann ouncement of the rights issue, this could be due to information leaks in companies that will announce rights issues. However, when the official rights issue was announced, there was no market reaction. The results of research conducted byGinglinger et al., (2017) and Hartono (2017) also found that the announcement of the right issue is seen as bad news by investors in the capital market.

H1: The market reacted negatively to the ann ouncement of the ri ghts issue at co mpanies listed on the Indo nesiaSt ockExch ange in 2014-2019.

2.8 Proposed Conceptual Model

The relationship model among announcement right issue and market reaction is presented on figure 1.

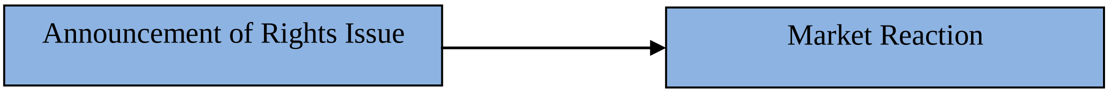

Figure 1. Conceptual Model

III. RESEARCH METHODOLOGY

3.1 Research Design

This research uses a quantitative method which is an event study. An eve ntst udy is a stu dy that stu diesma rketreac tions to a nev entwh oseinfor mation is publ ished as an anno uncement. Based on th e hypothesis proposed, t he variable used is a single variable, namely t hemar ketrea ction to the anno uncement of th e right issue which is tested using cumulative abnormal returns. The analysis technique used to test t hehyp othesis is th e one-sam ple t test.

The population in this study were all publicly traded companies listed on the Indonesia Stock Exchange and carried out corporate actions in the form of rights issues during the 2014-2019 per iod. The sample in this study were publicly traded companies listed on the Indonesia Stock Exchange and carried out corporate actions in the form of rights issues during the observation period, namely 2014-2019 and were selected using purposive sampling technique. The sampling method using non-pr obabilitysam plingme thod is a sa mplingmet hod that do es not pro vide the sa me poss ibility for each unit of the po pulation to be sel ected as a sam ple (Sugiyono, 2015: 173).

The data collection method us ed in thi sst udy is t he non-participant observation met hod. In thi s study, the authors analyzed written data, such as data on stock price movements in companies carrying out rights issues li sted on the Indon esiaSt ockExch ange in 2014-2019. The data analysis techn ique used in th is rese arch is th e one sample t-test analysis technique and its processing will use SPSS 22.0 for windows software. The requirements test that is done is the residual normality test, where the residual data should be normal.

Table 1. Sample Selection Results

No.	Information	total
1	IDX companies that announced the rights issue for 2014-2019	116
2	Companies on the IDX that carry out other corporate actions besides right issues, such as stock splits, stock dividends and others	(50)
3	Complete company data is not available in connection with the announcement of the right issue	(1)
Companies on the IDX that only announce rights issues and meet the criteria for determining the sample for 2014-2019		65

Based on Table 1, there are 116 companies IDX that announced rights issue in 2014-2019. Companies on the IDX that carry out corporate actions other than rights issues such as,*stock split, stock dividend* and others, as many as 50 companies and company data that were not completely available in connection with the announcement of the right issue, only 1 company so that the companies on the IDX that only announced rights issues and met the criteria for determining the sample in 2014-2019 were 65 companies.

IV. RESULT AND DISCUSSION

4.1 Descriptive Statistics Results Stock price

Statistically, the results of the share price analysis bef orean d during the anno uncement of the ri ghtsiss ue can be seen in Table 2 below.

Table 2. Descriptive Statistics of Share prices

	N	Minimum	Maximum	Mean	Std. Deviation
Share Price before	65	16,5100	12778.9700	1101.903846	2221,8184
Current Share Price	65	16,6800	12426.4500	1103.621077	2200.4714

From Table 2 it can be seen that statistically the company's stock price before the announcement of the rights issue has an average of 1101.90 with an average stock price deviation of 2221.8. This shows that there is a positive average stock price, which means that the stock price is higher than expected. At the time of the announcement of th erig htsiss ue, the company's sto ck pri ce had an ave rage of 1103.62 with an ave rage stock price deviation of 2200.47. This sh ows that th ere is a positive ave rage stock price, which means that the stock price is higher than the expected stock price.

The min imumva lue of av eragesh arepri ce or the lowest average sh are price bef ore the announcement of the right issue occurred at BBRM company (PT Pelayaran Nasional Bina Buana Raya Tbk) with a value of 16.51, while the maximum value is the average stock price or average The highest share price occurred in the company AALI (PT Astra Agro Lestari Tbk) with a value of 12,778.97. Then at the time of the announcement of the rights issue, the minimum value of the average share price occurred in the BBRM company (PT Pelayaran Nasional Bina Buana Raya Tbk) with a value of 16.51, while the maximum value of the average share price occurred in the company AALI (PT Astra Agro Lestari Tbk) with a value of 12,426.45.

4.2 Descriptive Statistics Results CAR

The results of the CAR analysis before and after the announcement of the right issue are statistically shown in Table 3 below.

Table 3. CAR Descriptive Statistics

		N	Minimum	Maximum	Mean	Std. Deviation
CAR		65	-0.247	0.252	-0.007	0.069

In Table 3, the minimum CAR (Cumulative Abnormal Return) value at PT AlkindoNaratamaTbk wi th a val ue of -0.247, wh ile the max imumva lue of the ave rage stock price or the highest average share price occurs at the company PT Marga Abhinaya AbadiTbk, namely with a value amounted to 0.252. The average CAR (Cumulative Abnormal Return) is -0.007 and has a standard deviation of 0.069.

4.3 Result Normality test

The results of data normality testing using One Sample Kolmogorov-Smirnov with SPSS version 22 can be seen in Table 4 below.

Table 4.Nor mality Te st Res ults with One Sa mpleKolmo gorov-Sm irnov

	Rights Issue Announcement Event		
	St ock Price Pri or	Sha re Price Af ter	CAR
Asy mp. Sig. (2-tailed)	0,00 0	0,0 00	0.20 0

Based on Table 4, the events before and during the announcement of the rights issue show the significance value of the share price of 0,000 which is less than 0.05. Thus the research data on stock price variables are not normally distributed. Furthermore, the significance value (Asymptotic Sig.) Of the CAR announcement of the right issue has a value of more than 0.05, namely the CAR (Cumulative Abnormal Return) value of 0.200. Thus the research data on the CAR (Cumulative Abnormal Return) is normally distributed.

Because the stock prices in the One Sample Kolmogorov-Smirnov test were not normally distributed, the normality test for stock prices was carried out again using the non-parametric Run Test. The results of the stock price normality run test are as follows.

Table 5.Normality Test Results with Run Normality Test

	Share Price before	Current Share Price
Asymp. Sig. (2-tailed)	0.899	0.531

Based on Table 5, the events before the announcement of the rights issue show a significant value of the share price of 0.899 which is more than 0.05, then when the announcement of the right issue, it shows a significance value of the share price of 0.531 which is more than 0.05. Thus the research data on stock price variables are normally distributed and then for testing the research hypothesis on stock price variables, nonparametric analysis methods can be used, namely One Sample T-Test.

4.4 Results of Hypothesis Testing Analysis

Hypothesis testing related to stock prices and IHSG in this study uses the One Sample T-Test because the data is normally distributed. The explanation for each hypothesis is as follows.

Table 6. One-S ample Test Hyp othesis Results

	Test Value = 0					
	t	df	Sig. (2-tai led)	Mean Dif ference	95% Confid enceInte rval of the Difference	
					Lo wer	Up per
CAR	-0,845	65	0.401	-0.007	-0.024	0.010

Based on Table 6, shows the sig value. (2-tailed) CAR (cumulative abnormal return) when the rights issue was announced was 0.401, which is a value of more than 0.05. This value states that the announcement of the rights issue does not contain information, because sig. (2-tailed) 0.401> 0.05, it can be concluded that the announcement of the rights issue did not cause a market reaction.

4.5 Discussion of Research Results

Based on hypothesis testing that has been done through the one sample t-test with the Sig. (2-tailed) of 0.401 greater than 0.05, it can be concluded that hypothesis 1 is that the market reacts negatively to the rejected right issue announcement, which means that there is no ma rket reaction to the anno uncement of t herig htsis sue. Th e results o f this study indicate that the anno uncement of th erig htsiss ue do es not contain valuable infor mation that can influence investors in making decisions.

Th eresu lts of the stu dy are in li ne with pre vious studies, na melyEndriani (2015)found that the mean value of abnormal returns on days t + 5 to t-5 days aft er the annou ncement of the ri ghtsis sue is not significant. This indicates that the announcement did not contain information because it did not cause a market reaction. The results of Apsari's research (2017) state that th erewa s a signi ficant negative market rea ction before the ann ouncement of the rights issue, this could be due to information leaks in companies that will announce rights issues. However, when the official rights issue was announced, there was no market reaction.

V. CONCLUSION

Ba sed on th eres ults of prev iouste sts and analyzes, it ca n be concl uded th at at the time of the announcement of the 2014-2019 rights issue using the cumulative abnormal return (C AR) variable without involving confounding effects such as stock splits, mergers and acquisitions, it shows that the annou ncement of th erig htsis sue is not reacted by the market. This can be seen fr om the res ults of tes ting hypothesis 1 us ing the one sam ple t-test, the t value is -0.845 with a probability of 0.401> 0.05. It means that the announcement of a rights issue does not contain valuable information that can influence investors in making decisions.

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