

THE ANALYSIS OF “RIGHT ISSUE” AND ITS IMPACT ON FINANCIAL PERFORMANCE OF PUBLIC COMPANY IN INDONESIA BANKING SECTORS

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Abstract

This study aims to analyze the financial performance of companies in banking sectors in Indonesia Stock Exchange before and after “Right Issue”. It uses event study of five windows periods, such as two years before after the pronouncement of “Right Issue”. The non-parametric statistic with Wilcoxon Signed Rank Test is used in this research as the statistical tool. This study chooses all go-public companies in Indonesia Stock Exchange which perform “Right Issue”. However, there are only 11 public companies that fulfill all the criteria. The findings show that there is a significant difference the financial performance after “Right Issue”.

Key words: Right Issue, Financial Performance, Banking Sector, Indonesia Stock Exchange

INTRODUCTION

Background

The development of go-public companies generally still requires substantial funding for running its operational activities. The funding can not only be acquired from internal but also from external funding sources. One way to get the external funding sources is by performing “Right Issue”.

“Right Issue” is a corporate action called as HMETD (Preemptive Right) which means publishing rights with the aim of increasing the company's capital that certainly after obtaining the approval of shareholders (Teru Belajar: Main Saham, Google: 2013). “Right Issue” is done by offering new securities to the shareholders of a company to buy new shares in specified price and time. In general, “Rights Issue” is limited to existing shareholders, but if the existing shareholders are not willing to buy the shares, then they can sell the rights. The company introduces “Right Issue” to public for the purpose of changing the ownership proportions of shareholders and reduces the emission costs caused by the issuance of new shares. In addition, the company can reduce the emission costs because the application of “Right Issue” usually does not use guarantor services (underwriter). For shareholders, “Right Issue” may also protect the value of the dip shares (Jogiarto: 1998). If a company applies “Right Issue”, it will strengthen its capital structure. This is acceptable if the funds acquired from “Right Issue” are properly utilized. Moreover if the correct utilization of these funds, the company's financial performance will improve (Budi: 2003).

Jones (1996) explains that:

“Investment represents the current commitment of an investor's fund (wealth) for a future period of time in order to earn a flow of funds that compensates for two factors: the time the funds are committed, and the risk involved”

The main motivation in investment is the advantage to cover two logical consequences of investing, such as the money value and the risks exist. The realization of those objectives requires the investor to carefully monitor the share trading conditions and actions undertaken by the public companies. One of corporate actions occurring in Indonesia Stock Exchange is “Right Issue”. This is in line with the explanation of Oaikhenan and Osunde (2006):

“....., right is a short term opportunity offered by a company to the shareholders of that company to buy its shares when it offers a right issue”.

The existing shareholders are given the right to buy the new shares offered by the company. This needs to do to prevent a reduction of ownership portion of the existing shareholders.

For investors it is important to know how the market reaction to the actions taken by the public companies, and further on how the financial performance post-issuance of new shares through “Right Issue”. Measurement instrument used to see the financial performance is financial ratios. Saputro and Fahmi (2013) uses the ratio of profitability to see financial performance post-rights issue and records the financial performance post-rights issue experiences degradation. Raymond and Aryal (2007) also uses the profitability ratio of ROA (Return on Asset) and ROE (Return on Equity) as well as FAT (Fixed Asset Turnover) to see the financial performance post-rights issue and notes that there were improvements in the financial performance on the aspects of profitability of ROA and FAT.

The gap in the research results between Loughran and Ritter (1997) and Harto (2001) is one of the reasons why this study was conducted. Loughran and Ritter (1997) uses six financial ratios to examine the financial performance of five years before and five years after “Right Issue”. The results indicate that the financial performance (profit margin and ROA) has decreased. On the other hand, Harto (2001) in his research finds that operating performance, profitability, and the company's shares experience degradation except for the performance of liquidity which has increased after “Right Issue”.

Based on the above background, this research aims to analyze the relationship between the effect of “Right Issue” on the financial performance (ratio of liquidity, leverage, profitability, activity, and the market) and the difference between the conditions of the financial performance (Total Debt to Total Asset, Net Profit Margin, Asset Turn Over, and Price Earnings Ratio) before and after “Right Issue” in go-public companies in Indonesia Stock Exchange.

RESEARCH DESIGN

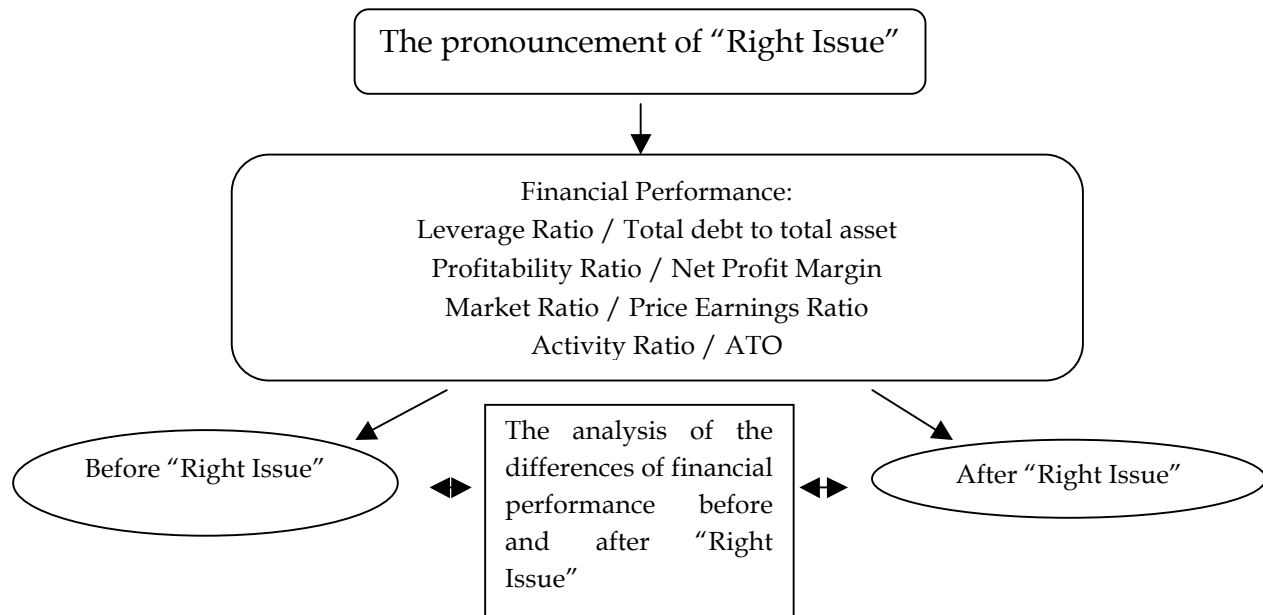


Figure 1 Research Design

Based on the Research Design above, the hypothesis in this research is there is a significant difference of financial performance (Total Debt to Total Asset, Net Profit Margin, Asset Turn Over, and Price Earnings Ratio) before and after the implication of "Right Issue".

RESEARCH METHODS

This research is one kind of event study analyzing the market reaction towards an event which information is pronounced to public. This research uses secondary data acquired from other parties and is ready in a form of evidence, record or historical report which has been compiled in an archive (Indriantoro and Supomo: 1999).

Population and Sample

The population in this study is all go-public companies in Indonesia Stock Exchange which perform "Right Issue". This research uses purposive sampling techniques to take the sample where the individual or the researcher considerations take role and is decisive in determining the objects to investigate (Sudjono: 1986). In this research, the criteria used to take the sample are:

1. Companies which have been performing "Right Issue" from 2008 to 2011.
2. Companies which are incorporated in industrial money sector of sub-sector banks.
3. Companies which have performed "Right Issue" at least have done the initial public offering in the period of two years before.
4. Companies which have performed "Right Issue" more than once should have time distance among right issues for minimum three years. This is aimed to see the impact of "Right Issue" in the period of two years, where the companies used are those which in the first year have performed "Right Issue".

5. The data of financial statement is provided in consecutive five years starting from two years before and two years after the activities of “Right Issue”.
6. Exceptions for banking and funding companies, because these companies have strong regulations about capitalization so the leverage usually is high.

Based on the above criteria by using secondary data taken from Indonesia Stock Exchange, there are 26 companies which applied “Right Issue” in the period of 2008-2011, and from 26 companies there are only 11 companies that fulfill all the criteria.

Operational Definition and Variable Measurement

The research variable is the financial ratio used to measure the financial performance which can be seen in Table 1.

Table 1
Operational Definition and Variable Measurement

Variable	Concept	Formula
Leverage Ratio	TDTA (Total Debt to Total Asset) per year	$TDTA = \frac{\text{Total Obligation}}{\text{Total Asset}}$
Profitability Ratio	NPM (Net Profit Margin) per year	$NPM = \frac{\text{Profit after Tax}}{\text{Net Sales}}$
Activity Ratio	ATO (Asset Turn-Over) per year	$ATO = \frac{\text{Net Sales}}{\text{Total Asset}}$
Market Ratio	PER (Price Earnings Ratio) per year	$PER = \frac{\text{Share Price}}{\text{Net Provit}}$
Pronouncement Period / The Day	Date of Pronouncement	

Technique of Data Analysis

The technique used to analyze the data is in a form of financial ratios, and for testing the hypothesis, this research uses Wilcoxon Signed Rank Test. Non-parametric statistic is used as statistical tool for the amount of data is less than 30.

Financial Ratio

Leverage

The debt ratio which value is the result of comparison between total debt and total asset with the following formula:

$$TDTA = \frac{\text{Total Obligation}}{\text{Total Asset}}$$

Net Profit Margin

The profitability ratio which value is the result of comparison between net profit and sales with the following formula:

$$NPM = \frac{\text{Profit after Tax}}{\text{Net Sales}}$$

Asset Turn Over

The activity ratio which value is the result of comparison between sales and total asset with the following formula:

$$ATO = \frac{\text{Net Sales}}{\text{Total Asset}}$$

Price Earnings Ratio

The investor appraisal ratio towards EPS which value is the result of comparison between the share price and EPS with the following formula:

$$PER = \frac{\text{Share Price}}{\text{Net Profit}}$$

Wilcoxon Test Signed Rank Test

Wilcoxon Test is a non-parametric statistical tool used to analyze the difference among financial ratios before and after “Right Issue” with the presumption that the data is not normally distributed (the number of sample is only 11). Steps of decision making whether to accept or reject the hypothesis are:

H₀: There is no significant difference on financial performance (Total Debt to Total Asset, Net Profit Margin, Asset Turn Over, and Price Earnings Ratio) before and after “Right Issue”.

H₁: There is a significant difference on financial performance (Total Debt to Total Asset, Net Profit Margin, Asset Turn Over, and Price Earnings Ratio) before and after “Right Issue”.

The testing criteria uses alpha 5%, so if the asymptotic significance > 0,05 (5%), H₀ is accepted and H₁ is rejected, and if the asymptotic significance < 0,05 (5%), H₀ is rejected and H₁ is accepted.

FINDINGS AND DISCUSSION

Public Companies which have been Performing “Right Issue” in the Period of 2008-2011

The research sample is public companies which are involved in financial industry. The financial sector of service industrial company which is public company is registered in Indonesia Stock Exchange. It includes sub-sector bank, sub-sector funding institution, sub-sector stock company, sub-sector insurance, and other sub-sectors. This research focuses on the sub-sector bank. After documenting the companies which had performed “Right Issue” in the period of 2008-2011, there are 26 companies and from them all, there are only 11 companies which fulfill all the criteria.

Table 2
The “Right Issue” Banking Sector Companies in the Period of 2008-2011

No	Public Companies	Year
1	BANK ARTHA GRAHA INTERNASIONAL Tbk (INPC)	2008
2	BANK AGRONIAGA Tbk (AGRO)	2009
3	BANK CAPITAL INDONESIA Tbk (BACA)	2009
4	BANK CIMB NIAGA Tbk (BNGA)	2010
5	BANK TABUNGAN PENSUNAN NASIONAL Tbk (BTPN)	2010
6	BANK NEGARA INDONESIA Tbk (BBNI)	2010
7	BANK PERMATA Tbk (BNLI)	2010
8	BANK MAY APADA INTERNASIONAL Tbk (MAYA)	2010
9	BANK NUSANTARA PARAHYANGAN Tbk (BBNP)	2010
10	BANK WINDU KENTJANA INTERNATIONAL Tbk (MCOR)	2010
11	BANK MANDIRI (PERSERO) Tbk (BMRI)	2011

Source: Indonesia Stock Exchange

The Description of Research Variables

Leverage Ratio

This ratio reflects the company’s modal structure. That is, from the company’s total asset, how many percent is funded from debt. From the sample, the variable of leverage ratio is defined in Table 3.

Table 3
Leverage Ratio

No	Explanation	Leverage Ratio (Average) %
1	Before “Right Issue”	0.903
2	After “Right Issue”	0.890
The Change		-1.36

Based on the leverage ratio in Table 3, the average composition of the company debt before and after “Right Issue” decreases as many as -1,36%, hence it can be considered as significantly changed.

Net Profit Margin (NPM)

This ratio reflects efficiency as well as profit. That is, from the selling value acquired how many percent can be transferred to net profit. The higher ratio, the higher profit and the

more efficient it will be. From the sample, the variable of Net Profit Margin (NPM) is defined in Table 4.

Table 4
Net Profit Margin (NPM)

No	Explanation	NPM (Average) %
1	Before "Right Issue"	8.96
2	After "Right Issue"	16.44
The Change		83.43

Based on the above data of Net Profit Margin (NPM), in average the NPM of companies before and after "Right Issue" increases as many as 83.43%. Thus, it can be assumed that the company profitability has significantly increased.

Price Earnings Ratio (PER)

This ratio reflects on how much the investor appreciates per piece profit of the company shares. This ratio is also called as market ratio as in its calculation, it uses the market price of share in the Stock Exchange. The higher price earnings ratio, the more the investor appreciates every rupiah benefit of per piece share. From the sample, the variable of Price Earnings Ratio (PER) is defined in Table 5.

Table 5
Price Earnings Ratio (PER)

No	Explanation	PER (Average) %
1	Before "Right Issue"	65.02
2	After "Right Issue"	14.78
The Change		-77,27%

Based on the above data, in the average the Price Earnings Ratio (PER) of the companies before and after "Right Issue" has decreased as many as -77,27%. Thus, it can be said that PER of the company has significantly decreased.

Asset Turn-Over (ATO)

This ratio reflects on how the company activity can be shown from the percentage of sales value towards the total asset. The higher the ratio of Asset Turn-Over (ATO), the higher the use of company asset realized in sales value will be. From the sample, the variable of Asset Turn-Over (ATO) is defined in Table 6.

Table 6
Asset Turn-Over (ATO)

No	Explanation	ATO (Average) %
1	Before "Right Issue"	0.10
2	After "Right Issue"	0.09
The Change		-9,73

Based on the above data, in the average the Asset Turn-Over (ATO) of the companies before and after "Right Issue" has decreased as many as -9,73%. Thus, it can be said that Asset Turn-Over (ATO) of the company has decreased even if it is not a big change.

Research Result

The Impact of “Right Issue” towards Financial Performance (Debt Asset Ratio)

The hypothesis proposed is that there is a significant difference between Debt Asset Ratio (DAR) before and after “Right Issue”. The result of data processing statistically using Wilcoxon Signed Rank Test is shown in Table 7.

Table 7
Wilcoxon Signed Rank Test on Debt Asset Ratio (DAR)

Explanation	DAR-before DAR-after
Z	-1,207
Asymp. Sig	0,227

Based on Table 7, the value of Asymp. Sig. 0,227 is bigger than alpha 5% (0,05), so the proposed hypothesis is rejected. There is no significant difference in the financial performance before and after “Right Issue” proved from the Debt Asset Ratio (DAR). This means that “Right Issue” does not significantly impact on the financial performance in the aspect of Debt Asset Ratio (DAR).

The Impact of “Right Issue” towards Financial Performance (Net Profit Margin)

The hypothesis proposed is that there is a significant difference between Net Profit Margin (NPM) before and after “Right Issue”. The result of data processing statistically using Wilcoxon Signed Rank Test is shown in Table 8.

Table 8
Wilcoxon Signed Rank Test on Net Profit Margin (NPM)

Explanation	NPM-before NPM-after
Z	-2,667
Asymp. Sig	0,008

Based on Table 8, the value of Asymp. Sig. 0,008 is lower than alpha 5% (0,05), so the proposed hypothesis is accepted. There is a significant difference in the financial performance before and after “Right Issue” proved from the Net Profit Margin (NPM). This means that “Right Issue” significantly impact on the financial performance in the aspect of Net Profit Margin (NPM).

The Impact of “Right Issue” towards Financial Performance (Price Earnings Ratio)

The hypothesis proposed is that there is a significant difference between Price Earnings Ratio (PER) before and after “Right Issue”. The result of data processing statistically using Wilcoxon Signed Rank Test is shown in Table 9.

Table 9
Wilcoxon Signed Rank Test on Price Earnings Ratio (PER)

Explanation	PER-before PER-after
Z	-1,778
Asymp. Sig	0,075

Based on Table 9, the value of Asymp. Sig. 0,075 is bigger than alpha 5% (0,05), so the proposed hypothesis is rejected. There is no significant difference in the financial performance before and after “Right Issue” proved from the Price Earnings Ratio (PER). However, if alpha 10% is used, then the hypothesis is accepted, which means there is a reduction of the share price using proxy PER. It can be assumed that “Right Issue” does not significantly impact on the financial performance from the aspect of Price Earnings Ratio (PER) on alpha 5%, but it significantly impacts on the financial performance from the aspect of Price Earnings Ratio (PER) on alpha 10%.

The Impact of “Right Issue” towards Financial Performance (Asset Turn-Over)

The hypothesis proposed is that there is a significant difference between Asset Turn-Over (ATO) before and after “Right Issue”. The result of data processing statistically using Wilcoxon Signed Rank Test is shown in Table 10.

Table 10
Wilcoxon Signed Rank Test on Asset Turn-Over (ATO)

Explanation	ATO-before ATO-after
Z	-2,682
Asymp. Sig	0,007

Based on Table 10, the value of Asymp. Sig. 0,007 is lower than alpha 5% (0,05), so the proposed hypothesis is accepted. There is a significant difference in the financial performance before and after “Right Issue” proved from the Asset Turn-Over (ATO). This means that “Right Issue” significantly impact on the financial performance in the aspect of Asset Turn-Over (ATO).

Discussion

Based on the empirical proof, this research shows that the company corporate action in the form of “Right Issue” does not significantly impact on financial performance in the aspect of Debt Asset Ratio (DAR). This means that the company debt composition towards total asset before and after “Right Issue” does not significantly change. This finding supports the research of Fahmi and Saputro (2011) which states that the company solvability does not experience a significant difference before and after “Right Issue”. This may be happened because the funds acquired from “Right Issue” has been used for investment aside of paying the debt, so the company debt composition does not significantly change after “Right Issue”.

Then, based on the empirical proof, the company corporate action in the form of “Right Issue” significantly impacts on financial performance in the aspect of Net Profit Margin (NPM). This means that the percentage of profit acquired from the sales increases after “Right Issue”, or it can also be said that the company efficiency increases after increases after “Right Issue”. This is shown from Net Profit Margin (NPM) that significantly increases.

“Right Issue” can be explained as a new capital flow in the company as a result of new share sales in the form of “Right Issue”. The additional capital can improve the company capacity to run the company activities. The improvement of operational activities then will be able to increase the company profit, which in this research has been proven from the significant improvement of Net Profit Margin (NPM) after “Right Issue”.

This finding is different from the perspective of Fahmi and Saputro (2013) which states that the company profitability before and after “Right Issue” is not significantly different. It explains that the funds acquired from corporation action are used for long term investment so the result does not appear even after two years. This research shows the improvement of the company profitability as Budi (2003) and Burns (1991) does after “Right Issue”.

The company corporate action in the form of “Right Issue” does not significantly impact on financial performance in the aspect of Price Earnings Ratio (PER) which means that the share price of the company does not significantly increase or decrease from statistical test even though the empirical data shows that it decreases. However, if this research uses alpha 10% to analyze the hypothesis, then this research will empirically state that “Right Issue” significantly impact on the financial performance from the aspect of Price Earnings Ratio (PER). However, this research use alpha 5%, so after “Right Issue” the share price significantly decreases. Based on the rule of demand and offer, the more goods being supplied, the lower the price will be. The corporate action of “Right Issue” is like increasing the share volume offered in the market, so the consequence is the reduction of share price.

This research shows that the company corporate action in the form of “Right Issue” significantly impacts on the financial performance in the aspect of Asset Turn-Over (ATO), which means that the company activities significantly change after “Right Issue”. The activities include the company’s operational activities through sales proxy.

This research records that after “Right Issue” the company activities significantly decrease. It can be analyzed from the fact that the company has not used the fresh money flows from “Right Issue” activities or it is used for long term investment, so the investment result has not yet occurred in this research, where the observation has been done in the period of five days after “Right Issue”. However, the company profitability has increased after “Right Issue”, so it can be understood that the investors have anticipated that the future prospect of the company will be better for they have invested their funds after “Right Issue” in a long term.

CONCLUSION AND SUGGESTION

1. From four research hypotheses, two hypotheses are accepted and the other two are rejected. The impact of “Right Issue” on the financial performance in the aspects of Net Profit Margin (NPM) and Asset Turn-Over (ATO) are accepted, and the impact of “Right Issue” on the financial performance in the aspects of Debt Asset Ratio (DAR) and Price Earnings Ratio (PER) are rejected.
2. To confirm this research, it can be added the time distance to more measure the difference, for example 4 years before “Right Issue” and 3 or 4 years after “Right Issue”, because the effect of funds usage acquired from “Right Issue” for long term investment will more appear after 3 or 4 years.
3. Other sample objects (out of banking sector) can also be tried, because the corporate action in “Right Issue” is not only monopolized by banking sector. Other sectors such as manufacture, foods and beverages, infrastructure and others also perform “Right Issue”.

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