THE EFFECT OF RIGHT ISSUE ANNOUNCEMENT ON SHARE RETURN AND SHARE LIQUIDITY LEVELS IN COMPANIES REGISTERED IN INDONESIA STOCK EXCHANGE, 2014-2018

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ABSTRACT

This study aims to determine the effect of rights issue announcements on stock returns and the level of stock liquidity in companies listed on the Indonesia Stock Exchange in 2014-2018. Stock return in this study is proxied to be abnormal return, while stock liquidity is proxied to be stock trading volume (trading volume activity). The test of market reaction arising from the announcement of the rights issue is carried out by testing the average abnormal return and average trading volume five days before and five days after the announcement of the rights issue. The population in this study were all companies that conducted rights issues listed on the Indonesia Stock Exchange in 2014-2018, as many as 87 companies. The sample used in this study amounted to 87 companies. This sample was selected using a total sampling method. This research is an event study using a market adjusted model with an event period of 10 days, namely five days before the announcement of the rights issue and five days after the announcement of the rights issue. The first test of this hypothesis uses the MANOVA test method, namely by carrying out the Univariate Statistical test (Test of Between Subject Effects) but after the statistical test is carried out, the results do not meet the MANOVA requirements. Then the second test was carried out with the Wilcoxon Signed Rank Test. The results of statistical analysis show that there is no significant effect between the announcement of the rights issue before and after on abnormal returns and trading volume activity in the companies studied.

Keywords: Market Reaction, Right Issue, Stock Return, Stock Liquidity

1. Introduction

For companies that have go public, to expand again, they will generally issue rights issues. Right issue is an option that is quite profitable for the company and the old shareholders, because it will not change the percentage of ownership of the company. This can happen because in the right issue, there is Pre-emptive Rights (HMETD) for old shareholders. The advantage of issuing rights issues for companies is that the company can issue a larger number of shares without having to increase the authorized capital first, thereby facilitating efforts to increase capital in the future. The shares in circulation will soon be increased more quickly which will encourage an increase in the trading liquidity of the company's shares.

Right issue is the right for investors to buy new shares issued by the issuer. Because it is a right, investors are not bound to exercise their rights. Investors may disregard their rights with the consequence of reducing share ownership of the issuer. This is because basically the company offers the same rights issue as issuing new shares. As a result, it will affect the percentage of share ownership if the rights are not exercised.

Right issue can be said half force for existing shareholders, because shareholders will be faced with a reduced percentage of share ownership and dilution of share prices in the company if they do not exercise these rights. The risk received by the shareholders is proportional to the ratio of the new shares issued to the old shares. This means that the larger the new shares issued, the greater the reduction in ownership of old shareholders if they do not exercise their rights.

For investors, a right issue has a positive impact if it affects stock prices, namely the stock price will increase. Conversely, it will have a negative impact if it causes a decline in share prices. Because in general, prior to the announcement of the rights issue, information on rights issues is first absorbed in the days before the announcement of the rights issue, so that investors will generally react to this information more than on normal days, most likely impact on share prices that move positively. Right issue has a significant positive effect on stock prices prior to the announcement of the rights issue. At the time after the announcement of a rights issue, generally there is an excess supply of the number of shares outstanding originating from the offering of the rights issue, which causes the stock price to move negatively, possibly giving a significant negative effect on the price after the announcement of the right issue.

The increase and decrease in stock prices will likely affect the stock returns that investors will receive. When the stock price increases, the stock return will also increase, and vice versa if the stock price decreases, the stock return will be obtained by investors decreasing. The increase or decrease in share prices depends on the preferences of investors on the announcement of the right issue. If the use of proceeds from the right issue is used for business expansion, this is considered a positive signal or good news for investors. Because it can provide benefits in the future. Negative signals or bad news occur when the collection of funds from the rights issue is used to cover company costs or even to pay off company debts. Due to market reactions that arise as a result of the announcement of the rights issue, investors will consider it as valuable information and able to influence investors in making transactions in the capital market.

If an announcement which is published in the capital market contains information that will there is a market reaction. This market reaction can be reflected in changes in price and trading volume of shares. The increase in share trading volume is one indicator of an increase in stock liquidity.

The following is a graph that shows the development of stock returns before and after the announcement of the rights issue in companies listed on the IDX for the period 2014-2018.

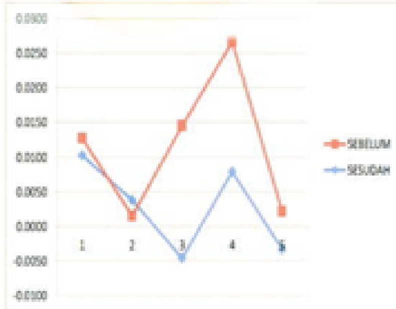

Figure 1. Development of Stock Returns

From Figure 1, it can be seen that there is no difference before and after the announcement of the rights issue on the first day before and after the announcement. Likewise, on the fourth and fifth days before and after the announcement of the rights issue, there was no significant change in return, except on the second and third days there was a difference in stock returns before and after the announcement where the return after the announcement of the rights issue increased from before the announcement of the rights issue. This finding is not consistent with the signaling theory model which assumes the existence of information asymmetry among various activities in the capital market.

From the table above, it can be seen that only the second and third day shows the asymmetry of information before and after the announcement of the rights issue. This is shown when the stock return on the second day to the third day before the announcement has increased. While the second day to the third day after the announcement has decreased, this is where the information asymmetry lies. This is an interesting phenomenon to research. Signaling theory also assumes that stock returns after the announcement of the rights issue will be higher than stock returns before the announcement of the rights issue. The stock return after the announcement of the rights issue is lower than the stock return before the announcement of the right issue. These results are also inconsistent with signaling theory.

With the announcement of right issue is expected to have a market reaction, namely changes in share prices which will increase the volume of stock trading. The steady improvement in stock trading volume shows signs of market optimism, which causes stock liquidity to be well maintained with the assumption that good stock liquidity is routine stock trading on the stock exchange floor. Increasing the volume of stock trading will increase stock liquidity.

Apart from that by doing right issue is expected to increase the volume of stock trading on the stock exchange. Because when a company conducts a right issue, generally the company will increase the number of shares outstanding. When the number of shares outstanding increases, the exercise price is cheaper than the stock price in this market of course it will attract old investors to buy these new shares so that the trading volume of shares on the stock exchange will increase. Increasing the volume of stock trading will increase the liquidity of these shares.

The following is a graph that shows the development of stock trading volume before and after the announcement of the rights issue in companies listed on the IDX for the period 2014-2018.

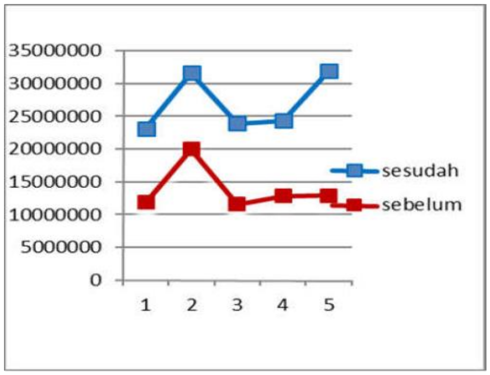

Figure 2. Graph of the Development of Stock Trading Volume Before and After the Announcement of Rights Issue in Companies Listing on the IDX for the 2014-2018 period

From Figure 2. above, it can be seen that the volume of stock trading after the announcement of the rights issue is greater than the volume of stock trading before the announcement of the rights issue. This result is not in accordance with the previous figure 1. which states that the stock return before the announcement of the right issue is greater than the stock return after the announcement of the right issue. It is inversely proportional to Figure 2. above, when the volume of stock trading is greater after the announcement of the rights issue, the stock returns should be higher It is also obtained that it is greater after the announcement of the rights issue, but from Figure 2. it is clear that the stock return before the announcement of the right issue is greater than the stock return after the announcement of the right issue. This is a phenomenon that needs to be investigated.

According to data sourced from www.finance.yahoo.com, there are several companies whose stock trading volume is zero or no share trading occurs around the announcement of the rights issue. In 2012, PT Solusi Tunas Pratama Tbt no stock trading took place on the second to fifth day after the announcement of the rights issue. This means that the trading volume of the shares is zero. Likewise, PT Hotel Mandarine Regency Tbk, 5 days after the announcement of the right issue, the trading volume was zero. In 2014, PT Red Planet Indonesia Tbk and Bank Qnb Indonesia Tbk 5 days before and 5 days after the announcement of the right issue trading volume was zero. Meanwhile, PT Batavia Prosperindo Finance Tbk and PT Bank Of India Indonesia Tbk, only 5 days before the announcement of the right issue, which had zero trading volume. These data are a phenomenon that needs to be studied. In general, the volume of stock trading around the announcement of the right issue will move positively because the number of shares will increase around the announcement of the right issue which results in stock trading.

2. Literature Review

Right issue is the company's policy to seek additional and by selling limited shares specifically intended for old shareholders, and if the old shareholders do not buy it, the rights will be lost (Irham Fahmi 2013, 282).
Based on the opinion, there are several objectives for the company to issue rights issues, including to increase capital from the company, to expand investment or to pay debt. However, another opinion states that the main purpose of issuing a right issue is to maintain the proportion of shareholder ownership and to reduce issuance costs (Saifur Rivai 2007, 28).

Companies issue rights often to save on issuance costs and also to increase the number of shares traded. Generally, it is expected that the increase in the number of shares on the stock exchange will increase the frequency of trading of these shares or in other terms, increase the liquidity of shares (Suad Husnan 2002, 424).

Stock returns ,Legiman, Parengkuan, and Untu (2015) define stock return as the result obtained from an investment in the form of previously invested capital. The results obtained in investing can benefit (capital gain) and get a loss (capital loss). Most investors expect a return on investment, namely a high return in the future. The hope of investors to obtain high returns must also be willing to assume high risks in investing.

Return is the profit earned by companies, individuals and institutions from the results of his investment policies (Irham Fahmi 2013, 358). Without the benefits that can be enjoyed from an investment, of course investors will not bother to make an investment that will not result in the end, so it is clear that every investment, both short and long term, has the main objective of getting a profit called return either directly or indirect. (Ang, 1997).

Stock Liquidity, Koetin (2001: 106) defines stock liquidity is the ease with which a share owner trades the shares he owns. If the liquidity in a stock is good, then the share owners can easily trade their shares. So, a stock is said to be liquid if an investor can easily sell or buy it by converting the stock into an impairment of the stock.

2.1 Previous Research

Murhadi (2013) conducted research on the Effect of Idiosyncratic Risk and Stock Liquidity on Stock Returns. This study uses data from 50 companies in the Indonesia Stock Exchange 2013-2016 period and the sampling method used is purposive sampling method. By using data analysis on the panel data regression model, the results show that idiosyncratic risk and company size have a significant negative effect on stock returns and stock liquidity has a significant positive effect on stock returns.

Anggadini and Qoriah (2015) conducted a study on the Effect of Stock Liquidity and Return on Equity on Stock Returns for the period 2011-2014 on the Indonesia Stock Exchange. The method used in this research is descriptive method. The unit of analysis in this study is secondary data obtained from the company's financial statements for period 2011-2014 and 54 financial reports during the third period. Hypothesis testing in this study uses multiple linear regression analysis through phase testing, classical assumption tests, regression analysis, partial correlation analysis, coefficient of determination and hypothesis testing using SPSS V21.1 Software for Windows. The results of hypothesis testing in research on the Company for the period 2011-2014 on the Indonesia Stock Exchange indicate that Stock Liquidity and Return On Equity have a significant and positive effect on Stock Returns.

Dewi, Wiagustini, and Sedana (2017) examine the Role of Profitability to Mediate the Effect of Diversification on Stock Returns. The population in this study were manufacturing companies listed on the Indonesia Stock Exchange with a sampling technique using purposive sampling method based on companies that diversified their business, totaling 99 companies. Based on the path analysis method, this study found that diversification and profitability have an effect on stock returns and profitability is able to mediate the effect of diversification on stock returns.

Putriani and Sukartha (2014) conducted their research on the effect of free cash flow and net income on the return of shares of companies listed on the Indonesia Stock Exchange for the period 2009-2011. The analysis technique used in this research is multiple linear regression analysis. The results of the analysis conducted show that free cash flow does not have a significant effect on stock returns, while net income has a positive and significant effect on stock returns.

3. Research Methodology

This research was conducted on the Indonesia Stock Exchange through the official website, www.idx.co.id. The population in this study includes all companies implementing rights issues listed on the Indonesia Stock Exchange from 2014 to 2018, namely as many as 87 companies. The sampling technique used by the author is total sampling. So that the total sample used in this study were all existing samples, namely 87 companies.

Data Analysis Techniques in this research is a data normality test conducted to determine whether the distribution of a data follows or approaches the normal distribution. To test the normality of the data, the Kolmogrov-Smirnov normality test was used, which was processed with SPSS 22.0 Statistics software. With Asymp criteria. Sig (2-tailed)> 0.05, data is normally distributed.

4. Results

4.1 Research Results Hypothesis Testing Manova Test

Manova is a multivariate analysis and also an extension of the univariate that can be used to simultaneously examine the relationship between several independent variables with a nominal or ordinal measurement scale and expressed as a treatment with two or more dependent variables which have an interval or ratio measurement scale and are expressed as independent variable. The Manova test consists of 2 ways, namely:

Table 1. Univariate Statistical Test (Test of Between Subject Effects)

Tests of Between-Subjects Effects

Source	Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	Return	.913[a]	2	.456	1.916	.154
	Likuiditas	.222[b]	2	.111	.434	.650
Intercept	Return	9.431	1	9.431	39.598	.000
	Likuiditas	16.946	1	16.946	66.132	.000
ABNR	Return	.339	1	.339	1.425	.236
	Likuiditas	.206	1	.206	.804	.372
LKD	Return	.526	1	.526	2.206	.141
	Likuiditas	.010	1	.010	.041	.840
Error	Return	20.007	84	.238		
	Likuiditas	21.525	84	.256		
Total	Return	35.000	87			
	Likuiditas	43.000	87			
Corrected Total	Return	20.920	86			
	Likuiditas	21.747	86			

a. R Squared = .044 (Adjusted R Squared = .021)
b. R Squared = .010 (Adjusted R Squared = -.013)

From the Tests of Between-Subject Effects table above, it can be seen that the Corrected Model row shows a significance value of 0.154 and 0.650. This figure shows a significance value above 0.05.

From the hypothesis test that has been done, it is concluded that the MANOVA test cannot be done because it does not meet the requirements for the MANOVA test, namely the significance value for the Corrected Model in Tests of Between-Subject Effects must be below 0.05. From the hypothesis test above, it can be seen that the significance value is above 0.05. The significance above 0.05 indicates that the variables have biased numbers so that their effects cannot be tested. So the MANOVA test cannot be continued to the next stage. Therefore, the authors change the hypothesis test The non-parametric test is the Wilcoxon signed rank test.

Wilcoxon signed ranks test this is an alternative test to choose from if a parametric test such as MANOVA fails. Because the Wilcoxon signed ranks test is a non-parametric test that does not require a classical assumption test so that the data does not need to be tested for normality, all variables can be tested without having to be selected first. Unlike MANOVA, the data must be normally distributed. If the data is not normally distributed, data normalization can be done by transforming the data using Log Transformation, Square Root Transformation, Reciprocal Transformation, **Reverse Score** Transformation and other normalization tests.

Table 2. Results of the Average Statistical Test

Average Abnormal Return Before and After Right Issue Announcement

Ranks

		N	Mean Rank	Sum of Ranks
Rata-rata ARsesudah - ARsebelum	Negative Ranks	52[a]	43.37	2255.00
	Positive Ranks	35[b]	44.94	1573.00
	Ties	0[c]		
	Total	87		

a. ARsesudah < ARsebelum

b. ARsesudah > ARsebelum

c. ARsesudah = ARsebelum

Test Statistics[a]

	Rata-rata ARsesudah - ARsebelum
Z	-1.443[b]
Asymp. Sig. (2-tailed)	.149

a. Wilcoxon Signed Ranks Test

b. Based on positive ranks.

From the table above, it can be seen that the output ranks show the comparison of abnormal stock returns before and after the announcement *right issue*. Terdapat 52 perusahaan dengan hasil *abnormal return* negative sesudah pengumuman lebih rendah dari pada sebelum pengumuman.

There are 35 companies with higher positive abnormal returns after the announcement of the rights issue than before the announcement of the rights issue. Based on the results of the calculation of the Wilcoxon Signed Rank Test, the Z value of the table is - 1.443. This figure is between the critical Z value of-1.96 and 1.96, so H0 is accepted. By looking at Asymp. Sig 2 tailed obtained a significance value of 0.149> 0.05, meaning that H0 is accepted and H1 is rejected. It can be concluded that there is no significant difference before and after the announcement of the rights issue. It can be said that there is no significant effect before and after the announcement of the rights issue on stock returns.

Table 3. Statistical Test Results of the Average Stock Trading Volume Before and After the Announcement of Rights Issue

Ranks

		N	Mean Rank	Sum of Ranks
TVAsesudah - TVAsebelum	Negative Ranks	38[a]	41.62	1581.50
	Positive Ranks	45[b]	42.32	1904.50
	Ties	4[c]		
	Total	87		

a. TVAsesudah < TVAsebelum

b. TVAsesudah > TVAsebelum

c. TVAsesudah = TVAsebelum

Test Statistics[a]

	TVAsesudah - TVAsebelum
Z	-.733[b]
Asymp. Sig. (2-tailed)	.463

a. Wilcoxon Signed Ranks Test

b. Based on negative ranks.

From the table above, it can be seen that the output ranks show the comparison of stock trading volume before and after the announcement of the rights issue. There are 38 companies with lower share trading volume results after the announcement than before the announcement. There are 45 companies with higher volume of stock trading after the announcement of the rights issue than before the announcement of the rights issue. There are 4 companies that have the same abnormal return value before and after the announcement of the rights issue. Based on the results of the calculation of the Wilcoxon Signed Rank Test, the Z table value obtained is -0.733. This figure is between the critical Z value of -1.96 and 1.96, so H0 is accepted. By looking at Asymp. Sig 2 tails obtained a significance value 0.463> 0.05, meaning that H0 is accepted, H2 is rejected. It can be concluded that there is no significant difference between before and after the announcement of the rights issue. It can be said that there is no significant effect before and after the announcement of the rights issue on stock returns.

5. Discussion

Based on the research results, it is known that statistically gave the decision to reject the hypothesis which states that there is a significant influence between the announcement of the right issue before and after on the abnormal return of shares and stock liquidity in the company under study. This is not in accordance with the initial expectations which state that there is a significant effect of the announcement of the right issue before and after on stock returns and stock liquidity.

Based on the results of this test, it shows that there is no significant difference between the average abnormal returns before and after the announcement of the rights issue. This proves that there is no effect of the announcement of the rights issue before and after the announcement on the abnormal return of shares received. This shows that the announcement of the rights issue does not affect the decision making of investors in conducting transactions in the capital market as seen from the average abnormal return of shares before and after the announcement of the rights issue. This means that investors have anticipated new information published to the market, so that it does not change investor preferences for their investment decisions. So the information on rights issues does not have meaningful content, so that investors' preferences for the information remain.

There is no difference significance between before and after the announcement of the rights issue on this abnormal return shows that investors think that the announcement of the rights issue is a bad signal for them. Investors may think that the company's performance is not good so that investors do not exercise their rights, causing a decline in share prices which results in a decrease in stock returns that will be received by investors. So is with the volume of stock trading, if investors do not exercise their rights, the activity of share trading volume will decrease. This decrease in share trading volume results in a decrease in stock liquidity.

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