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Analysis of Differences in Abnormal Return and Stock Liquidity Before and After the Rights Issue

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Abstract. This research aims to determine differences in strange returns and stock liquidity before and after the rights issue. The objects of this research were companies registered on the 2018–2021 Indonesian Stock Exchange. This research used a quantitative approach with secondary data. Documentation techniques were used for data collection. This study used purposive sampling so that out of 111 companies, only 38 companies met the sample criteria—data analysis techniques using descriptive analysis, normality tests, and difference tests. The results of this research show that: there are differences in strange stock returns before and after the rights issue. The Wilcoxon test results show a value of 0.002 which is less than 0.05. There is also no difference in stock liquidity before and after the rights issue. The Wilcoxon test results obtain a value of 0.446, greater than 0.05.

Keywords: Abnormal Return · Liquidity · the Rights Issue

1 Introduction

The country's fast-growing economic development makes many companies want to improve their performance and require more capital for the company's business interests. To obtain the desired capital, companies can raise funds through transaction mechanisms in the capital market by listing shares on the stock exchange or commonly referred to as going public.

A go-public company is a company that has sold and registered company shares on the Indonesian stock exchange. From data from the website www.ojk.go.id, in the 2021 period, a total of 766 companies were registered on the Indonesian stock exchange. In addition, if a registered company still needs additional capital, the company can take corporate action by issuing new shares through a rights issue policy.

A rights issue is a form of company action and policy that gives the old stockholders the right to purchase additional shares when the company issues new shares [1]. The implementation of the rights issue occurs every year. From 2018 to 2021, it was recorded that 111 companies carried out rights issues. During the rights issue, the old shareholder of the company can also purchase shares below the market price. This can lead to a positive signal response, or it can also be a negative signal for stock prices and also stock

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liquidity. The response of positive or negative signals from the stock price can be known through measurement using abnormal returns. Meanwhile, it can be calculated through trading volume activity to see the response of stock liquidity.

Abnormal return is the difference between an actual return and a desired return. In the implementation of a rights issue, the price of the company's shares to be issued is often below the market price; if the price of the shares issued by the company has a price below or above the market price, the difference will cause positive or negative abnormal stock returns on the company's stock price. Share liquidity can increase along with an increase in the circulation of company shares. The more shares circulated, the higher the liquidity of the company's shares. Trading volume activity is one of several indicators that can be used to measure the liquidity level of a company's shares. Many studies have been conducted on the effect of rights issues on abnormal returns and stock liquidity.

Dwita [2] concluded that there was no significant difference between abnormal stock returns before and after the rights issue announcement. In contrast, a difference of significance was found before and after the rights issue in trading volume activity. This research did not align with what Widyatmoko [3] said, that there is a significant difference between abnormal stock returns and volume trading activity before and after the rights issue announcement. Considering that rights issues can be helpful information that investors need in making investment decisions, in this study, the authors intend to test whether there were differences in abnormal returns and liquidity stock before and also after the rights issues carried out by many companies registered on Indonesia Stock Exchange during 2018–2021 period. A capital market is a place that brings together owners of capital and recipients of capital by buying and selling securities.

According to Hidayat [4], the capital market is a place that trades various types of investment instruments in the form of stocks, debentures, derivatives, and other valuable securities. Meanwhile, according to Sudirman [1], the capital market is a place for securities or securities transactions such as stocks, warrants, bonds, rights, and other instruments to take place through securities and underwriters in a structured and organized manner. A rights issue is a form of action and decision made by a company if the company needs additional capital other than from banking. According to Sudirman [1], a rights issue is a security or the right to purchase shares when the issuer issues new shares addressed to the old shareholder of the company. According to Suganda [5], signaling theory is used to explore management activities when explaining to investors and then influencing investors' perceptions of the state of the company.

Signaling theory explains issuer or company information conveyed to the general public. This will bring investors to be able to evaluate the ability of a company before making investment decisions. In addition, investors are expected to understand what risks they will face when investing and consider the amount of money they will place into investing because the amount of risk to be faced describes the size of the investment that will be placed in the company [6]. Handini [7] said that abnormal return is the difference between actual return and expected return which can occur before the information is officially published, or leakage of information occurs after official information is published. The magnitude of the abnormal return is influenced by how much information content is absorbed by investors; if there is a significant change in stock prices, then there is a possibility of good information content from the rights issue policy. So, with a rights issue, investors can enjoy the benefits when the company conducts a rights issue.

H1: There is a significant difference between abnormal stock returns before and after the rights issue.

Stock liquidity is a convenience for investors in buying and owning company shares in the capital market and turning them into cash. Meanwhile, according to Harahap [8], stock liquidity can be interpreted as how often a stock sells in a certain period. Several methods can be used to determine a stock's liquidity level in the capital market, one of which is the trading volume activity indicator. Trading volume activity is an indicator that can be used to find out how liquid the company's shares are traded [5]. Meanwhile, according to Widyatmoko [9], trading volume activity (TVA) is one of the indicators used to find out and calculate the market in response to the circulation of information in the capital market.

H2: There is a difference between stock liquidity before and after the rights issue. This study has two (2) independent variables: 1) abnormal returns and 2) stock liquidity. Stock liquidity in this variable uses trading volume activity. The dependent variable in this study is the rights issue.

2 Research Method

This research applied a quantitative approach by focusing on financial management, primarily on abnormal returns and stock liquidity. This research was conducted in many companies that conducted rights issues in 2018–2021 and registered on the Indonesian stock exchange. The population in this study was 111 companies that conducted rights issues on the Indonesian Stock Exchange in 2018–2021. The sampling technique used was purposive sampling with specific criteria. The data source in this study was secondary data. This study used quantitative data from financial reports, stock prices, and stock trading volume of companies that carried out rights issues in 2018–2021. The technique used in collecting data in this study applied documentation techniques derived from financial reports, stock prices, and stock trading volume of companies conducted rights issues in 2018–2021. This study used descriptive analysis and then performed a test of normality. If the data is distributed as normal data, the hypothesis test can be performed using the paired sample t-test. However, if it is not normally distributed, it can be performed using a non-parametric test, namely the Wilcoxon test.

3 Results and Discussion

Table 1 shows the results of the descriptive analysis.

Table 2 shows the results of the normality test using the Kormogorov Smirnov method.

The normality test results in Table 2 show that data from all variables have a value of < 0.05, indicating that all data is not normally distributed. This study used the Wilcoxon test because the data were not normally distributed.

Based on the Wilcoxon test from Table 3, it can be seen that the abnormal return value is $0.002 < 0.05$, which means that the abnormal return before and after the rights

Table 1. Descriptive Analysis Data.

	N	Min	Max	Mean	Std. Dev
Ar Bef	38	−0.0262	0.0125	−0.003665	0.0084801
Ar Aft	38	−0.0091	0.0306	0.004535	0.0094199
TVA Bef	38	0.0000	0.0011	0.000053	0.0001810
TVA Aft	38	0.0000	0.0002	0.000026	0.0000409
Valid N (listwise)	38				

Table 2. Normality Test.

One-Sample Kolmogorov-Smirnov Test					
		AR Before	AR After	TVA Before	TVA After
N		38	38	38	38
Normal Parameters[a,b]	Mean	−0.003665	0.004534	0.000053	0.000026
	Std. Deviation	0.0084801	0.0094199	0.0001810	0.0000409
Most Extreme Differences	Absolute	0.176	0.208	0.402	0.262
	Positive	0.069	0.208	0.402	0.262
	Negative	−0.176	−0.107	−0.386	−0.259
Test Statistic		0.176	0.208	0.402	0.262
Asymp. Sig. (2-tailed)		0.005[c]	0.000[c]	0.000[c]	0.000[c]

Abnormal Return (AR)
Trading Volume Activity (TVA)

Table 3. Wilcoxon test.

	Ar After - Ar Before	TVA After - TVA Before
Z	−3.038[b]	−0.761[c]
Asymp. Sig. (2-tailed)	0.002	0.446

Abnormal Return (AR)
Trading Volume Activity (TVA)

issue shows a significant difference before and after the company conducts rights issue. While in stock liquidity, the obtained value of 0.446 is > 0.05, signifying no significant difference in stock liquidity before and after the company conducts a rights issue. Based on the results of the Wilcoxon test on abnormal returns, the asymp value obtained. Sig (2-tailed) of 0.002, which is smaller than 0.05, signifying that the abnormal return on stock before and after the rights issue has a significant difference. The results of this research support the first hypothesis which says that there is a significant difference in abnormal returns before and after the rights issue. This indicates that the rights issue policy can influence investors' preferences in making investment decisions which can have an impact on the difference in abnormal stock returns before and after the rights issue. The difference in abnormal stock returns is because investors consider that the rights issue carried out by the company is a positive signal that can improve the company's performance so that investors hope to get high profits if investors make transactions. The results of this research are in line with Widyatmoko [9]. Based on the results of the Wilcoxon test on stock liquidity, the asymp value obtained Sig. (2-tailed) of 0.446, greater than 0.05, signifying that stock liquidity before and after the rights issue has no significant difference. In theory, the existence of a rights issue policy will increase the number of outstanding shares, so it is expected to increase the liquidity of the company's shares. There is no difference in the liquidity of the shares because investors are not interested in selling their shares after purchasing the rights issue shares. This is evidenced by the absence of significant differences in trading volume activity before and after the company's rights issue. The results of this study are in line with Nurmala [10], who revealed no significant difference in stock liquidity before and after the rights issue announcement.

4 Conclusion

From the results and discussion in this research, it can be summed up that abnormal returns have significant differences before and after the rights issue. The rights issue policy is a positive signal that makes investors hope they will get high profits if they invest. On the other hand, stock liquidity does not experience a significant difference before and after the rights issue. This happens because investors are reluctant to sell their shares, resulting in no significant difference in trading volume activity, which makes the stock liquidity before and after the rights issue not significantly different.

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