ANALYSIS THE DIFFERENCE OF ABNORMAL RETURN AND TRADING VOLUME ACTIVITY BEFORE AND AFTER THE STOCK BUYBACK POLICY ANNOUNCEMENT

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ABSTRACT

This study aims to determine the identity of abnormal stock returns and stock trading volume activity before and after the announcement of the stock buyback policy in 2020. The population of this study consisted of 67 companies that carried out stock buybacks during 2020. Using the purposive sampling method, a sample of 58 companies was obtained according to the research criteria. This research period is ten days before and ten days after the announcement of the stock buyback. The method of data analysis in this study used the Paired-Samples T-Test. The results showed that there were differences in abnormal returns before and after the announcement of the 2020 stock buyback policy. However, there was no difference in trading volume activity before and after the announcement of the 2020 stock buyback policy.

Keywords: stock buyback, abnormal return, trading volume activity

I. INTRODUCTION

Stock trading on the Indonesia Stock Exchange from the beginning of 2020 to March 9, 2020, continued to experience significant pressure as indicated by the decline in the JCI by 18.46%. As of January 2, 2020 trading opened at 6313.13. Until March 9th experienced the deepest decline at 5133.15 in intraday trading. This decline occurred in line with the global, regional and national economic slowdown and pressure. This is a result of the Covid-19 outbreak and the weakening of world oil prices (www.economy.okezone.com, 2020). The JCI movement began at the beginning of the year, namely January 2020 to the end of April 2020, where the beginning of the year closed at 6283.58 and at the end of April the JCI closed at 4716.40, which means that there was a decrease of -23.90%. Then the deepest decline in the JCI in the January - April 2020 period occurred at the end of March, namely March 24, 2020, where the composite stock price index reached its lowest point, closing at 3937.63 with a decrease percentage of -36.88%.

In stock transactions, an investor needs to have a number of complete, relevant and precise information in order to make decisions about company shares that are suitable as an investment choice. The role of information, which affects share prices, encourages the Indonesian government to issue regulations regarding information disclosure that must be announced to the public. (Fitria and Chandra, 2014). Currently, the economic condition is experiencing a slowdown and pressure both regionally and nationally, partly due to the covid-19 outbreak. In an effort to provide economic stimulus and reduce the impact of a significantly fluctuating market, OJK allows all public companies to buy back (buyback) shares as stated in OJK circular letter number 3 / SEOJK.04 / 2020 dated 9 March 2020 regarding other conditions as market conditions which fluctuates significantly in the implementation of the repurchase of shares issued by a public company and the number of shares permitted to be repurchased can be more than 10% of the paid-up capital and a maximum of 20% of the paid-up capital, provided that at least 7.5% of the outstanding shares paid-up capital.

Based on the IDX Channel, there are a total of 67 public companies that reported that they will buy back shares, consisting of 12 state-owned companies (BUMN) and 55 non-BUMN companies. Meanwhile, 64.6% of the total 67 companies have carried out buybacks until April 23, 2020. Then, the total buybacks that have been carried out by BUMN is IDR181.63 billion, or 1.8% of the total planned IDR10.15 trillion. Meanwhile, the total buyback of non-BUMN companies was IDR 694.46 billion or 7.6% of the total planned IDR9.16 trillion.
Stock buyback is a corporate action carried out by a public company by buying back the company's shares in circulation using company funds. An announcement before the buyback will provide a positive signal for investors. The impact of share buybacks on investors' profits is explained that around the buyback announcement there is abnormal share price behavior. According to Jogiyanto (2013: 94), abnormal returns are the advantages of actual returns to expected returns. To examine the impact of an event on stock abnormal returns, a research method called an event study was developed. An event study is an observation of stock price movements in the capital market to determine whether there is an abnormal return obtained by investors as a result of a certain event (Peterson, 1989). Event studies can be used to see the reaction of the capital market that is reflected in stock prices to certain events.

A number of empirical studies have tried to examine stock buybacks. Fitria and Chandra (2014) state that there is a significant difference in abnormal returns before stock buyback and after stock buyback and there is no significant difference in trading volume activity before stock buyback and after stock buyback. Furthermore, research conducted by Afni Eliana Saragih (2015) shows that there is an abnormal return and an increase in trading volume in the short term and longer term. Based on the explanation and the results of previous research, the author is interested in re-examining whether there are differences in abnormal returns and trading volume activity in the event of the stock buyback policy announcement in a case study of 67 companies that conducted stock buyback information disclosure in 2020.

II. LITERATURE REVIEW

Stock Buyback

Stock buyback is an action taken by a company to buy back shares that are circulating in the public. The purpose of implementing this corporate action is to increase the stock price that is already too cheap (undervalued), then the company makes a profit by selling it back after the price has increased or as a step to reduce paid-in-capital. Buyback, or in other words "repurchased" is the process of buying back the outstanding shares carried out by the company. In the buyback process the company invests the funds it owns to buy its own company shares from the public (IDXChannel, 2018). Weston et al. (2004) defines stock buyback or stock repurchase as an act of a public company buying its own shares either through a tender offer process, open market, or negotiating a buyback from blockholders.

Wensley et al. (1989) in Boudry et al. (2013) wrote of several motives for companies to buy back shares, including: (1) Providing a signal that the company's prospects will be good in the future or giving a signal that managers as insiders who know the condition of the company know that stock prices are undervalued (undervalued hypothesis); (2) Share buyback is a method that potentially gives insiders more possibilities in terms of company control; (3) To provide shares for resale, for example for a stock option plan; (4) Shares buyback is carried out because there is a large amount of free cash flow and it is deemed that there is no potential investment for the company; (5) Share buybacks as a substitute for dividend payments, companies can use stock buybacks as another alternative to distribute cash to shareholders because the dividend tax rate is higher than the tax imposed on capital gains.

Abnormal Return Before and After the Stock Buyback Policy Announcement

According to Tandelilin (2010) abnormal return is the difference between the actual return and the expected return that can occur before the information is published or there has been a leak of information after the information is published. Meanwhile, according to Jogiyanto (2013) abnormal return is the difference between actual return and expected return.

\[ RTN_{it} = R_{it} - E(R_{it}) \]

Based on previous research by Muhammad Luky Junizar and Aditya Septiani (2013), Fitria Eka Putri Eliandy and Chandra Wijaya (2014), Afni Eliana Saragih (2015) said there were differences in abnormal returns before and after the announcement of the stock buyback policy. However, it is different from research conducted by Afrizal Ashary Ghazwan and Irni Yunita (2016), Neola Delphinea, Suhadak and Sri Sulasmiyati (2016), Chandra Jaya Cahya (2017), Chaela Natania and Achmad Husaini (2018) with inconsistent results where it is not there is a significant difference in abnormal returns before and after the announcement stock buyback policy.

Announcement of buybacks is one of the most important disclosures for investors because there is company information that can affect stock prices. The buyback announcement is an event in testing whether the market can
be said to be efficient in a semi-strong form because the source of the information is public information (Jogiyanto, 2013). Buyback announcements are considered to contain information if there is a stock price reaction that arises from stock price movements or there is a difference in abnormal returns before and after the announcement. If there is a positive abnormal return around the buyback announcement or there is a difference between before and after the buyback policy announcement, the market can be declared efficient in a semi-strong form, but if there is no significant difference around the buyback announcement or there is no positive abnormal return around the announcement of the meal on the Indonesian stock market is declared in an inefficient condition. Information asymmetry between shareholders and managers allows share prices not to reflect the true fair value of the company because shareholders only have access to information that is publicly available. Buying back outstanding shares can provide a signal that the stock price in the current market is lower than the company's intrinsic value (Baker et al, 2003). If investors are optimistic about this signal from the information received, they will increase the number of shares and will refrain from selling their shares in the market so that the price will be pushed up.

Trading Volume Before and After the Stock Buyback Policy Announcement

Jogiyanto (2016: 310) defines trading volume as a measure of the volume of certain shares traded, indicating the ease of trading these shares. The magnitude of the trading volume variable is known by observing stock trading activities which can be seen through the trading volume activity indicator. The size of the trading volume indicates the level of interest of investors in investing in stocks. Ariyanto (2009) in Junizar (2013) states that trading volume activity is an instrument that can be used to see the capital market's reaction to information through the movement of trading volume activity.

\[
TVA = \frac{\text{Company shares are traded at time}_t}{\text{Company shares outstanding at the time}_t}
\]

Based on previous research, Afni Eliana Saragih (2015) shows an increase in trading volume in the short term and a longer period of time after the announcement of stock buybacks. In line with the research of Muhammad Luky Junizar and Aditya Septiani (2013) that information about share repurchase announcements has a significant effect on the volume of trading activity, there is a difference in the average trading volume activity before and during the transaction. However, in the research of Fitria Eka Putri Eliandy and Chandra Wijaya (2014), Afrizal Ashary Ghazwan and Irni Yunita (2016) the results showed that there was no significant difference in trading volume activity before stock buyback and after stock buyback.

The stock buyback announcement is considered to have an influence on the declining stock price because the company provides a good signal (signaling theory) about the company's future prospects. If investors consider the buyback announcement as a signal that the company makes to investors to increase the company's stock price back, the investor will react and it can be seen in the buying or selling activity of shares. This can increase the stock price in the market. Besides that, the market reaction that occurred was an increase in the activity of the volume of stock trading on the Indonesia Stock Exchange.

III. HYPOTHESIS

H1: There is a difference in abnormal returns before and after the announcement of the stock buyback policy

H2: There is a difference in trading volume activity before and after the announcement of the stock buyback policy

IV. RESEARCH METHODS

This type of research is an event study which studies the market reaction to an event whose information is published as an announcement. This research uses a comparative approach which compares the differences in abnormal returns and trading volume activity before and after the announcement of the stock buyback policy. The study period considers the ten days before and ten days after the announcement of the stock buyback policy. Sample determination criteria:

Companies listed on the Indonesia Stock Exchange (IDX) for the period 2020

Companies that disclose information about stock buybacks in accordance with the provisions of OJK Circular Letter number 3/SEOJK.04/2020.
Companies that do not take other corporate actions during the research period, such as right issues, warrants, stock dividends, bonus shares, mergers and stock splits.

Companies for which data is available regarding the date of the buyback policy announcement in the annual report or www.idx.co.id in the corporate action section.

V. RESEARCH RESULTS AND DISCUSSION

RESEARCH RESULTS

Paired Sample t-Test Abnormal Return

Following are the results of data processing and testing of the abnormal stock return data hypothesis before and after the announcement of the stock buyback policy on the Indonesia Stock Exchange (IDX) using the Paired-Samples T-Test:

<table>
<thead>
<tr>
<th>Pair</th>
<th>Paired Differences</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
<th>95% Confidence Interval of the Difference</th>
<th>T</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 1</td>
<td>AR_Before</td>
<td>-.01157684</td>
<td>.02850285</td>
<td>.00374261</td>
<td>-.01907128 - .00408240</td>
<td>-3.093</td>
<td>57</td>
<td>.003</td>
</tr>
<tr>
<td></td>
<td>AR_After</td>
<td>-.01157684</td>
<td>.02850285</td>
<td>.00374261</td>
<td>-.01907128 - .00408240</td>
<td>-3.093</td>
<td>57</td>
<td>.003</td>
</tr>
</tbody>
</table>

Source: Data Processing Results (2021)

The results of the abnormal return test before and after the announcement of the stock buyback policy on the Indonesia Stock Exchange (IDX) statistically obtained a t-value of -3.093 with a significance (2-tailed) of 0.003, which is below the value of 0.05. Then Ho was rejected and Ha was accepted, meaning that there is a difference in abnormal returns before and after the announcement of the stock buyback policy.

Vi. Paired Sample t-Test Terhadap Trading volume activity

Following are the results of data processing and testing of the trading volume activity data hypothesis before and after the announcement of the stock buyback policy on the Indonesia Stock Exchange (IDX) using the Paired-Samples T-Test:

<table>
<thead>
<tr>
<th>Pair</th>
<th>Paired Differences</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
<th>95% Confidence Interval of the Difference</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 1</td>
<td>TVA_Before</td>
<td>-.00017075</td>
<td>.00242217</td>
<td>.00031805</td>
<td>-.00080763 - .00046613</td>
<td>-.537</td>
<td>57</td>
<td>.593</td>
</tr>
<tr>
<td></td>
<td>TVA_After</td>
<td>-.00017075</td>
<td>.00242217</td>
<td>.00031805</td>
<td>-.00080763 - .00046613</td>
<td>-.537</td>
<td>57</td>
<td>.593</td>
</tr>
</tbody>
</table>

Source: Data Processing Results (2021)

The results of the trading volume activity test before and after the announcement of the stock buyback policy on the Indonesia Stock Exchange statistically obtained a t-value of -0.537 with a significance (2-tailed) of 0.593, which is above a value of 0.05. Then Ho was accepted and Ha was rejected, meaning that there was no difference in trading volume activity before and after the announcement of the stock buyback policy.

VI. RESEARCH DISCUSSION

Abnormal Return Before and After the Stock Buyback Policy Announcement

Statistical testing on hypothesis one is that there are differences in abnormal returns before and after the announcement of the stock buyback policy. The difference in abnormal returns is due to market reactions during the buyback announcement. The market reaction is indicated by a change in the price of the shares concerned. This is because the announcement of stock buybacks is considered a positive sentiment for capital market investors. In addition, by carrying out share buybacks, it means that the company is still in a healthy financial
The results of this study are in line with the results of previous research conducted by Afni Eliana Saragih (2015) which states that there are abnormal returns and an increase in trading volume in the short term and longer term. However, it is different from the results of research conducted by Neola Delphinea, Suhadak and Sri Sulismiyati (2016) which states that there is no significant effect on average abnormal return and average trading volume activity before and after the announcement of the stock buyback policy.

Trading Volume Activity Before and After the Stock Buyback Policy Announcement

Statistical testing on the second hypothesis is that there is no difference in trading volume activity before and after the announcement of the stock buyback policy. The absence of differences in trading volume activity indicates that the information available in the public is uneven. Information asymmetry between investors and company managers allows there to be no increase in investor interest in making transactions after the announcement of the stock buyback policy.

The results of this study are in line with the results of previous research conducted by Muhammad Luky Junizar and Aditya Septiani (2013) which states that repurchase announcements have a significant effect on the volume of trading activity, there is a difference in the average trading volume before and during the transaction.

VII. CONCLUSION

1. There is a difference in abnormal returns before and after the announcement of the stock buyback policy in 67 companies that disclose information on stock buybacks in 2020. This can be seen from the results of hypothesis testing which shows that there are differences in abnormal returns before and after the announcement of the stock buyback policy.

2. There is no difference in trading volume activity before and after the announcement of stock buyback policy in 67 companies that disclose share buyback information in 2020. This can be seen from the results of hypothesis testing which shows that there is no difference in trading volume activity before and after the announcement of the stock buyback policy.

REFERENCES


