

# ANALYSIS OF RIGHT ISSUE ANNOUNCEMENT EFFECT TOWARD STOCK PRICE MOVEMENT AND STOCK TRADING VOLUME WITHIN ISSUER IN INDONESIA STOCK EXCHANGE

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## ABSTRACT

The purpose of this study were to identify and analyze the rights issue effect to the stock price, the effect of the rights issue on stock trading volume, the correlation between stock prices before and after the right issue, as well as the correlation between volume of trading activity before the right issue and after that event. The objects of the study were the companies listed on Indonesia Stock Exchange (JSX). The hypothesis stated that right issues have a significant effect on stock price on companies listed on the JSX, rights issues had a significant effect on the stock trading volume on companies listed on the JSX, there was a significant correlation between stock price before and after the rights issue on companies listed in JSX, there was a significant correlation between volume of the stock trading before the rights issue and after that event. Data analysis used were descriptive statistics, simple linear regression analysis and paired t-test. Hypothesis testing was performed by using the Pearson correlation test with significance level of 5%. The results show that the right issue has a positive effect but not significant toward stock prices of companies listed in JSX, right issue has a negative effect and not significant toward the trading volume activity (TVA) on companies listed in JSX.

**Keywords:** right issue, stock price, trading volume activity (TVA)

## INTRODUCTION

In many countries, the function of financing for the company can be obtained from the capital market, such as the issuance of bonds and stocks. The funds collected from the public (investors) are often used by companies in developing businesses, additional working capital and others. Liquid capital market is one where securities can be traded quickly and the stock market is called efficient when the company's value accurately reflected in the price of their securities.

In buying and selling securities in the capital markets, the key that is often determined as advantage is information. Any relevant information may affect the price movements of securities, even though the new information is in the form of rumors. Speed of

information is often an important role. Investors often feel safe when he always get the latest information on securities held. However, in addition to speed, the correctness and completeness of such information are also required. Without these two things, the speed will only make erratic price fluctuations and can result in losses.

Stock is one investment instruments in the capital markets where the price movements can be very rapid and fluctuating because of information. Stock is the ownership or possession of a person or entity in a corporation or limited liability company. The portion of ownership of stocks is determined by how much equity invested in the company (Darmadji and Fakhruddin, 2011). Stock price movement is strongly influenced by a variety of information, both

internal and external information, including financial conditions, economic factors, competition, and others.

One of the internal information that is often used in stock trading is a corporate action. This is because corporate action is usually a step or strategy of the companies that have a major influence, such influence on the composition of stockholders, the company's financial strategy or liquidity of the stock. One example of corporate action is right issue or Preemptive Rights (HMETD) which will be discussed in this study.

Rights issue or Preemptive Rights (HMETD) is made by the issuer in the capital markets that are technically offering new stocks subsequent to initial public offering. The information of right issue means that if the existence of information that causes investors to trade in the capital market, which is usually reflected in stock price movements or the trading volume.

According to Husnan (2009), the reason the company issued a rights issue is to save the cost of emissions, and also to increase the number of stocks traded. With the addition of stocks in the stock exchange, it is expected to increase the frequency of trading that will also increase the liquidity of the stock. The goal of issuer in performing rights issue is also to obtain cheap financing, which can be used for business expansion, working capital, and to repay the loan. As for investors, especially the existing stockholders, the rights issue will provide benefits namely to maintain or adjust the portion or percentage of stocks in listed companies that conduct the rights issue.

Panjaitan (2013) analyzed 32 companies listed on the Stock Exchange that performed the rights issue in 2009 to 2011 in terms of the influence of corporate action announcements on stock prices and trading volume of its stocks. Period observation made was 5 days before and after the rights issue. The results showed that there is a correlation between rights issue with stock price and trading volume. This means that the announcement of the rights issue have an effect on stock prices and trading volume.

Wicaksono (2007) analyzed the effect of the announcement of the rights issue on stock returns and trading volume of the company's stocks on the Indonesia Stock Exchange. Research was conducted on 41 companies with the rights issue during 2000 to 2004. The observations made in this study took a period of 5 days prior to the announcement of the rights issue and 5 days later. These results indicate that there is no significant difference between stock returns before and after the rights issue announcement and trading volume before and after the rights issue announcement. This means that the rights issue announcement does not contain information that can boost stock returns and trading volume significantly.

Moreover, Khajar (2010) in his research stated that the current ratio and price earnings ratio was significantly different before and after the rights issue. Changes in this ratio should be able to give effect to stock price movements. To determine whether there is any effect of the rights issue on stock prices and

trading volume, the positive or negative impact of the rights issue which is to raise or lower the stock price and the amount of trading volume, need to be viewed. The objects of research are companies that conducted rights issues in the period of 2009 to 2012. The time period determination is based on the completeness of the data used for the analysis.

Therefore, the research which aims to determine the effect of the rights issue on stock prices and trading volume, as well as the correlation between the stock price and trading volume before and after the rights issue, is conducted. The problem formulations are as follows: (1) Are the rights issue influence the stock price on the issuers listed on the Indonesia Stock Exchange? (2) Are the rights issue affects the volume of stock trading on the issuers listed on the Indonesia Stock Exchange? (3) Is there a significant correlation between the stock price before the rights issue and after on issuers listed on the Indonesia Stock Exchange? (4) Is there a significant correlation between trading volume before and after the rights issue on issuers listed on the Indonesia Stock Exchange?

## METHODS

Study was conducted on companies / issuers listed on the Indonesia Stock Exchange and conducted the rights issue during 2009 - 2012 which met the following criteria: (1) the Issuer announced right issue during 2009 to 2012 in Indonesia Stock Exchange. (2) Issuer reported the date of announcement of the rights issue on JSX Statistics, which was then recorded in it. (3) This study did not include companies that cancel or postpone the rights issue. (4) The research focused only on information rights issues, while other information such as the distribution of dividends, stock splits, bonus stocks, the announcement of new stocks, warrants and others was not a concern in analyzing the impact occurred. (5) The Issuer has the completeness of the data that will be used in this study over a period of research defined as stock price, corporate action, and the data regarding the number of outstanding stocks during 2009 to 2012.

Method of data collection is done by documentation study in collecting documents related to rights issue. The samples were selected based on purposive sampling method. The data used are the documents relating to the rights issue, such as the names of issuers that do the right issue, the date of the announcement of the rights issue, stock code issuers, the stock price during the observation period, the volume of stock trading during the observation period, the number of stocks of the issuer's outstanding, as well as data relating to the characteristics of each company in the research samples and other supporting data.

This study uses SPSS 22 (Statistical Program for Social Science). The hypothesis developed as follows:

Hypothesis 1: the effect of rights issue on stock prices before and after the right issue.

H0 : Right issue does not have significant effect on the stocks price in companies listed on Indonesia Stock Exchange.

H1 : Right issue significantly affects stock prices on companies listed in Indonesia Stock Exchange.

Hypothesis 2: the effect of right issue on stock trading volume before and after right issue.

H0 : Right issue does not have significant effect on stock trading volume in companies listed on Indonesia Stock Exchange.

H1 : Right issue significantly affects on stock trading volume in companies listed on Indonesia Stock Exchange.

Hypothesis 3: correlation between stock prices before and after right issue.

H0 : There is no significant correlation between the stock price before the rights issue and after the right issue on companies listed on Indonesia Stock Exchange.

H1 : There is a significant correlation between the stock price before the rights issue and after the right issue on companies listed in the Indonesia Stock Exchange.

Correlation between Volume of Trading Before and After the Rights issue.

H0 : There is no significant correlation between the volume of trading and before and after the right issue on companies listed in Indonesia Stock Exchange.

H1 : There is a significant correlation between the volume of trading before and after the right issue on companies listed in Indonesia Stock Exchange.

## RESULTS AND DISCUSSIONS

The result of descriptive statistic analysis can be seen as follows. Table 1 shows that out of 58 companies that the research sample is known that the lowest minimum value obtained before the rights issue, which amounted to Rp76.10 with the lowest maximum value is obtained at the time before the rights issue, which amounted to US\$23.135. The lowest value of mean is obtained just before the right issue, which amounted to Rp1.586.57 and the lowest standard deviation obtained prior to the right issue, which amounted to Rp3.341.761. Then for the highest minimum value obtained after the rights issue, which amounted to US\$76.80 with the highest maximum value is obtained after the rights issue, which amounted to US\$23.135. The highest mean value was obtained after the rights issue, which amounted to Rp1.617.30 and the highest standard deviation obtained after the rights issue, which amounted to Rp3.343.73. Those numbers illustrate the descriptive statistical difference

between the stock price before the rights issue and the stock price after the rights issue in which the numbers after the rights issue are greater than the numbers before the rights issue.

Table 1 Descriptive Statistic

Stock Price Before and After Right Issue					
	N	Minimum	Maximum	Mean	Std. Deviation
Price_Before	58	76.10	22890.00	1586.5786	3341.76141
Price_After	58	76.80	23135.00	1617.3017	3433.73012
Valid N	58				

The volume of stock trading is an overview of the condition of securities traded on the stock market in exchange hours, namely at 09:00 until around 16:15. The amount of trading volume variable can be determined through the indicator of Trading Volume Activity. The following Table 2 explains the descriptive statistics of the volume of stock trading by observing the stock trading activity via the indicator of trading volume activity.

Table 2 Descriptive Statistic

TVA Before and After the Right Issue					
	N	Minimum	Maximum	Mean	Std. Deviation
TVA_Before	58	0.000000000	0.033578505	0.0028445535	0.0058748496
TVA_After	58	0.000000000	0.000000000	0.0030954447	0.0061898276
Valid N					

Table 2 shows that out of 58 companies that become the research sample, it is known that the minimum value at the time before the rights issue and after the rights issue have the same value, that is equal to 0.000000000 with the lowest maximum value is obtained at the time before the rights issue, which amounted to 0.0030954447. The lowest value of mean obtained at the time before the rights issue, i.e. by 0.0028445535 and the lowest standard deviation was obtained at the time before the rights issue, which amounted to 0.0058748496. Then, the maximum value of the highest obtained at the time after the rights issue, which amounted to 0.040808219. The highest value of mean is obtained after the rights issue, ie by 0.0030954447 and the highest standard deviation obtained after the rights issue, which amounted to 0.0061898276. These numbers show the descriptive statistical difference between trading volume activity before the rights issue with trading volume activity after the right issue. The numbers obtained show that the most active trading activity occurs at the time after the right issue.

Normality test (stock price) represents the data that is normally distributed as seen in Table 3.

Table 3 Normality Test of Stock Price

One-Sample Kolmogorov-Smirnov Test				
		Price Before	Price After	
N		58	58	
Normal Parameters <sup>a,b</sup>	Mean	1586.5786	1617.3017	
	Std. Deviation	3341.76141	3433.73012	
Most Extreme Differences	Absolute	.326	.327	
	Positive	.297	.318	
	Negative	.326	-.327	
Test Statistic		.326	.327	
Asymp. Sig. (2-tailed)		.052 <sup>c</sup>	.058 <sup>c</sup>	

a. Test distribution is Normal.

b. calculated from data

From processing the data in Table 3, it can be seen that the data is normally distributed. The stock price before the rights issue has asymp. Sig by 0.052 and the stock price after the rights issue has asymp. Sig by 0.058. Both results are greater than the significant level of 0.05, which means that the data have normal distribution.

Table 4 Normality Test of Trading Volume Activity

One-Sample Kolmogorov-Smirnov Test				
		TVA Before	TVA After	
N		58	58	
Normal Parameters <sup>a,b</sup>	Mean	.0030954447	.0028445535	
	Std. Deviation	.0061898276	.0058748496	
Most Extreme Differences	Absolute	.309	.314	
	Positive	.308	.237	
	Negative	-.309	-.314	
Test Statistic		.309	.314	
Asymp. Sig. (2-tailed)		.067 <sup>c</sup>	.157 <sup>c</sup>	

a. Test distribution is Normal.

b. calculated from data

From data processing in Table 4, it can be seen that the data have normal distribution. Trading volume activity before the rights issue has asymp. Sig Trading volume by 0.067 and activity after the rights issue has asymp. Sig by 0.157. Both results is greater than the significant level of 0.05, which means that the data have normal distribution.

Regression models were used to determine the effect of the rights issue (X1) to the stock price (Y) using a simple linear regression analysis with SPSS 22. The regression analysis on stock prices can be seen in Table 5.

Table 5 Regression Test Result of Stock Price

Coefficients <sup>a</sup>					
Model		Unstandardized Coefficients	Standardized Coefficients	t	Sig.
		B	Std. Error		
1	(Constant)	75.684	106.731	.709	.481
	Right_issue	1.029	.030	.976	.33879

a. Dependent Variable: Harga\_Saham

Based on the results of the data processed by SPSS 22, it shows that rights issue has positive and significant effect on the stock price in companies listed on Indonesia Stock Exchange. From the results, the regression model can be written as follows:

$$Y = 75,684 + 1,029 X \quad (1)$$

From simple linear regression equation, it can be explained that: (1) Constant worth Rp 75.684,00 indicates that the company has a positive stock price. (2) The coefficient of the rights issue regression worth Rp 1,029,00. This indicates that the rights issue has positive effect on stock prices. That is, if the rights issue earns Rp 1, then the stock price will increase to Rp 76.713,00.

Regression model used to determine the effect of the rights issue (X1) toward the stock trading volume (Y) uses a simple linear regression analysis using SPSS 22. In this case, variable of stock trading volume is measured using indicators of Trading Volume Activity (TVA). Results of TVA regression test can be seen in Table 6.

Table 6 Regression Test Result of Trading Volume Activity

Coefficients <sup>a</sup>					
Model		Unstandardized Coefficients	Standardized Coefficients	t	Sig.
		B	Std. Error		
1	(Constant)	.003	.001	3.967	.000
	Right_issue	-1.356E-7	.000	-.079	.596

a. Dependent Variable: TVA

Based on the results of the regression analysis in Table 6, it shows that the right issue has negative and no significant effect toward the Trading Volume Activity (TVA) on companies listed in Indonesia Stock Exchange. From the results, the quotation can be written as follows:

$$Y = 0,003 - 0,0000001356 X \quad (2)$$

From the simple linear regression equation, it can be explained as follows: (1) Constant-value of 0.003 indicates that the company has positive trading volume activity (TVA). (2) The value of right issue regression coefficient is -0.0000001356. This shows that the right issue negatively affect trading volume activity (TVA), which means that if the rights issue increased by Rp 1, the trading volume activity (TVA) will be reduced by 0.0029998644.

The first hypothesis testing performed using paired t-test (paired t-test). Paired t-test performed to see the significance of the effect of the rights issue partially in stock prices by comparing t count with t table. In the first hypothesis testing, the data used is the average stock price before and after the rights issue, and then the data are tested with paired t-test. The result of paired t-test can be seen in Table 7.



From Table 7, the test results on stock price before the rights issue period and afterwards are obtained. t count on the table has a value of -1.111 and a significance value of 0.271. Table 7 shows that t count  $(-1.111) < t \text{ table } (2.00)$  and a significance value  $0.271 > 0.05$ . This indicates that  $H_0$  is accepted and  $H_1$  rejected, meaning that the announcement of the rights issue does not have significant effect on stock price in companies listed on Indonesia Stock Exchange.

The second hypothesis test is also using paired t-test performed to compare t-test with t-table. Test on the second hypothesis aims to see the effect of the right issue on stock trading volume before and after the rights issue. The volume of stock trading here uses indicators Trading Volume Activity (TVA) obtained from the number of stocks traded at the period of t is divided by the number of outstanding stocks during the period of t. The result of paired t-test can be seen in the following Table 8.

Table 7 Result of Paired Samples Test, Stock Price

	Paired Differences					t	df	Sig 2-tailed
	Mean	Std. Deviation	Std.Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Price_before Price_after	-30.72310	210.51616	27.64213	-86.07551	24.62930	-1.111	57	0.271

Table 8 Result of Paired Samples Test, Trading Volume Activity

	Paired Differences					t	df	Sig 2-tailed
	Mean	Std. Deviation	Std.Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
TVA_before TVA_after	0.002508912	0.0050215423	0.000659360	-0.01069456	0.0015712384	0.381	57	0.705

Table 8 shows the of TVA test results before and after the rights issue rights issue. The table shows the t-count obtained is 0.381 and has a significance of 0.705. The output shows that the value of t count  $(0.381) < t\text{-table value } (2.00)$  and a significance value  $0.705 > 0.05$ . These results indicate that  $H_0$  is accepted and  $H_1$  rejected, which means the announcement of the rights issue does not have significant effect on stock trading volume in Indonesia Stock Exchange.

The third hypothesis test is done by using the Pearson correlation test performed by observing the correlation coefficient and significance level. The third hypothesis testing aims to see the strength of the relationship of stock prices to the events of rights issue i.e. before the incident, with the price after the rights issue. Also, to see the significance of the relationship between stock prices with a rights issue that is before and after the incident. Pearson correlations test results is as shown in the Table 9.

Table 9 Result of Pearson Correlations Test, Stock Price

		Correlations	
		Price_Before	Price_After
Price_Before	Pearson	1	.998**
	Correlation		
	Sig.(2-tailed)		.000
Price_After	N	58	58
	Pearson	.998**	1
	Correlation		
	Sig.(2-tailed)	.000	
	N	58	58

\*\* Correalation is significant at the 0.01 level (2-tailed).

Pearson correlations test shows a correlation between stock prices and right issue i.e. before the rights issue and the price after the incident. Table 9 shows that the stock price before and after the rights issue has a very strong correlation that is equal to 0.998. Obtained significant value of  $0.000 < \alpha (0.05)$ , indicating that  $H_0$  is rejected and  $H_1$  accepted, which means there is a significant correlation between the price and the stock before and after the incident of right issue on issuers listed on Indonesia Stock Exchange.

The fourth hypothesis test uses Pearson correlation test to determine the correlation coefficient and significance level. The fourth hypothesis testing aims to see the strength of the relationship of the volume of stock trading with indicators Trading Volume Activity (TVA) at the time prior to the rights issue and after the right issue. Then it is also used to see the level of significance of the relationship between TVA prior to the rights issue and TVA afterward. The test results using Pearson correlations can be seen in Table 10.

Test Pearson correlations showed a correlation between TVA prior to the rights issue by TVA after the rights issue. Table 10 shows that TVA before the rights issue and TVA after the rights issue have a strong correlation, that is 0.655 with a significance value of  $0.000 < \alpha (0.05)$ . These results show that  $H_0$  is rejected and  $H_1$  accepted, which means there is a significant correlation between trading volume before and after the rights issue on the companies listed in Indonesia Stock Exchange.

Table 10 Pearson Correlations,  
Trading Volume Activity

Correlations		TVA_Before	TVA_After
TVA_Before	Pearson Correlation	1	.655**
	Sig.(2-tailed)		.000
	N	58	58
TVA_After	Pearson Correlation	.655**	1
	Sig.(2-tailed)	.000	
	N	58	58

Test Pearson correlations showed a correlation between the TVA before and after the rights issue. Table 10 shows that TVA before the rights issue and TVA after the rights issue have a strong correlation, that is 0.655 with a significance value of  $0.000 < \alpha$  (0.05). These results show that H0 is rejected and H1 accepted, which means there is a significant correlation between trading volume before and after the rights issue on the companies listed in Indonesia Stock Exchange.

## CONCLUSIONS

Based on the analysis and discussion of research, it can be concluded that the right issue has positive effect and does not significantly influence stock prices on issuers whose stocks are listed on the Indonesia Stock Exchange, the right issue has negative effect and not significant to stock trading

volume (TVA) on listed companies in Indonesia Stock Exchange, there is a correlation and significant correlation between the stock price before the rights issue with after the right issue on companies listed on the Indonesia Stock Exchange, there is a correlation and significant correlation between trading volume (TVA) before the rights issue and after the right issue on listed companies in Indonesia Stock Exchange. Research related to right issue can be developed by taking a different time period as a comparison or add one on company's corporate actions such as stock splits to be a comparison of how the stock trading volume and stock price changes. Research can also be done by comparing the stock exchange in one country to another.

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