Capital Market Reaction on Rights Issue Announcement

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ABSTRACT: Corporation 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 measured by abnormal market returns on the announcement of a rights issue. Testing the information content will be done by looking at the significance of the cumulative abnormal return. This research is an evaluation study with an observation period when the announcement of the right issue. The sampling method used was nonprobability purposive sampling technique. The data analysis technique used is the one sample t-test. The results of the one sample t-test showed that the market did not react to the announcement of the right issue.

KEYWORDS: rights issue, abnormal return, capital market

I. INTRODUCTION

The capital market has become a very important economic instrument. The capital market is a place where various parties, especially companies, sell stocks (stocks) and bonds to the public to raise the company's capital. 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 rights issue. Right is the issuance of new shares by a company where the right to buy new shares is given to the existing shareholders (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 & Shierick, 2017).

Ev entstu dy is a study that studies the ma rket'sreaction to an event when information is published as an announcement (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 received in the market. 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 reaction 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 Signaling Theory

Signaling theory suggests how a company will provide signals to users of financial statements. This signal is in the form of information about the company's financial position. This information may attract 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,
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 pital market 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 public company 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 ghts issue is the issuance of new shares by a company where the right to buy new shares is given to the old shareholders(Kusuma and Suryanawa, 2015). Issuers conduct rights issues to save issuance costs, obtain additional funds and to increase the number of shares outstanding by giving the old shareholders the right 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 given to the old shareholders 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 returns is an event where there is an excess of return that actually occurs against normal returns (Hartono, 2017: 667). The return difference will be positive if the return is greater than the expected return or calculated return, while the return will be negative if the return is smaller than the expected return or the calculated return. An announcement that contains information will give an abnormal return to investors and vice versa an event that does not contain information will not give an abnormal return to investors (Pratama, 2014).

2.6 Study Event

An event study is a study that studies the market reaction to an event whose information is published as an announcement. The event study can be used to test the information content of an announcement and can also be used to test the efficiency of the semi-strong market test. Tes ting the information content of an announcement or the efficiency of the semi-strong market test is to test the efficacy of the semi-strong market test. Tes ting the information content of an announcement or the efficiency of the semi-strong market test is to test the efficacy of the semi-strong market test. The efficiency of the semi-strong market test is tested by measuring the abnormal return. If the return is abnormal, it can be said that the announcement contains information that will give an abnormal return to the market. Conversely, those that do not contain information do not provide abnormal returns to the market (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 after the announcement of the rights issue 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 at the re was a signiificant negative market reaction before the announcement 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 by Ginglinger 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 announcement of the right issue at companies listed on the Indonesia Stock Exchange 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](image)

III. RESEARCH METHODOLOGY

3.1 Research Design

This research uses a quantitative method which is an event study. An event study is a study that uses data to analyze the effects of corporate actions on stock price movements. The data used in this study were all publicly traded companies listed on the Indonesia Stock Exchange and carried out corporate acts in the form of rights issues during the 2014-2019 period. 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 used is non-probability sampling. The data analysis technique used is the one-sample 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 period. The sample 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 observation period, namely 2014-2019 and were selected using purposive sampling technique. The sampling method used is non-probability sampling. The data analysis technique used is the one-sample t-test. The data 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>
<thead>
<tr>
<th>No.</th>
<th>Information</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IDX companies that announced the rights issue for 2014-2019</td>
<td>116</td>
</tr>
<tr>
<td>2</td>
<td>Companies on the IDX that carry out other corporate actions besides rights issues, such as stock splits, stock dividends and others</td>
<td>(50)</td>
</tr>
<tr>
<td>3</td>
<td>Complete company data is not available in connection with the announcement of the right issue</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>Companies on the IDX that only announce rights issues and meet the criteria for determining the sample in 2014-2019</td>
<td>65</td>
</tr>
</tbody>
</table>

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 before the announcement of the rights issue can be seen in Table 2 below.

Table 2. Descriptive Statistics of Share prices

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Price</td>
<td>65</td>
<td>16,5100</td>
<td>12778.9700</td>
<td>1101.903846</td>
<td>2221.8184</td>
</tr>
<tr>
<td>Current Share Price</td>
<td>65</td>
<td>16,6800</td>
<td>12426.4500</td>
<td>1103.621077</td>
<td>2200.4714</td>
</tr>
</tbody>
</table>

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 the rights issue, the company's stock price had an average of 1103.62 with an average stock price deviation of 2200.47. This shows that the stock price is higher than the expected stock price.

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 is the average stock price or the highest average share price occurred in the company AALI (PT Astra Agro Lestari Tbk) with a value of 12,778.9.

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

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAR</td>
<td>65</td>
<td>-0.247</td>
<td>0.252</td>
<td>-0.007</td>
<td>0.069</td>
</tr>
</tbody>
</table>

In Table 3, the minimum CAR (Cumulative Abnormal Return) value at PT AlkindoNaratama Tbk with a value of -0.247, while the maximum value of the average stock price or average share price occurred in the company AALI (PT Astra Agro Lestari Tbk) with a value of 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. Normality Test Results with One Sample Kolmogorov-Smirnov

<table>
<thead>
<tr>
<th></th>
<th>Rights Issue Announcement Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>St ock Price Pri or Share Price Af ter CAR</td>
</tr>
<tr>
<td></td>
<td>0.00 0</td>
</tr>
<tr>
<td></td>
<td>0.00 0</td>
</tr>
<tr>
<td></td>
<td>0.20 0</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Share Price before Current Share Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>0.899 0.531</td>
</tr>
</tbody>
</table>
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>
<thead>
<tr>
<th>Test Value = 0</th>
</tr>
</thead>
<tbody>
<tr>
<td>t</td>
</tr>
<tr>
<td>CAR</td>
</tr>
</tbody>
</table>

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 market reaction to the announcement of the rights issue. The results of this study indicate that the announcement of the rights issue is not significant.

V. CONCLUSION

Based on the results of previous studies and analyzes, it can be concluded that at the time of the announcement of the 2014-2019 rights issues using the cumulative abnormal return (CAR) variable without involving confounding effects such as stock splits, mergers and acquisitions, it shows that the announcement of the rights issue is not reacted by the market. This can be seen from the results of testing hypothesis 1 using the one sample test, the t value is -0.845 with a probability of 0.401 > 0.05. It means that the announcement of the rights issue does not contain valuable information that can influence investors in making decisions.

REFERENCES


