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# Analysis of Abnormal Stock Returns Before and After The Rights Announcement

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**Abstract:** Right issue is a public offering that is only offered to old shareholders on a limited basis and provides a price lower than the market price which results in investors interested in buying it. An announcement that contains information will give an abnormal return to the market, otherwise if it does not contain it. Information then does not provide abnormal returns, abnormal returns can be used as a measuring instrument to see market reactions that occur. This study aims to identify whether there are differences in abnormal returns before and after the announcement of the rights issue. The analysis technique used in this research is an eleven-day event window consisting of five days before the announcement, one day of the announcement, and five days after the announcement. The population in this study are manufacturing companies listed on the Indonesia Stock Exchange in 2019-2022. Determination of the sample using purposive sampling method and obtained as many as 50 samples of manufacturing companies. The data analysis technique used is the Wilcoxon Signed Rank Test.The results showed that there was no difference in abnormal returns before and after the announcement of the rights issue. The next researcher can add to the research period, pay more attention to the observation period (event window) used, and consider the company sector to be studied.

**Keywords:** abnormal return; market price; market reaction; right issue

## Introduction

The capital market has an important role as a means to raise funds from businesses and the public. An efficient capital market is defined as a market where the prices of securities reflect all relevant information (Simbolon et al., 2023). The faster new information about security prices, the more efficient the capital market information in the capital market, information in the capital market is divided into two, namely information originating from the public and originating from internal companies, information originating from the public is known as corparate action and information originating from internal can be in the form of expert opinions or management opinions. Companies that make a public offering or initial public offering (IPO) or go public will get many benefits. This reason is the most important consideration for companies to go public, the guidelines obtained from the capital market can be used to increase working capital in order to finance company growth, to pay debts, to make investments, or to make acquisitions. One of the favourable alternatives to raise funds for a company is to offer new shares to existing shareholders at a lower price than the market price. This share offering is commonly referred to as a rights issue. A rights issue is a corporate action that can affect the price of shares in the market.

Right issue is a public offering that is only offered to existing shareholders on a limited basis and provides a lower price than the market price which results in investors being interested in buying it (Nguyen and Parsons, 2021). Investors will compare intrinsic

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value with market value when investors want to sell or buy shares. Overvalue occurs when the market value of a stock is higher than its intrinsic. This condition causes investors to make the decision to sell their shares ( Nguyen et al., 2023 ). When the market value is below the interinsic, it means that the stock is categorised as undervalue. At the time of undervalue, investors should make a decision to buy shares. Right issue is categorised as undervalue because it gives a low share price compared to the market price (Halim, 2024: 5). The main reason for a company to conduct a rights issue is to protect the interests of the company's shareholders, especially in exercising preemptive rights.

The reaction to a rights issue can be divided into two: positive reaction and negative reaction. A positive reaction will encourage the stock price to increase as shown when investors purchase securities. A negative reaction if a situation that investors do not want if there is an event reaction to the price, because this condition causes the share price to decrease after issuance. An announcement that has information content will provide abnormal return to the market, and vice versa if it does not contain information, it does not provide Abnormal return, abnormal return can be used as a measuring tool to see the market reaction that occurs. Abnormal return is the difference between actual return (results obtained from investors) and expected return (expected results) that occurs before the publication of official information or occurs due to leakage of official information (Halim, 2024).

The difference between the two returns can be positive and negative. Abnormal return is positive if the actual return is greater than the return expected by investors. This situation will result in investors being interested in making transactions around the announcement period in the hope of making profits above normal, but if the opposite situation occurs, it will react negatively (Wistawan, 2014). The funds that have been prepared for the transaction are withdrawn again and wait for the right time to invest. The market will react to any information because it can result in price changes that create abnormal returns and changes in investor perceptions to make investment decisions. Reactions to changes in information are usually examined with event studies. Based on the announcement of the right issue on the Indonesia Stock Exchange in 2019-2022, the number of companies that carried out the right issue was 87 from all sectors of companies listed on the IDX, it can be seen that the most announcements occurred in 2022 with 30 companies making right issue announcements and the lowest was in 2019 with 15 companies. This shows that in 2022 companies are higher in making right issue announcements to obtain funding by issuing new shares, or it could also be to increase the portion of shareholder ownership.

There have been many studies on rights issues, but the results shown still show different results. Research conducted by Ramadhan et al. (2022) ; Ardiansyah, et al ( 2023 ); Murthy (2024); Desliniati, et al (2022 ); Zenzius and Wengerek (2022); Isiker and Tas (2021) ; Yuliana (2022), concluded that market participants have a response to the right issue announcement, which is indicated by the abnormal stock return (both positive and negative) between the period before and after the right issue announcement date. The opposite research results found by Widyatmoko (2021) ; Pandey and Tiwari (2022) ; and Awabi (2022), concluded that there was no abnormal stock return between the period before and after the right issue announcement. This means that the market does not respond to the rights issue announcement.

This study is intended to test the speed of market reaction from a right issue announcement. When an announcement contains information, it is expected that the market will react quickly when the announcement is received by the market. The market reaction can be shown by the change of the securities concerned by using abnormal return as a tool to measure it. The analysis technique used in this research is an 11-day wendow event consisting of 5 days before the announcement, 1 day of the announcement, and 5 days after the announcement. The focus of the research is to identify whether there is a difference in abnormal return before and after the announcement of the right issue, in addition to the difference in research results (research gap) between previous studies related to the difference in abnormal return around the announcement period, the researcher wants to further examine the 'Analysis of Abnormal Return Shares Before and After the Announcement of Right Issue in Manufacturing Companies Listed on the Indonesia Stock Exchange in 2019-2022'.

## Concept and Hypothesis

### Signalling Theory

According to Brigham and Houston (2022: 186), signalling theory is a shareholder's perspective on the company's opportunity to increase company value in the future, where the information is provided by company management to shareholders. This information can affect public perceptions of the company, so if management conveys the information to the public, it will become a signal and make the market react.

Good news will be responded positively by the market which is reflected in a positive abnormal return. Likewise, bad news will be responded negatively by the market which is reflected in a negative abnormal return (Tandelilin, 2024: 550). The market has a reaction to the announcement means that the market reacts to the future prospects of the company and when the company gives a positive reaction, the signal can be trusted by the market. The implication is that the announcement of the right issue by the company is responded by the market as a signal that provides new information that will affect the value of the company's shares and the company's trading activities.

### Difference in Abnormal Return Before and After Right Issue Announcement

Abnormal return can be used as an indicator to determine whether the corporate action taken by the issuer contains information or not. If in an announcement there is information content, it will affect the reaction of investors in the stock market. Signal theory assumes that management has accurate information about the value of the company that is not known by outside investors so that all information that can affect the company is not conveyed to the public by management, then when management conveys the information to the public, the information will be considered a signal and will make the market react. Good news will be responded positively by the market which is reflected in a positive abnormal return. Likewise, bad news will be responded negatively by the market which is reflected in a negative abnormal return (Tandelilin, 2024: 550). Investors who react to buying shares to optimise profits show that the right issue announcement gives a positive signal. If the right issue announcement gives a negative signal, then investors will respond that the company is in an unhealthy state, causing the stock price to fall (Zenzius and Wengerek, 2022).

Research conducted by by Ramadhan et al. (2022) ; Ardiansyah et al. ( 2023 ); Murthy et al. (2024) ; Desliniati et al. (2022 ) concluded that market participants have a response to the right issue announcement, which is indicated by abnormal stock returns (both positive and negative) between the period before and after the right issue announcement date. Based on the description above, the hypothesis in this study can be formulated as follows:

$H_1$ : There is a difference in abnormal return before and after the right issue announcement in manufacturing companies listed on the Indonesia Stock Exchange.

## Method

The location of this research was conducted at manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2022 by accessing the website www.idx.co.id. The object of manufacturing companies that conduct rights issues and get abnormal returns on the Indonesia Stock Exchange (In 2019-2022). The data source used in this research is secondary data.

Variable Operational Definition

Abnormal Return

Abnormal Return is obtained by comparing actual return (actual return) with expected return (expected return). The calculation of abnormal return is as follows (Hartono , 2023: 648):

$$AR_{it} = R_{it} - E(R_t) \quad \text{.......................................................................................(1)}$$

Description:

$AR_{it}$ = *Abnormal Return*

$R_{it}$ = *Actual Return*

$E(R_t)$ = *Expected Return*

To calculate the abnormal return, you must first find the actual return and expected return.

Calculating actual return

Actual Return is the difference between today's share price and yesterday's share price then divided by our share price. Actual Return is a ratio or percentage that shows the level of return or loss earned by the company. To find the actual return can be calculated as follows (Hartono , 2023: 652):

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}} \quad \text{..........................................................................(2)}$$

Description:

Rit = The actual return that occurs for the i-th security in the i-th event period.

Pit = Relative current price

Pit-1 = Previous price

Calculating expected return

To calculate the expected return using the market adjusted model measurement. The market adjusted model has considerable potential in producing strong statistical tests compared to other statistical modalities, namely mean adjust and market models. Expected return is the difference between actual return and market return. Expected return shows that the level of expected return desired by each change that makes a right issue in 2019-2022. To find the Expected return can be calculated as follows (Tandelilin, 2024: 547):

$$E(Rit) = Rit - Rmt \quad \text{..........................................................................(3)}$$

Description :

E(Rit) = Expected Return

Rit = The actual return that occurs for the 1st security in event period t.

Rmt = Daily Market Return

Market return is a market share price (JCI) today with the market share price (JCI) yesterday then divided by the market share price (JCI) yesterday Market return is a ratio or percentage that shows the rate of return or loss obtained by the composite stock price index in Indonesia. Market return can be calculated as follows ( Hartono , 2023: 655):

$$R_{mt} = \frac{IHSG_t \; IHSG_{t-1}}{IHSG_{t-1}} \quad \text{...............................................................(4)}$$

Description:

Rmt = Market return at time t

JCIt = Composite Stock Price Index on day t

JCIt-1 = Composite Stock Price Index day t-1

Calculating the average abnormal return

The average abnormal return is the central value of the abnormal return of companies that do right issue from 2019-2022, The average value is obtained from the sum of all abnormal returns of the company divided by the number of companies that do right issue companies divided by the number of companies that do right issue, can be calculated as follows (Hartono , 2023: 649):

$$AR\mathit{it} = \frac{\Sigma^{n}_{i=1} - AR_{it}}{n} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (5)$$

Description:

ARit = Average abnormal return

n = Sample

ARit = abnormal Return

The research population is manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2022, namely 189 companies, while the sample of this study amounted to 50 manufacturing companies. Research sampling was carried out by purposive sampling method. The data collection method in this research is non-participant observation method. The analysis technique used in this research is the Wilcoxon Signed Rank Test (Ghozali, 2022). The research model used, namely:

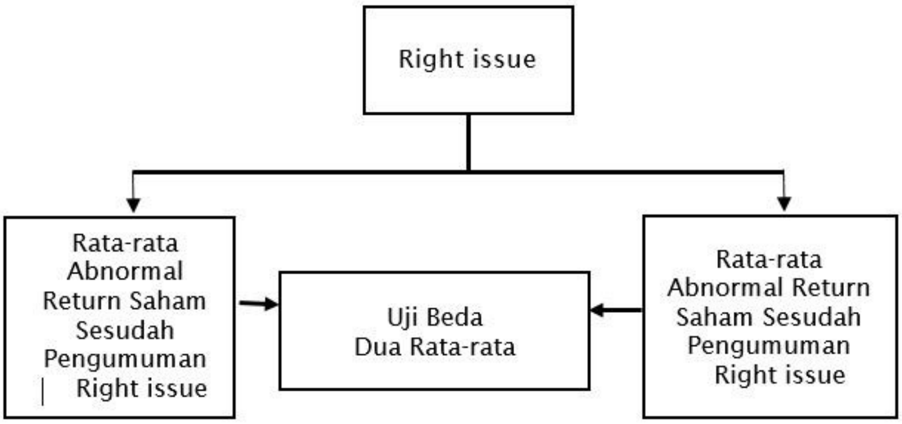


**Figure 1.** Research Model Analysis of Abnormal Return of Shares Before and After Right Issue Announcement

## Result and Discussion

### Descriptive Statistics

**Table 1.** Descriptive Statistics Test Results

**Descriptive Statistics**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Sebelum | 250 | -.0020498 | .0198535 | .000227601 | .0018039637 |
| Sesudah | 250 | -.0010570 | .0004271 | .000001404 | .0001060221 |
| Valid N (listwise) | 250 | | | | |

Source: Data Processed, 2024

Based on descriptive statistical tests in the period before the rights issue announcement, the minimum value of abnormal stock returns is -0.0020498 and the maximum value is 0.0198535. The mean (average) value is 0.000227601 with a standard deviation of 0.0018039637. In the period after the right issue announcement, the minimum abnormal return value is -0.0010570 and the maximum value is 0.0004271. The mean value is 0.000001404 with a standard deviation of 0.0001060221. The statistical data results above show that the average abnormal return before the right issue and after the right issue is positive, it shows that the right issue conducted by the issuer has sufficient information content to provide abnormal return investors, the period after the right issue announcement produces a lower average abnormal return value compared to the average before the right issue announcement, it shows that the announcement of the right issue to be issued and distributed to the market by the issuer can be absorbed by some market participants well so that it can provide benefits.

## Normality Test

**Table 2.** Normality Test Results

**One-Sample Kolmogorov-Smirnov Test**

| | | Sebelum | Sesudah |
|---|---|---|---|
| N | | 250 | 250 |
| Normal Parameters [a,b] | Mean | .000227601 | .000001404 |
| | Std. Deviation | .0018039637 | .0001060221 |
| Most Extreme Differences | Absolute | .482 | .237 |
| | Positive | .482 | .217 |
| | Negative | -.381 | -.237 |
| Kolmogorov-Smirnov Z | | 7.628 | 3.747 |
| Asymp. Sig. (2-tailed) | | .000 | .000 |

a. Test distribution is Normal.

b. Calculated from data.

Source: Data Processed, 2024

Based on the results of the Kolmogorov-Smirnov test in Table 2 abnormal return can be concluded that the significance value before and after the announcement of the right issue is 0.000. Based on the criteria that have been determined, the data results show that the abnormal return is not normally distributed. The data is not normally distributed, so the test tool used to conduct a different test is the Wilcoxon Signed Rank Test.

## Wilcoxon Signed Rank Test

**Table 3.** Wilcoxon Signed Rank Test Results

**Test Statistics** [b]

| | Sesudah - Sebelum |
|---|---|
| Z | -1.836[a] |
| Asymp. Sig. (2-tailed) | .066 |

a. Based on negative ranks.

b. Wilcoxon Signed Ranks Test

Source: Data Processed, 2024

Based on the results of the Wilcoxon signed Rank Test, it can be concluded that the level of Asymp. Sig. (2-tailed) on abnormal return of 0.066 is greater than 0.05, so H1 is rejected, there is no difference in abnormal stock returns before and after the right issue announcement.

### Hypothesis Testing

Based on the results of data analysis testing using the Wilcoxon Signed Rank Test, the results show that there is no difference in abnormal returns before and after the right issue announcement. This result is evidenced that the asymp.sig. (2-tailed) level is greater than 5% or 0.05 ($\alpha \geq 0.05$), so H1 is rejected. This is because the information signals provided to investors cannot provide strong enough certainty in the stock market, so that the information content cannot be absorbed by investors in the stock market, and does not provide certainty related to the right issue announcement (Awabi, 2022). Besides that the information content obtained by investors is still unbalanced, so that only a few investors have more information to get abnormal returns. Therefore, all investors make stock transactions, so investors do not give much reaction related to the right issue announcement.

Based on the results of the above analysis, it can be concluded that the right issue announcement information does not have information that causes differences in investor preferences reflected in changes in stock prices that can result in changes in abnormal returns. The results of this study support the research of Widyatmoko (2021) ; Pandey and Tiwari (2022) ; Awabi (2023) which show the results of no significant abnormal return differences before and after the right issue announcement, while the results of Ramadhan et al. (2022); Ardiansyah et al. ( 2023 ); Murthy et al. (2024) ; Desliniati et al. (2022 ) show a significant difference before and after the right issue announcement.

## Conclusion

Based on the results of hypothesis testing, it can be concluded that there is no difference in abnormal returns before and after the right issue announcement, which means that the right issue announcement has no significant effect on the abnormal return of manufacturing companies listed on the Indonesia Stock Exchange in 2019-2022. This is because the information signals provided to investors cannot provide strong enough certainty in the stock market, so that the information content cannot be absorbed by investors in the stock market, and does not provide certainty related to the right issue announcement.

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