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Market Reaction to the Announcement of Rights Issues in Bank Sub-Sector Issuers on the Indonesian Stock Exchange

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ABSTRACT

The TVA metric is used to evaluate the liquidity of a particular stock. Utilizing a technological tool called trading volume activity (TVA) can help monitor capital markets' response to information. The inverse relationship between TVA value and stock liquidity causes this. The TVA value of a stock increases with how easy it is to sell and convert it into currency, or more precisely, how much liquidity a stock has. Because of the announcement right issue, certain phenomena have good impact phenomena, while other phenomena turn out to have bad impacts, and because TVA was not covered in previous research, it is known that the effect of notification light issue on stock returns and market trading volume do not always have the same effect on offering the same conclusions. The research sample consisted of 17 financial services companies in the banking sub-sector that dealt with this issue. The window period in this research was carried out for 11 days, namely 5 days before the announcement right issue, 1 day at the time of the announcement, and 5 days after the announcement right issue. The data used is secondary data obtained from the Indonesian Stock Exchange page and yahoo finance. Data collection techniques are carried out using methods of purposive sampling. Data analysis techniques using one sample t test to find out the market reaction around the announcement right issue and comparative tests to determine differences abnormal return and trading volume activity before and after the announcement right issue. The research results show that there is abnormal return significant surrounding the announcement event rights issue Bank subsector issuers on the IDX in 2021. There is no difference between abnormal returns significantly before and after the announcement of the rights issue. There is a significant difference in stock liquidity before and after the announcement rights issue which is indicated by different trading volume activities.

1. Introduction

Uncertainty in handling the pandemic and predictions of worsening economic performance in the future will also put pressure on the stability of Indonesia's financial system. By reducing the BI-7DRR interest rate to 3.50% in February 2021, the government implemented monetary policy, the lowest benchmark interest rate ever. Since 2020, the policy in question, the BI 7-day reverse repo rate (BI-7DRR), has been published five times. Since the pandemic occurred COVID-19, there has been a downward trend in the benchmark interest rate, which had an effect on the decline of 150 basis points (bps). As a result of the

slowdown in banking intermediation services caused by increases in credit interest rates and secondary income of commercial banks, the financial services industry experienced a decline of 2.59 percent. The right issue is a secondary equity issuance in which fresh additional shares are given to current shareholders in exchange for cash (capital) that a public company needs, either for development plans or to fund the company's operations. The factors that motivate the issuer to do so right issue include limited liquidity due to the COVID-19 pandemic, which is troubling the nation, and many banks are carrying out credit restructuring according to financial services



authority (OJK) regulations (Hadar, 2021; Halimatusyadiyah, 2020; Phan, 2020).

When money is collected through the right issue, the market responds to changes in stock prices twice. First, after the announcement of the right issue, the stock price will change. Second, it should be noted that share prices have the potential to fluctuate well when the offer is active (cum data) or after the offer ends or becomes invalid (ex-date). There are two reasons why the business world pursues rights issues. Issuing emission rights can first reduce emission costs. Second, existing rights issues could have an effect on increasing the number of company shares, which is expected to increase trading activity or increase share liquidity. Since they will receive profitable anomalous profits, investors will react positively to this. Depending on how the money is used after the announcement right issue, abnormal returns the results do not consistently show good performance; some are even negative. Abnormal return will have a positive value if the money is used for business expansion. On the other hand, if it is used to pay off long-term debt, the abnormal return will be negative (Hadi, 2013; Hermawan, 2015).

The TVA metric is used to evaluate the liquidity of a particular stock. Utilizing a technological tool called trading volume activity (TVA) can help monitor capital markets' response to information. The inverse relationship between TVA value and stock liquidity causes this. The TVA value of a stock increases with how easy it is to sell and convert it into currency, or more precisely, how much liquidity a stock has. Because of the announcement right issue, certain phenomena have good impact phenomena, while other phenomena turn out to have bad impacts, and because TVA was not covered in previous research, it is known that the effect of notification light issue on stock returns and market trading volume does not always have the same effect on offering the same conclusions. Therefore, the information presented in the notification light issue for banking business actors

will be covered in this research. Taking that into account, the right issue is one of the corporate actions that can affect profits and rates liquidity shares. (Malhotra, 2012; Pathonah, 2020; Sugijanto, 2022). This study aimed to explore market reactions to the announcement of rights issues in bank sub-sector issuers on the Indonesian Stock Exchange.

2. Literature Review

Efficient capital market concept

The idea of an efficient market may have different interpretations depending on the specific goals or context in which the concept is considered. In a financial context, the concept of an efficient market places great emphasis on the element of information. In particular, an efficient market is characterized by conditions where the prices of all traded securities accurately reflect all accessible information. In this scenario, the data accessible includes all related information, including historical data such as the previous year's company revenue, current data such as intention to add dividends this year, and information in the form of a reasonable point of view or general opinion. In financial markets, the presence of influential factors can cause fluctuations in security prices, thereby influencing price movements. The above idea entails a mechanism in which security prices are changed in response to the influx of new information into the market, ultimately leading to the formation of a new equilibrium price. During certain periods, the market may exhibit a tendency to over- or under-adjust in response to new information, resulting in the formation of prices that may not accurately reflect the intrinsic value of a security. An important aspect of an effective market mechanism lies in its ability to ensure that the price formation process remains impartial toward the price estimates that achieve equilibrium in the market. Determination of the equilibrium price will occur after investors have thoroughly evaluated the implications of the information provided.



Trading volume activity

In addition to price, trading activity represents a set of alternative indicators that may interest investors. A high level of trading activity indicates good stock performance. The volume of stock exchange between investors and the transaction value, both in one transaction and within a certain period of time, are indicators of stock trading activity. Trading volume activity refers to the total transactions that occur on the stock exchange in a certain time period for a particular stock. This is an important factor that has a significant influence on share price fluctuations. TVA functions as an indication for assessing the response of the capital market to the information disseminated therein. This is achieved by utilizing stock trading volume activity as a parameter. Measuring stock liquidity is often done through the use of TVA. Trading volume exceeds the number of shares issued, with a positive correlation observed between stock liquidity and the level of trading volume activity.

Right issue

Rights issue refers to the right investors who currently hold shares have the option to purchase newly issued shares from the issuer. Generally, these shares are offered at prices below the current market value. The purpose of a right issue there are two to reduce emissions costs for the issuer, and this aims to increase the number of shares in circulation. The rights issue, as previously defined, refers to the allocation of rights by the issuer to existing shareholders so that they can purchase new shares at a predetermined price. The main goal of this practice is to minimize issuance costs while ensuring a consistent share ownership proportion for investors (Ridho, 2017; Yuliana, 2022).

3. Methods

This research is included in the category of comparative research, which compares variable conditions from two or more different samples. This

study compared abnormal return shares before and after notification of the implementation of the right Issue, as well as average trading volume activity before and after notification of the right issue. The sample consists of 17 companies in the financial sector, especially the banking subsector, which are listed on the IDX (Indonesian Stock Exchange) in the period 2021. The sample is a financial sector company in the banking sub-sector that issues the right issues in a period of one year, namely 2021. The issuer does not release other information simultaneously with the notification light issue, like a notification stock split, announcement guarantee, merger or acquisition notification, notification dividends, or stock bonus notifications.

The required data was obtained through documentation techniques by referring to annual reports released by companies in the financial sector, especially the banking sub-sector, for 2021. This data was taken from the official IDX website (www.idx.co.id), the official website of sample companies, as well as through the study of relevant literature within the framework of the research problem, both in print and electronic media. This study uses a Kormogorov-Smirnov (K-S) test to test normality. A guide to decision making in testing Kormogorov-Smirnov (K-S). The hypothesis tests that will be used are the significance test and the difference test. The significance test consists of one sample t-test. The different tests consist of the paired sample t-test and the Wilcoxon signed rank test.

4. Results and Discussion

Abnormal

Abnormal return, the highest seen before the rights issue notification, was -0.0540, which was associated with PT Bank Jago Tbk. On the other hand, the lowest abnormal return figure of -0.0040 occurred at PT Bank JTrust Indonesia Tbk. This finding shows that there is a disparity between the maximum amount of abnormal stock returns and the minimum amount of



abnormal returns before notification of the initial public offering. The mean abnormal return before notification right issue is -0.002862 or the equivalent of 0.2862% in percentage terms, with a standard deviation of 0.020778. The results above indicate that significant variability was found in the abnormal return value before the notification light issue. Abnormal return after disclosure right issue had the highest value of 0.5378 at PT Bank Oke Indonesia Tbk, while PT Bank MNC International Tbk recorded a minimum value of -0.1565. The standard deviation for this abnormal return is calculated at 0.220738. This finding shows that there is a disparity between the maximum number of abnormal stock returns and the minimum abnormal return after the notification light issue. The rate of abnormal return after notification right issue amounts to 0.098406 or equal to 9.8406%, accompanied by a standard deviation of 0.220738. The observed data indicate a substantial degree of variability in the value of abnormal returns following the disclosure right issue. A negative mean value indicates that in the five days before the notification, there was a market tendency to respond negatively to the acquisition of business shares.

Trading volume activity (TVA)

PT Bank MNC Internasional Tbk has a maximum value for TVA liquidity before notification of the rights issue of 0.0305953, while PT Bank Mayapada Tbk has the lowest value of around 0.0000021, with a standard deviation value of around 0.0074986061. These values reflect a significant degree of variation in ATVA before notification of the right issue among these companies. The average of ATVA before notification right issue is around 0.003183552 or around 0.318% with a standard deviation of 0.0074986061. This indicates that there is considerable variation in the values ATVA prior to notification of the rights issue in all companies under investigation. In liquidity ATVA, after the notification light issue, it can be observed that PT Bank Neo Commerce Tbk has the highest figure,

reaching 0.0282772, while PT Bank Mayapada Tbk has a minimum value of 0.0000127. These values reflect a significant degree of variation in ATVA after notification of the rights issue between these companies. The average of ATVA after notification of the rights issue is around 0.004787759 or around 0.47%, with a standard deviation of around 0.0074822885. This indicates that there is a fairly high degree of variation in the values ATVA after notification of the rights issue in all companies under investigation (Sugijanto, 2022).

Normality test

The results of normality testing using Kolmogorov-Smirnov on the abnormal return variable showed that the significance value of the right issue was greater than 0.05. Therefore, the conclusion is that the abnormal data return follows a normal distribution. Since the data is normally distributed, testing the difference for notifications right before and after can be done using parametric tests, namely, test-paired sample t-test. Normality testing was carried out on the TVA variable using a test Kolmogorov-Smirnov, which shows a significance value of 0.000, less than the predetermined threshold of 0.05. Based on a significance level of less than 0.05, it can be concluded that the TVA data distribution does not match the normal distribution. Because the data distribution is not normal, it is recommended to use statistical tests non-parametric, that is Wilcoxon Signed ranks test, to assess the dissimilarity between before and after notifications right issue.

Hypothesis testing

The results of the paired sample t-test formed a significance value of 0.088. This value is greater than the predetermined significance level of 0.05, and the calculated t-value of -1.814. Therefore, it can be concluded that hypothesis H2 is rejected, which indicates that there are no significant differences in abnormal returns before and after notification of the



rights issue. The results of this test do not support the hypothesis that was previously proposed. The findings from this research also do not support efficient market theory and signal theory. This indicates that information available about corporate action rights issues does not influence the market in responding to it, so there is no significant reaction to signals from this information.

The increase in abnormal returns after notification of the company's rights issue action is not significant, and this may be caused by the market perception that the information about the right issue contains negative aspects for the company. This phenomenon shows that the market has been able to anticipate incoming information, and the information provided does not have a significant impact on overall stock prices. Apart from that, there has been an increase in abnormal returns, and negative ones could also be caused by price adjustments related to other corporate actions.

Wilcoxon signed-rank test results. The significance value obtained was 0.0017, lower than the predetermined significance level of 0.05. Additionally, the Z score was calculated to be -2.391. This indicates that there is a statistically significant dissimilarity in the mean values. trading volume before and after notification of the rights issue. Various studies have produced consistent findings. Another study observed statistically significant differences in mean trading volume activity before and after the notification light issue. Another study identified a significant relationship between stock trading volume before and after right issues in companies listed on the IDX. Furthermore, other studies document variations in stock trading volume before and after the right issue.

5. Conclusion

There was a significant abnormal return around the announcement of the rights issue of Bank subsector issuers on the IDX in 2021. There was no significant abnormal difference in return before and after the announcement of the rights issue. There are

significant differences in stock liquidity before and after the announcement of the rights issue, as indicated by different trading volume activities.

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