

Analysis of Warrant Issuing: On Abnormal Return

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ABSTRACT

This research aims to determine the market reaction to abnormal stock returns before and after the issuance of warrants. This research data is secondary data. The population of this research are companies that issued warrants in the 2020-2023 period and are listed on the Indonesia Stock Exchange (BEI). The sampling technique for this research is a purposive sampling technique, namely selecting samples based on certain criteria. The sample for this research was 40 companies. The research uses an event study research model with an observation period of 10 days, namely 5 days before and 5 days after the announcement. The data analysis method used in this research uses the non-parametric statistical test Wilcoxon signed-rank test with the help of SPSS 29. The results of the research show that there is no influence on the issuance of warrants on abnormal stock returns.

INTRODUCTION

The Indonesian Stock Exchange is a market where financial instruments such as shares, bonds, mutual funds, and other derivative instruments are traded in Indonesia. The stock exchange market is a market that has 2 main functions, namely as a source of funding for companies to support the continuity of their business and as a means of investing in society. Society as the party with more funds can invest in the hope of getting a good return (profit), while for companies who need investment, the capital market can be a means to obtain these funds.

Companies listed on the IDX often implement policies. This policy is often known as corporate action. According to TICMI (2016: 8) in (Nani & Alexander, 2019) corporate action is a company strategy to influence the quantity and price of a security. Examples of corporate actions carried out are announcements of dividend distribution, issuance of warrants, acquisitions, mergers, buybacks, stock splits, rights issues, and so on. Corporate actions carried out by issuers generally have several objectives, including obtaining additional capital, paying debts, business expansion, and so on. Issuing warrants is one of the corporate actions that is often carried out. Companies that carry out corporate actions have indirectly sent information to the market which is then analyzed whether it causes a reaction in the market or not as a result of the information announced. The strength of information conveyed to the public is reflected in 3 market forms according to Fama (1970), namely strong form, semi-strong form, and weak form. Reilly & Brown (1971) stated that the division of market forms is based on the strength of the content of information. These three market forms are informational market efficiency.

The results of previous research that has been carried out show that the issuance of warrants contains information that causes the market to react. The reaction from the market can be in the form of an abnormal return on the shares of the company that issued the warrant. Nelmidia's (2018) research shows that there is a significant influence on abnormal returns and cumulative abnormal returns before and after the listing date of the warrant. Research conducted by Suryawinata et. al (2020) stated the results that there were negative abnormal returns on shares during the warrant issuance period. Susanti and Ardiana (2014) conducted research regarding the announcement of a rights issue accompanied by the issuance of a warrant and the results of their research revealed that the announcement of a rights issue accompanied by the issuance of a warrant or not accompanied by a warrant does not contain any information about the market because AAR-Average Abnormal Return does not have significant differences during the observation period. Other research is from Chung et. al (2014) who obtained the results that there were positive abnormal returns that occurred before and after the issuance of warrants. Meanwhile, research from Wong et. al (2018) got the opposite result because there was a significant negative influence on abnormal returns when the observation period was before and after the announcement of the warrant issuance.

Companies registered on the IDX will have the opportunity to obtain funds by offering their shares. For companies that will sell their financial instruments for the first time on the capital market, this is called an Initial Public

Offering (IPO). If the company still needs additional capital to run its business, the company can offer shares again or what is often called a rights issue. The rights issue policy is an issuer's attempt to increase the number of shares in circulation. Usually, the issuance of a rights issue is always accompanied by the issuance of a warrant. This policy gives existing shareholders the special right to obtain more shares within a certain period and at a certain price. Existing shareholders can buy shares offered at a price lower than the price established on the market.

Capital market investors have different behavioral patterns from one another. Investor behavior can be seen in what kind of information they want or expect from the company when deciding to invest. Publicly available financial information such as financial reports is the most common medium used by investors when assessing the performance and measuring the value of the company which is then taken into consideration when deciding to invest in the company concerned. However, usually, other information in the form of announcements from issuers is absorbed more quickly by the market than documented information. Information that is accompanied by the possibility of abnormal returns will be absorbed more quickly by the public.

Investors and potential investors should be better able to understand and analyze announcements made by the company. Investors in absorbing the information announced need to consider the true purpose of why the company is carrying out corporate actions. This research is a continuation of research by Suryawinata et. al (2020). This research took the most recent observation year, namely from 2020 to 2023. The results of previous research showed inconsistent directions. The results of previous research have different conclusions, so the information content of the issuance of warrants needs to be studied further to see how relevant warrant announcements are to abnormal stock returns in the current capital market situation.

LITERATURE REVIEW

Signaling Theory

Gumanti (2009; 1) suggests that signals are defined as signals made by companies (managers) to outside parties (investors or creditors). Signals can be interpreted directly or a more in-depth study can be carried out to find out whether the information content can change external parties' assessment of the company.

According to Eugene and Houston (2001), signals can be used as a strategic action from the company to external parties regarding their assessment of the company's performance based on certain indicators. Submission of information by company management to the public is said to be a signal. The announcement of information by the company will be a very important indicator for stakeholders, especially when investors decide to invest funds in the company. Accurate information is very influential for capital market players because it will influence their investment decisions.

Signal theory explains how a company should give signals to information users. Signals can be in the form of information about what management has

done to realize the owner's wishes, promotions, or other information that states that the company is better than other companies.

Warrant

More and more companies are listed on the Indonesia Stock Exchange (BEI). Companies are increasingly aggressive in immediately listing on the IDX and conducting Initial Public Offerings (IPO). Initial market offerings and rights issue offerings by companies are often accompanied by the issuance of warrants. The characteristic of a warrant is that there is a -W code behind the share code of the parent company concerned. A warrant is a right given to investors to buy shares from a company at a predetermined price level. Warrants are derivative instruments from the capital market. Generally, warrants are issued free of charge so that investors are more interested in participating in the company's IPO or more interested in buying shares in the event of a rights issue.

Tandelilin (2001) in Nelmidia (2018) states that a warrant is a valuable instrument that gives investors the right to buy shares from the company that issues the warrant at a predetermined price. In short, a warrant is like a voucher given to investors as their right to use when buying shares at a predetermined price. Generally, the price determined is lower than the price formed in the market. Investors can redeem the voucher or sell it to other investors but with a certain time limit.

Abnormal Return

Abnormal Return is a situation when the expected return does not match the actual return. The difference between the two returns is called abnormal returns. When an announcement contains information, it can be said that the announcement will cause a market reaction (Jogiyanto, 2010). Abnormal returns can be calculated by first determining the expected return. Calculating expected returns can use several estimation models as follows (Jogiyanto, 2010):

- Mean-Adjusted Model
- Market Model
- Market-Adjusted Model

Issuance of Warrants against Abnormal Returns

Signal theory, as previously mentioned, states that an action taken by a company can provide an indicator to investors about how they assess the company's performance. This action can take the form of information provided by the issuer to market participants. One action that can be taken is corporate action by issuing a warrant. Apart from documented information such as financial reports, investors sometimes consider other information that can only be known when the company carries out corporate actions. Research by Nelmidia (2018) and Suryawinata et. al (2020) states that there are differences in abnormal returns before and after the announcement of the warrant issuance. This is because the content of announcements around the announcement period contains information, so it can influence investor reactions in the stock market. Based on the theory and research results above, the following hypothesis is formulated:

H1: There are differences in abnormal returns before and after the announcement of warrant issuing

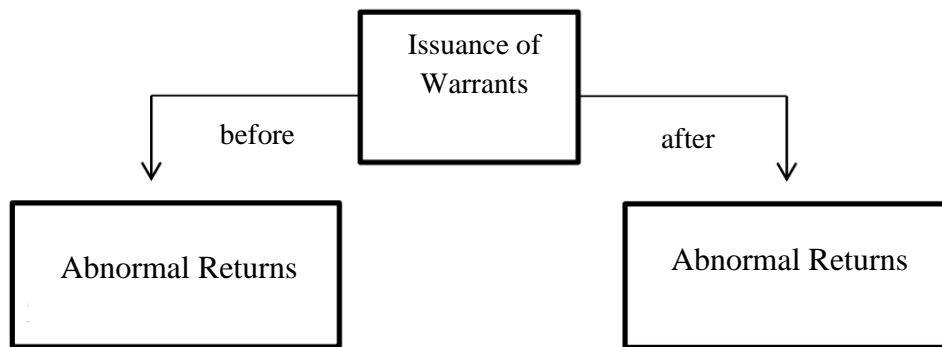


Figure 1. Research Model

METHODOLOGY

This research model is event study research. This research aims to examine the market reaction to the announcement of information by an issuer regarding something. The research population is companies that issue warrants for the period July 2020 to June 2023. The sample for this research was determined using a purposive sampling method, namely selecting samples based on the following predetermined criteria:

- Companies issuing warrants during the period July 2020 - June 2023 are listed on the Indonesia Stock Exchange
- Companies that carry out corporate actions in the form of warrant policies only. Not implementing other corporate policies in the same period.
- The available data is complete and by research needs.

Of the total number of companies that issued warrants during the specified period, a sample of 40 companies was obtained which had been selected using these criteria. This research uses secondary data whose data was obtained through the official website of the Indonesia Stock Exchange (BEI) and the Yahoo! finance website.

The observation period for this research was 10 observation days, namely 5 days before the announcement and 5 days after the announcement of the warrant issuance. The analytical tool in this research uses the normality test. After that, hypothesis testing continues using the paired sample T-Test if the results show the data is normally distributed, and using the Wilcoxon signed-rank test if the data is not normally distributed. These two test tools are statistical analysis tools for testing two paired samples, namely before and after the event, and are carried out with the help of the SPSS ver 29 program statistical analysis tool.

RESEARCH RESULT AND DISCUSSION

This research aims to see whether there is an influence of the company's corporate action, namely the announcement of the issuance of warrants, on abnormal stock returns, both before and after the announcement is made. This research was observed for 10 days, namely 5 days before the announcement and 5 days after the announcement was made.

Table 1. Data Descriptive

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
CAR_Before	40	-.16917	.21505	-.0020025	.06528776
CAAR_Before	40	-.00423	.00538	.0000153	.00169730
CAR_After	40	-.31559	.11748	-.0216850	.06979555
CAAR_After	40	-.00789	.00294	-.0005423	.00174505
Valid N (listwise)	40				

Source: processed secondary data, 2023

Table 1 above shows that the minimum value of CAR (Cumulative Abnormal Return) before the warrant announcement tends to be negative at -0.16917 and -0.31559 after the announcement. Meanwhile, the maximum value tended to be positive at 0.21505 before the announcement and decreased to 0.11748 after the announcement. The standard deviation value for the CAR before the announcement was 0.06528776 while the standard deviation value for the CAR after the announcement was 0.06979555.

The minimum CAAR (Cumulative Average Abnormal Return) value of the entire sample shows a value that tends to be negative at -0.00423 before the announcement and -0.00789 after the announcement. Meanwhile, the maximum value tended to be positive at 0.00538 before the announcement and decreased to 0.00294 after the announcement. The standard deviation value shows a value of 0.00169730 before the announcement and 0.00174505 after the warrant announcement.

Table 2. Normality Test

	Tests of Normality					
	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
CAR_Before	.219	40	<.001	.852	40	<.001
CAAR_Before	.218	40	<.001	.875	40	<.001
CAR_After	.248	40	<.001	.800	40	<.001
CAAR_After	.248	40	<.001	.800	40	<.001

a. Lilliefors Significance Correction

Source: processed secondary data, 2023

Based on the table above, the normality test results show that the abnormal return data before and after the warrant announcement is not normally distributed due to the asymp value. Sig. (2-tailed) is smaller than 0.05. The values for CAR before and after and CAAR before and after the announcement are all significant at less than 0.001. Because the results of the classical assumption test show that the data is not normally distributed in the abnormal return data, the research hypothesis testing was carried out using the non-parametric Wilcoxon signed-rank test.

This section allows you to describe your research findings academically. You may not enter figures related to your statistical tests here; instead, you should explain those numbers here. You should structure your discussion with academic support for your studies and a good explanation according to the specific area you are investigating.

Table 3. Wilcoxon signed-rank test

Test Statistics ^a		
	CAR_After - CAR_Before	CAAR_After - CAAR_Before
Z	-.739 ^b	-.968 ^b
Asymp. Sig. (2-tailed)	.460	.333

a. Wilcoxon Signed Ranks Test

b. Based on positive ranks.

Source: processed secondary data, 2023

The table above shows the asymp values. Sig. (2-tailed) for CAR data is 0.460 and for CAAR data is 0.333. The accumulated abnormal return value and the average abnormal return value are at a significance of more than 0.05. If the significance level is > 0.05 (greater than 0.05) then it shows that the results are not significant, meaning that H_a is rejected and H_0 is accepted. The statistical test results for the average abnormal return data are greater than 0.05 ($0.333 > 0.05$) so the conclusion is that H_0 is accepted and H_1 is rejected.

These results show that there is no difference in abnormal returns either before or after the announcement of the warrant issuance. This announcement does not affect abnormal returns in the market. Investors do not absorb any information when a warrant is announced. The announcement of the warrant policy does not contain any information so that investors do not react because the abnormal return figures tend not to change. This research is in line with research conducted by Susanti & Ardiana (2014); Wong et. al (2018).

Investors are not interested in warrants issued by issuers, they are not sure that there will be a good return so they prefer to hold their shares which results in no share buying and selling transactions taking place. Another reason the issuance of warrants does not influence investors' transaction or investment decisions is because of the company's reasons behind carrying out the corporate action. Investors do not respond well to the information that the funds obtained

from the sale of shares resulting from the issuance of warrants are intended for something that does not support business progress, growth, or innovation but rather as additional capital for debt payments. Company management needs to consider the order in which information is presented to investors (Habbe & Mande, 2016). A structured and neat presentation will be better to read and understand. If companies can consider the order in which information is presented, it can be a strategic tool when communicating management plans to shareholders (Habbe & Mande, 2016). The currently highly developed global conditions require companies to always improve various aspects of their management (Mediaty et. al, 2023). Companies cannot ignore increasingly competitive business competition, so strategies to increase value and performance are very necessary, especially when attracting investors to invest. This research has different results from Nelmidia's research (2018); Chung et. al (2014) and the research of Suryawinata et. al (2020) who obtained the results that there was a significant influence on abnormal stock returns before the announcement of the warrant issuance and after the announcement of the warrant issuance.

CONCLUSIONS AND RECOMMENDATIONS

Based on the results obtained from this research, it show that there is no influence on abnormal returns both before and after the announcement of the warrant issuance. Warrant announcements do not contain any information for investors in their decision to sell or buy the issuer's shares because the average abnormal return figure does not experience significant differences over the observation period. When companies issue warrants or other corporate policies, they need to pay more attention to the value aspects of the company so that they can maintain the company's image so that investors are more interested in taking part in the corporate actions being carried out. Apart from that, investors are expected to truly understand and analyze the objectives of the corporate actions carried out by the issuer. Investors are expected to be able to consider the impact of their participation on information whether it will be profitable or not for them.

ADVANCED RESEARCH

This research is limited to short time series data, namely only 3 years, future research can use more and more relevant time series data. Apart from that, future research can measure the impact of issuing warrants on variables other than abnormal returns that influence market reactions, such as stock liquidity. Apart from value and price, the content of information in the capital market can be seen from the level of volume of shares traded.

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