

## CORPORATE ACTION RESULT (STOCK BUYBACK) TO STOCK PRICE : A STUDY OF BUYBACK AT THE INDONESIA STOCK EXCHANGE IN THE YEAR OF 2014 - 2019

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### ABSTRACT

This research aims to determine the difference in the capital structure and stock price before and after the corporate action (stock buyback), knowing the effect of corporate action to influence the capital structure (Debt to Equity Ratio) to stock price of listed companies on the Indonesia Stock Exchange that conduct corporate action (stock buybacks). The method used in this study is descriptive and verifiative analysis. The analysis method uses simple linear regression. The population in this study was 40 financial statements from various sectors that carried out stock buybacks and were listed on the Stock Exchange for 4 years (2014-2019). The sampling technique used purposive sampling method with certain criteria, resulting in a sample of 30 financial statements (2014-2019). The hypothetical test results in this study show that (1) The average stock price and capital structure 20 days before and after stock buyback is different, (2) The capital structure (DER before buyback) has a significant influence on stock price of companies listed on the Indonesia Stock Exchange (IDX) that perform corporate action (stock buybacks), but the capital structure (DER after buyback) does not have a significant effect on the stock price of companies that perform corporate actions (stock buybacks).

**Keywords:** capital structure, buyback stock, stock price.

### INTRODUCTION

Capital Market is one of the main drivers of the world economy, including Indonesia, through the company's capital market can obtain funds to perform its economic activities, it is evidenced by the increasing number of companies listed on the Indonesia Stock Exchange (IDX) to sell stock to investors (Sri Zuliarni, 2012). Among the many investments in some securities, there is one of the most marketable securities traded in the capital market of stocks. Stocks are the mark of ownership of the company in the name of the stock it bought, and the stock can be traded to others (Kasmir, 2010). The needs of funds can affect the fundamental condition of an issuer to strengthen the capital structure of an enterprise sourced from internal and external, with the provisions of the source of funds that are sourced from places deemed safe (safety position) and if used have a thrust in strengthening the structure of the company's capital. The capital structure aims to combine the permanent source of funds that the company further uses in a way that is expected to maximize the value of the company. For a company it is important to strengthen its financial stability, because changes in the capital structure are suspected to cause changes in the company value. The decrease in

the company value can affect the decrease in the stock price of the company (Irham Fahmi, 2014).

The number of stocks in circulation resulted in the company's stock price will become harder to climb, if there is a slower increase than what happens in stocks whose stock are not too much in the public. The occurrence of excess cash (idle cash) in a company can be solved by distributing the cash in the form of dividends or stock repurchase (buyback/stock repurchase) (Abdul Halim, 2005). The announcement of stock buyback is expected to transmit a positive signal in the market that stock price may already be undervalued, thus the investor or market is expected to react positively to make a purchase on stock so that in turn the stock price returns to the expected level of the issuer (Irfan Fahmi, 2013).

In addition, Breadley (2007) stated that the company's policy on its capital structure would affect the stock price. The combination of the source of funds in the form of long-term debt and own capital done by the company is able to maximize the stock price. As well as the results of the research Li Hua, Lin (2011) concluded that stock buyback was widely done by several companies to increase its stock price when their stock price was undervalued. While the results of the research conducted by Naratip Tabtieng (2013) concluded if the buyback program does not cause the stock price increases significantly precisely makes a reduction in retained earnings.

## THEORITICAL FRAMEWORK

### Capital structure

According to Irham Fahmi (2017: 179), the capital structure is an overview of the form of financial proportions between the capital held in the source of the long-term liabilities and shareholders' equity) which is the source of financing of a company Ratio used in the capital structure, several representative ratios, namely:

$$DER = \frac{\text{Longterm Liabilities}}{\text{Shareholders Equity}}$$

Source: Irham Fahmi (2017:187)

### Stock Price

According to Kasmir (2016:185) Stock are securities ownership. This means that the shareholder is the owner of the company, the larger the stock it has, the greater its power in the company. The profit earned from the stock is known by the name dividends and distributions are determined in the General Meeting of Shareholders or Gms.

According to Musdalifah Azis (2015:80), the Stock price is the price on the real market, and is the most easily determined price because it is the price of a stock on a market that is currently or if the market is closed, then the market price is the price of the closure.

### Stock Buyback

According to Irham Fahmi (2013:135) stated that Stock Repurchase or Buyback is a decision made by the company by stock buying back that have been sold in the market on the basis of consideration that the stock is eligible for purchase as well as the company has sufficient cash funds available.

### **Advantages of re-purchasing stocks**

Woods and Brigham (quoted by Rahma, 2009) mention some advantages of buy back compared to dividends both from the point of view of shareholders and from the point of view of the companies that do. From the shareholder standpoint, the advantages of buy back are:

1. The tax imposed on investors against the dividend received is the personal income tax rate, while the tax imposed on the profit from the buy back is the capital gains tax. This is advantageous for investors because the tax of personal income tax usually has a greater rate when compared with capital gains tax.
2. With a buy back, shareholders may choose whether or not to sell their stock. Compared to dividends, shareholders must accept the dividend and pay the tax

### **Influence of Capital Structure to Stock Price**

According to Luke Setia Atmaja (2010:251) stated that the rise in the price of stocks is influenced by the capital structure (Debt to Equity Ratio). While according to Irham Fahmi (2014:102) says that "The capital structure aims to integrate a permanent source of funds that the company further uses in a way that is expected to maximize of the company value. For a company it is important to strengthen its financial stability, because changes in the capital structure are suspected to cause changes in of the company value. The fall in of the company value could affect the company's stock price."

The results of Nilam Novita Utari (2013) stated that capital structure has a significant effect on stock price. Rudi Sitepu (2010) shows that the variable of Debt to Asset Ratio (DAR) capital structure, Longterm Debt to Asset Ratio (LDAR), and Equity to Asset Ratio (EAR) jointly significantly affect the stock price changes of the manufacturing company. Partially, the DER variable is the most dominant variable.

### **Stock Price Difference Before And After Corporate Action (Stock Buyback)**

According to Hendy M. Fakhruddin (2011:96) With the stock buyback, it resulted in an increase in earnings per share and return on equity on an ongoing basis that could result in raising the stock price in the market. Similarly, the theory stated by Abdul Halim (2010:98), stating that with stock repurchase, the number of Stock in circulation is reduced so that the stock market price will increase. Stock buybacks can be used as an alternative that can be used by issuers to increase stock price that have fallen on market. Based on research conducted by Li Hua, Lin (2011) concluded that many stock buybacks are done by several companies to increase their stock prices when their stock prices are undervalued. Based on research of S. Khumar Pradan (2016) indicates that the variable stock repurchase significantly affect the rising stock price of the company's.

## **METHODS**

The research method used in this study is a descriptive and verifiative method with quantitative approach, namely the results of research that is then processed and analyzed for its conclusions, meaning that the research is a study that emphasizes its analysis on numerical data ( numbers) using this research method will be known a significant relationship between the variables studied, thus producing conclusions that will clarify the picture of the objects studied.

The authors used the event study method because this study is intended to test the information content of market reactions from an announcement. The market reaction is indicated by changes in the price of securities by using the price as the value of the change of the company. The method is used to analyze the difference in stock price due to the influence of corporate action (stock buyback).

In this study, the object of the research was the focus on capital structure (DER) and stock price in companies that conducted corporate action (stock buyback) listed on the Indonesia Stock Exchange in 2014-2019. the population used by researchers are 40 financial statements of companies that conduct corporate action from various sectors listed on the Indonesian Stock Exchange during the 2014-2019.

The sample taken by the authors in the study was 30 financial statements and historical data on the company's stock price from 2014-2019 with the following considerations:

1. Companies with audited financial statements.
2. Companies that conduct stock buybacks for the period 2014-2019
3. Distributed normally when processed in SPSS 23.0

## DISCUSSION

### Comparison of Capital Structure and Stock Price Before and After Corporate Action (Stock Buyback)

Based on the results of tests conducted against the research hypothesis, when viewed from the capital structure (DER) before and after the corporate action (stock buyback) there is a difference. When viewed from the average stock price 20 days before and 20 days after the corporate action (stock buyback) there is a difference as well. Thus it can be stated that the difference in capital structure (DER) affects the average stock price 20 days before and after stock buyback. This is because the capital structure policy adopted by the company gives rise to a comparison between the use of debt and equity as the capital used by the company, whereby the higher the value of the company's DER ( $DER > 1$ ) will affect the ups and downs of the stock price.

Research conducted by Nilam Novita Utari (2013) states that the capital structure has a significant effect on the stock price. Based on Rudi Sitepu research (2010) shows that variable capital structures of Debt to Asset Ratio (DAR), Longterm Debt to Asset Ratio (LDAR), and Equity to Asset Ratio (EAR) together have a significant effect on changes in the stock price of manufacturing companies. Partially, the DER variable is the most dominant variable. Research conducted by Juventus (2008) tested the influence of DER and DAR on banking stock prices in bej period 2004-2006. The results showed that simultaneously, all the independent variables studied had a positive effect on the stock price. With a difference from the average stock price 20 days before and 20 days after the corporate action (stock buyback) indicates that the information provided by the company about the stock price it obtains from optimizing the stock price when the company's corporate buyback can be used by investors as a consideration in making decisions to make investments. This is in accordance with the theory described by Abdul Halim (2010:98) which states that with the stock repurchasing, the number of stock outstanding is reduced so that the stock market price will increase. It was also suggested by Hendy M. Fakhruddin (2011:96) who explained that with the stock

buyback, it resulted in an ongoing increase in earnings per share and return on equity which could result in a rise in the stock price in the market.

This is in response to the phenomenon that has been put forward before as happened in the phenomenon that occurred in PT. Medco Energi Internasional Tbk which is a pretty drastic drop in the stock price after the announcement of the stock buyback. Based on S. Khumar Pradan's research (2016) shows that variable stock buybacks have a significant effect on the company's rising stock price.

### **Effect of Capital Structure (DER) on Stock Price**

The results showed that capital structure (DER) has a negative direction relationship to the stock price and belongs to a fairly strong category. The value of the negatively marked correlation indicating that the relationship between the two is the opposite, meaning the higher the capital structure (DER) then the lower the stock price, Based on the correlation value obtained, it can be concluded that partially there is a very low negative relationship between the capital structure (DER) and the stock price (for the average stock price 20 days before and 20 days after the buyback) in the company that stock repurchases. The determining value of the capital structure (DER) on the stock price prior to the corporate action is 2.2% and it can be seen that the amount of the influence of the capital structure (DER) on the stock price after the corporate action is carried out by 19.2%.

Furthermore, the results of the t hypothesis test obtained showed that  $H_0$  was rejected (capital structure before buyback) because the thitung test results were larger than ttabel and  $H_a$  rejected (capital structure after buyback) because the thitung test results were smaller than ttabel. It can therefore be said that the capital structure (DER before buyback) has a significant influence on the stock price of the company that stock repurchases and is listed on the Indonesia Stock Exchange (IDX), but the capital structure (DER after buyback) does not have a significant influence on the stock price of the company that stock repurchases and is listed on the Indonesia Stock Exchange (IDX). These test results can be generalized/applied generally to members of the population as a whole. With the significant influence between the capital structure (DER prior to buyback) and the insignificant influence between the capital structure (DER after buyback) on the stock price indicates that the information provided by the company regarding the stock price it obtains from optimizing the debt-to-equity ratio (DER) owned by the company can be used by investors as a consideration in making decisions to make investments. This is because the capital structure policy adopted by the company gives rise to a comparison between the use of debt and equity as the capital used by the company, whereby the higher the value of the company's DER ( $DER > 1$ ) will affect the ups and downs of the stock price.

This is in accordance with the theory outlined by Lukas Setia Atmaja (2010:251) stating that the ups and downs of the stock price are influenced by the capital structure (Debt to Equity Ratio). It was also suggested by Irham Fahmi (2014:102) explaining that changes in the capital structure are thought to have led to changes in the value of the company. The fall in the value of the company could affect the company's stock price. Abdul Halim (2010:98) stated that with corporate action (stock buyback) the number of stock outstanding is reduced so that the stock market price will increase

This is in response to the phenomenon that has been put forward before as happened at PT Perusahaan Gas Negara (Persero) Tbk. in Wednesday trading (20/1/2016), recorded a

5.01% decline and became one of the top ladders, whereas, the debt to equity ratio (DER) of PGAS has only reached 80% and is fairly healthy.

Research conducted by Nilam Novita Utari (2013) states that the capital structure has a significant effect on the stock price. Based on Rudi Sitepu research (2010) shows that variable capital structures of Debt to Asset Ratio (DAR), Longterm Debt to Asset Ratio (LDAR), and Equity to Asset Ratio (EAR) together have a significant effect on changes in the stock price of manufacturing companies. Partially, the DER variable is the most dominant variable. Research conducted by Juventus (2008) tested the influence of DER and DAR on banking stock prices in bej period 2004-2006. The results showed that simultaneously, all the independent variables studied had a positive effect on the stock price.

### CONCLUSION

The average stock price 20 days before and after the stock buyback is different. This is because the capital structure (DER) before and after the stock buyback is different. Thus it can be stated that the difference in capital structure (DER) affects the average stock price 20 days after and after stock buyback.

The capital structure (DER) has a negative directional relationship to the stock price of the company that stock repurchases and belongs to a fairly strong category. This indicates that the relationship between the two is the opposite, meaning the higher the capital structure (DER), the lower the stock price or vice versa because the two are opposite. average stock price decrease due to the decrease in the equity value of the company in its capital structure, this decrease is partly due to dividend distribution. So investors see that if the company uses too much debt for its capital structure that eventually investors will rethink to make investments, the impact of demand on stocks decreases and the price falls.

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