

## STOCK PERFORMANCE BEFORE AND AFTER RIGHT ISSUE IN INDONESIA

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### ABSTRACT

*A right issue is the subsequent stock offerings that give priority to the existing shareholders to buy new shares at a specified price and time. There are several reasons why a firm does the right issue, for example, to raise the firm's capital, investment expansion, or to pay the debt. The objective of this study is to analyze the effect of the right issue on the abnormal return of the company. This research uses secondary data from the Indonesia Stock Exchange from 2014 to 2016. A sample of 18 firms met the criteria selection. The results show that there is no abnormal return in the days surrounding the right issue announcement. The results also find that abnormal stock return in the days after right issue announcement is not lower or equal to the days before the right issue announcement.*

**Keywords:** *right issue, abnormal return, event study*

### ABSTRAK

Right issue adalah penawaran saham susulan yang memberikan prioritas kepada pemegang saham yang sudah ada untuk membeli saham baru pada harga dan waktu tertentu. Ada beberapa alasan yang mendasari mengapa sebuah perusahaan melakukan right issue, misalnya, untuk menambah modal perusahaan, perluasan investasi atau untuk pembayaran hutang. Tujuan dari penelitian ini adalah untuk menganalisis pengaruh right issue terhadap abnormal return perusahaan. Penelitian ini menggunakan data sekunder dari Bursa Efek Indonesia dari tahun 2014 hingga 2016. Sebanyak 18 perusahaan memenuhi kriteria penetapan sampel. Hasil penelitian menunjukkan bahwa tidak terdapat abnormal return pada hari-hari di sekitar pengumuman right issue. Hasil penelitian juga menemukan bahwa abnormal return saham pada hari-hari sesudah pengumuman right issue tidak lebih rendah atau sama dengan hari-hari sebelum pengumuman right issue.

**Kata Kunci:** *right issue, abnormal return, studi peristiwa*

## INTRODUCTION

The capital market is a market to trades securities which generally have more than one year of age, such as stocks and bonds (Tandelilin, 2010). According to Fahmi and Hadi (2009), the definition of the capital market is a place for various parties, especially companies sell stocks and bonds, with the aim of the sale will be used as additional funds or strengthen company capital. Like the traditional market, the capital market is a mean to bridge parties who have excess funds (investors) and those who need funds (issuers).

The existence of the capital market has the benefits from two parties. First, in terms of companies that need funds, the capital market can be used as a source of funds. Second, in terms of investors, the presence of capital markets can be used as a means to channel funds (investment), so that income will be obtained called investment gains in the form of capital gains and dividends to invest in the stock market.

Along with the increasingly competitive business world, company management is required to make breakthroughs in order to maintain the

existence of the company. These breakthroughs included expansion, opening new branches, and so on. This effort is, of course, inseparable from the huge funding and capital needs. In addition to funds obtained from within the company itself, companies can rely on funds obtained from outside the company. These funds obtained from outside can be obtained from banks or direct funds from the business of selling securities on the stock exchange (go public). Many companies offer shares to the public outside the initial public offering (IPO). This action is done by companies that need additional funds to finance business activities or to pay debts that are due. Activities carried out by the company are commonly known as right issue.

The right issue is a subsequent stock offering that gives priority to existing shareholders to buy new shares at a specific price and time (Raja, 2012). In other words, the company distributes option rights to shareholders in order to obtain new shares at special price. Eckbo and Masulis (1992) stated that companies with concentrated stock ownership would tend to use the right issue to obtain additional capital.

Several reasons that underlie why companies conduct right issue, for example to increase company capital, investment expansion, or debt payment. New shares issued in advance are offered to existing shareholders at prices that are usually lower than the prices offered in the market because the shareholders have the preemptive right.

The assessment of company performance is essential, because, with the right knowledge about the performance of a company, public companies, investors, and interested parties will be able to suppress the possibility of errors in decision making. The evaluation of company performance is vital to be carried out by company management, shareholders, government, and other stakeholders because it involves the distribution of welfare among them.

When a company conducts right issue policy, the investors generally only have limited information about the issuer, which is only limited to what is described in the prospectus ahead of the right issue. The prospective investors must use all their resources and efforts to assess the fairness of the price offered. The price of shares in the secondary market is determined by market

strength based on the performance of the company concerned and the condition of the economy (Machfoedz, 1999). Investors certainly hope that the performance of the company will be better after conducting the right issue because the existence of a right issue means funds from outside parties enter the company. The expectations of those interested parties do not necessarily come true. If the company's performance does not improve after conducting a right issue, of course, it will reduce trust in the company, even broadly it can eliminate trust in the capital market, so investors are more interested in investing in the banking sector, namely deposits. This condition will be very detrimental to the sustainability of the capital market because investors will abandon the capital.

One measure of company performance is stock performance. The stock performance will indicate the company's market performance, which can be measured using the market value of the company's shares circulating in the capital market. Stock performance can be measured by reviewing the price of a company's stock in the capital market.

Several studies on the performance of shares of companies that conduct the right issue have been carried out in the capital market. Scholes (1972) and Smith (1977) found evidence that abnormal returns after the right issue were lower than before the right issue. Those studies generally stated that the performance of company shares after the right issue has decreased.

This study will analyze the performance of the company's shares before and after the right issue on the Indonesia Stock Exchange. This research is an event study. Whether the company that conducts a right issue will experience a decline in stock performance after the right issue is what drives this study. Two things can cause the decline in stock performance which can be seen from the decline in stock prices. First, theoretically, the right issue offer price is lower than the prevailing stock market price, so that the post-right stock market price has decreased due to price adjustments. Second, the decline in stock prices because the information of right issue provides a negative signal to the market.

### **Right Issue and Stock Performance**

The announcement of right issue can influence investors' reaction in making

investment decisions in the capital market. The investor's reaction can be reflected in the company's stock price. Investors certainly have much information about companies that conduct right issues because they can find out more about the company's history openly. Investors certainly can see the company's performance before conducting the right issue. Investors who think that the right issue carried out by the company only to cover the maturing debt, not for the expansion of the company that can make investors welfare will undoubtedly cause the company's stock price to decline because investors give a negative response to the new stock offer issued by the company.

Previous studies conducted by Scholes (1972), Smith (1977), Marisetty et al. (2008), tried to analyze stock performance before and after the right issue measured by abnormal returns. They found that abnormal returns after the right issue were lower than before the right issue. Investors absorbed terrible information from the right issue carried out by the company. Companies that carry out right issues indicate that the companies do not have other alternative funding sources, so investors value the company's performance poorly. Miglani (2011) and Bashir (2013) show that

there are positive abnormal returns in the days around the right issue announcement in India and Pakistan. Suresha and Naidu (2012) in India and Otieno and Oching (2015) in Kenya found the negative abnormal returns on the date of the announcement of the right issue. Raja (2012) found that there was a difference in abnormal return before and after the right issue in India. On the other hand, Ogada and Kalunda (2017) concluded that there was no difference in abnormal return before and after the right issue in Kenya.

Based on the description above, the hypotheses proposed in this study are:

H<sub>1</sub> : There are abnormal returns in the days around the announcement of the right issue on the Indonesia Stock Exchange.

H<sub>2</sub> : Abnormal returns after the right issue announcement are lower than before the right issue announcement.

## RESEARCH METHODS

The population in this study is all companies listed on the Indonesia Stock Exchange that conducted the right issues from 2014 to 2016. This study uses the purposive sampling method to determine the

research sample. The criteria used are as follows: First, the company carries out a one-time right issue policy during the study period. Second, the company does not conduct a right issue from January to May because the company's annual financial statement had not been audited so that if included in the calculation it did not reflect the real condition of the company. Third, the companies are not included in the financial sector because the emphasis on analysis of ratios in the financial sector is different from other sectors. Fourth, the company's shares do not carry out other corporate actions (such as stock split and dividend distribution) in one month before and after the right issue. Fifth, the company shares with beta zero or negative are not analyzed because the price of a company's stock with zero or negative beta tends not to change. By using purposive sampling method, the research sample was obtained by 18 companies.

This study uses secondary data, namely data on companies that conduct right issues in 2014-2016, stock price movements from the research sample, and Jakarta composite index movements. Data from companies conducting right issues in 2014-2016 and the

date of the announcement of the right issue were obtained from the Indonesia Stock Exchange website ([www.idx.co.id](http://www.idx.co.id)). Meanwhile, data on stock price movements from the research sample and Jakarta composite index are obtained from [www.finance.yahoo.com](http://www.finance.yahoo.com).

In analyzing stock performance which is proxied by abnormal return, the period of time used is 101 exchange days divided into two periods, namely the estimation period used to estimate beta, and the event period used to test the hypotheses. The estimation period is 90 days, from  $t-95$  to  $t-6$  before the event day. The event period is 11 days, which consists of five days before the event (pre-event), at the event (event day), and five days after the event (post-event). The event period was chosen 11 days to avoid the effects of other events than the right issue.

The calculation of abnormal returns is conducted through some stages, namely:

a. Calculating stock returns ( $R_{it}$ )

$$R_{it} = \ln \frac{P_{it}}{P_{it-1}}$$

where  $R_{it}$  is the return for stock  $i$  on period  $t$ ,  $P_{it}$  is the price for stock  $i$  on period  $t$ , and  $P_{it-1}$  is the price for stock  $i$  on period  $t-1$ .

b. Calculating market return ( $R_{mt}$ )

$$R_{mt} = \ln \frac{JCI_t}{JCI_{t-1}}$$

where  $R_{mt}$  is the market return for period  $t$ ,  $JCI_t$  is the Jakarta composite index for period  $t$ , and  $JCI_{t-1}$  is the Jakarta composite index for period  $t-1$ .

c. Regress daily stock returns with daily market returns to obtain  $\alpha$  (alpha) and  $\beta$  (beta) of each stock using the Single Index Model.

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_i$$

where  $R_{it}$  is the return for stock  $i$  on period  $t$ ,  $\alpha_i$  is a part of return for stock  $i$  that is not influenced by market performance,  $\beta_i$  is the sensitivity of stock return  $i$  to market movement (also called stock beta  $i$ ),  $R_{mt}$  is the market return for period  $t$ , and  $\varepsilon_i$  is error term.

d. Calculating expected return ( $E(R_{it})$ )

In this study, the expected return is computed using Single Index Model.

$$E(R_{it}) = \alpha_i + \beta_i E(R_{mt})$$

where  $E(R_{it})$  is the expected return for stock  $i$  on period  $t$ ,  $\alpha_i$  is a part of

return for stock  $i$  that is not influenced by market performance,  $\beta_i$  is the sensitivity of stock return  $i$  to market movement, and  $E(R_{mt})$  is the expected return from market on period  $t$ .

e. Calculating abnormal return ( $AR_{it}$ )

$$AR_{it} = R_{it} - E(R_{it})$$

where  $AR_{it}$  is the abnormal return for stock  $i$  on period  $t$ ,  $R_{it}$  is the return for stock  $i$  on period  $t$ , and  $E(R_{it})$  is the expected return for stock  $i$  on period  $t$ .

This study employs the Shapiro-Wilk test to test the normality of the data because

## RESULTS AND DISCUSSION

### Descriptive Statistics

Abnormal return is the difference between the actual rate of return and the expected rate of return. Table 1 presents descriptive statistics of abnormal returns before and after the right issue announcement.

Table 1 shows that the average abnormal return before and after the announcement of the right issue as a whole is -0.00626 or -0.626% and -0.00443 or

the number of samples observed ( $n$ ) is less than 50. The normality test of the data aims to examine whether the data is normally distributed or not (Ghozali, 2016: 27). By knowing the data is normally distributed or not, then the next test tool can be determined to test the hypotheses.

If the data is normally distributed, then the hypotheses are tested using the one sample t test and paired samples t test. However, if the data is not normally distributed, then the hypotheses testing employs one sample Wilcoxon test and Wilcoxon paired samples test.

-0.443%. Abnormal returns after the publication of the right issue on average are higher than before the announcement. The median abnormal returns in the days before the the right issue announcement are all negative, while the median abnormal returns in the days after the announcement of the right issue have positive and negative values. The average value of abnormal returns and negative median abnormal returns imply that market participants negatively interpret the announcement of the right issue.

**Table 1 Descriptive Statistics of Abnormal Returns**

| <b>Day</b>     | <b>Abnormal<br/>Return</b> | <b>Mean</b> | <b>Median</b> | <b>Standard<br/>Deviation</b> | <b>Minimum</b> | <b>Maximum</b> |
|----------------|----------------------------|-------------|---------------|-------------------------------|----------------|----------------|
| <b>5</b>       | Before                     | -0.01089    | -0.00377      | 0.04039                       | -0.13548       | 0.05777        |
|                | After                      | -0.04123    | -0.01091      | 0.10804                       | -0.40588       | 0.09619        |
| <b>4</b>       | Before                     | -0.00191    | -0.00227      | 0.01824                       | -0.03717       | 0.03304        |
|                | After                      | 0.01669     | 0.01295       | 0.04277                       | -0.06203       | 0.10027        |
| <b>3</b>       | Before                     | -0.00612    | -0.00417      | 0.02638                       | -0.05305       | 0.07848        |
|                | After                      | 0.00553     | 0.00115       | 0.07376                       | -0.09327       | 0.25022        |
| <b>2</b>       | Before                     | -0.00251    | -0.00243      | 0.03633                       | -0.08109       | 0.10223        |
|                | After                      | -0.00315    | -0.00373      | 0.06028                       | -0.15859       | 0.15404        |
| <b>1</b>       | Before                     | -0.00987    | -0.00608      | 0.04047                       | -0.12382       | 0.04807        |
|                | After                      | 0.00002     | -0.00047      | 0.02694                       | -0.04709       | 0.06432        |
| <b>Overall</b> | Before                     | -0.00626    | -0.00303      | 0.01588                       | -0.03560       | 0.02404        |
|                | After                      | -0.00443    | 0.00292       | 0.03484                       | -0.09633       | 0.03742        |

The average abnormal return before the announcement of the right issue is all negative. The highest average abnormal return after the announcement of the right issue exists on the third day of 0.00553 or 0.553%. The lowest abnormal return before the announcement of the right issue happens on the fifth day of -0.01089 or -1.089%, while the lowest average abnormal return after the announcement of the right issue exists on the fifth day of -0, 04123 or -4,123%.

The median before the announcement of the right issue is all negative. The highest median after the announcement of the right issue exists on the fourth day of 0.01295 or 1.295%. The lowest median before the announcement of the right issue exists on the first day of -0.00608 or -0.608%, while the lowest median after the announcement of the right issue happens on the fifth day of -0.01091 or 1.091%.

The value in the standard deviation column shows the standard

deviation of the abnormal return before and after the announcement of the right issue. The standard deviation on the fifth day after the announcement of the right issue is higher than the standard deviation on another day during the study period. This finding illustrates that the standard deviation on the fifth day after the announcement of the right issue shows the distribution of the most heterogeneous data.

The minimum value shows the lowest abnormal return received by investors for each day during the study period. The highest minimum value of abnormal return before the announcement of the right issue exists on the fourth day of -0.03717 or -3.717%, while the highest minimum value after the announcement of the right issue happens on the first day of -0.04709 or -4.709%. The lowest minimum value of abnormal return before the announcement of the right issue exists on the fifth day of -0.13548 or -13.548%, while the lowest minimum value after the announcement of the right issue occurs on the fifth day of -0.40588 or -40.588%. These findings

indicate that the losses suffered by investors on the day -4 are the smallest among other days before the announcement of the right issue, while losses on the day -5 are the most significant losses among other days before the announcement of the right issue. This result applies also on the day after the announcement of the right issue, where the losses on the day +1 are the smallest and losses on the day +5 are the biggest among other days after the announcement of the right issue.

The value of the maximum column shows the highest abnormal return from all shares received by investors during the study period. The highest maximum value of abnormal return before the announcement of the right issue occurs on the second day of 0.10223 or 10.223%, while the highest maximum value after the announcement of the right issue is on the third day of 0.25022 or 25.022%. The lowest maximum value before the announcement of the right issue is on the fourth day of 0.03304 or 3.304%, while the lowest maximum value after the announcement of the right issue is on the first day of 0.06432 or 6.432%. These conditions indicate that the profit received

on the day -4 are the smallest and profit on the day -2 are the biggest among other days before the announcement of the right issue. The same thing also applies on the day after the announcement of the right issue, where the profit that occurs on the day -1 is the smallest and the profit on the day -3 is the biggest among other days after the announcement of the right issue.

All abnormal returns on average in the days before the announcement of the right issue are negative, while abnormal returns in the days after the announcement of the right issue have positive and negative values. It can be concluded that investors in Indonesia have the positive and negative response to the announcement of right issue on the Indonesia Stock Exchange.

### Normality Test of Data

Normality test is conducted to determine the data that will be used in the study normally distributed or not. This study employs the Shapiro-Wilk test to test the normality of the data. The reason behind using the Shapiro-Wilk test is that the number of samples observed (n) is less than fifty.

The normality test is performed for the data of abnormal returns. The significance levels used in this research are 1%, 5%, and 10%. The selection of the significance level is adjusted to the p-value in the statistical calculation. Table 2 displays the result of normality test for the abnormal return data.

**Table 2 Normality Test of the Abnormal Returns**

| Day     | Probability |       | Normally Distributed? |       |
|---------|-------------|-------|-----------------------|-------|
|         | Before      | After | Before                | After |
| 5       | 0.018       | 0.000 | No                    | No    |
| 4       | 0.804       | 0.644 | Yes                   | Yes   |
| 3       | 0.002       | 0.001 | No                    | No    |
| 2       | 0.011       | 0.014 | No                    | No    |
| 1       | 0.074       | 0.026 | No                    | No    |
| Overall | 0.300       | 0.005 | Yes                   | No    |

Table 2 shows that the data are normally distributed on days 4, + 4, and overall abnormal returns before the announcement of the right issue because each probability value is higher than the significance level, so the null hypothesis which states that data is normally distributed is accepted. Meanwhile, the data are not normally distributed on days -5, -3, -2, -1, +1, +2, +3, +5, and abnormal returns overall after the announcement of the right issue where each probability value is 0.018 which is significant at the level of 5%; 0.002 which is significant at the level of 1%, 0.011 which is significant at the level of 5%; 0.074 which is significant at the level of 10%, 0.026 which is significant at the level of 5%; 0.014 which is significant at the level of 5%, 0.001 which is significant at the level of 1%; 0.000 which is significant at the level of 1%, and

0.005 which is significant at the level of 1% so that the null hypothesis which states that data is normally distributed is rejected. Therefore, the testing of the first and second hypotheses is conducted by the Wilcoxon one sample and Wilcoxon paired samples tests.

### The First Hypothesis Testing

The first goal in this study is to analyze whether there are abnormal returns in the days around the announcement of the right issue on the Indonesia Stock Exchange. Testing for abnormal returns using the one sample t test and one sample Wilcoxon test because there are data that are normally distributed and not normal. The result of the one sample t test and one sample Wilcoxon test for abnormal returns in the days around the announcement of the right issue is presented in Table 3.

**Table 3 The Result of One Sample t and One Sample Wilcoxon Tests  
on the Abnormal Returns**

| Day | Mean<br>(Median)       | P-value            |
|-----|------------------------|--------------------|
| -5  | -0.01089<br>(-0.00377) | 0.338 <sup>z</sup> |
| -4  | -0.00191               | 0.662 <sup>y</sup> |

|           |                        |                    |
|-----------|------------------------|--------------------|
|           | (-0.00227)             |                    |
| <b>-3</b> | -0.00612<br>(-0.00417) | 0.067 <sup>z</sup> |
| <b>-2</b> | -0,00251<br>(-0.00243) | 0.384 <sup>z</sup> |
| <b>-1</b> | -0.00987<br>(-0.00608) | 0.514 <sup>z</sup> |
| <b>1</b>  | 0.00002<br>(-0.00047)  | 0.695 <sup>z</sup> |
| <b>2</b>  | -0.00315<br>(-0.00373) | 0.571 <sup>z</sup> |
| <b>3</b>  | 0.00553<br>(-0.00115)  | 0.760 <sup>z</sup> |
| <b>4</b>  | 0.01669<br>(-0.01295)  | 0.116 <sup>y</sup> |
| <b>5</b>  | -0.04123<br>(-0.01091) | 0.089 <sup>z</sup> |

<sup>y</sup> denotes the results of one sample t test

<sup>z</sup> denotes the results of one sample Wilcoxon test

Table 3 shows that there are two days where the abnormal return obtained is different from zero. This result means that there are abnormal returns on these two days, namely days -3 and +5, where abnormal returns obtained are significant at the level of 10% even though the abnormal returns are negative. Whereas on other days abnormal

### **The Second Hypothesis Testing**

The second objective of this study is to examine whether the abnormal returns in the days after the announcement of the right issue are lower than the days before the

returns are not found. This finding means that the abnormal returns that occur are not different from zero. Thus, the first hypothesis which states that there are abnormal returns in the days around the announcement of the right issue in the Indonesia Stock Exchange is rejected.

announcement of the right issue. The hypothesis test used is the Wilcoxon paired samples test, which is based on the one-sided test. The result of Wilcoxon paired samples test is presented in Table 4.

In Table 4, it is known that the Z value is -0.889 (p-value = 0.186), because p-value is higher than the significance levels, then the second hypothesis is rejected. In other words, abnormal returns in the days after the

announcement of the right issue are not lower or equal to the days before the announcement of the right issue. This study finds evidence that the announcement of the right issue does not affect abnormal returns

**Table 4 The Result of Wilcoxon Paired Samples Test**

|                            | Median   | Difference | Z value | P-value |
|----------------------------|----------|------------|---------|---------|
| <b>AR<sub>before</sub></b> | -0.00303 | 0.00595    | -0.893  | 0.186   |
| <b>AR<sub>after</sub></b>  | 0.00292  |            |         |         |

AR is the abnormal returns

There are two days where the abnormal returns are significant at the level of 10%, namely day -3 and +5, but the abnormal returns are negative. This study finds that there are no abnormal returns in the days around the announcement of the right issue. This study indicates that investors give

## CONCLUSION

This study implies that the investors do not need to consider the right issue as a benchmark for investment in the capital market. Future studies should be conducted with a more extended observation period so return.

mixed reactions to the announcement of the right issue. The abnormal returns in the days after the announcement of the right issue are not lower or equal to the days before the right issue announcement. The information of the right issue does not affect abnormal returns.

that the sample will get more. Another suggestion is the use of the capital asset pricing model and Fama-French three-factor model (Sutrisno and Nasri, 2018) to calculate expected

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