

ANALYSIS OF FINANCIAL PERFORMANCE IN A FORM OF FINANCIAL RATIO BEFORE AND AFTER RIGHT ISSUE AT THE INDONESIA'S STOCK EXCHANGE (BURSA EFEK INDONESIA)

Irham Fahmi

Faculty of Economics
Syiah Kuala University
Banda Aceh, Indonesia

Mulia Saputra

School of Social Science
Universiti Sains Malaysia
Pulau Pinang, Malaysia

Abstract

The research goal is for analysis financial performance in form company financial ratio before and after right issue is done in the companies that go public in Indonesia Stock Exchange to in 2008. The financial ratios as in this research are liquidity, solvency, and profitability. The firm to be population in the of research consists 20 firms, financial report data required in this research included in 2006-2007 (two year after right issue) and financial report in 2009-2010 (two year before right issue). While to statistic test used Wilcoxon matched-pairs signed-ranks test. As hypothesis used in this research that is a significant difference between financial performance before and after right issue. The result, shows there is differently significant ratio of liquidity, solvency, and profitability in two term of the year before (2006-2007) and two term of the year after (2000 and 2001) right issue . The liquidity happened to increase having a meaning two term of the year after of this right issue caused by company get included of it fund addition of right issue. Solvency refers to create of solvency ratio after right issue (2009-2010) but the in creating of it is different compared to period of 2006-2007. While the profitability ratio, ther is no creasing at in the periode of 2009-2010 after right issue, because the very possible use the fund to finance long term investment and to solvency the liabilities which dealine as well.

Keyword: Financial performance, Ratio liquidity, Solvency, Profitability, Right issue

1. INTRODUCTION

Factors affecting investor demand on the shares of one company is the condition and performance of that company – the fundamental factors. Information regarding the fundamental factors of a company can be gained from financial report. By processing the data found on the financial report through comparation, evaluation, and trend analysis, prediction regarding what might occur in the future can be obtained. This research focused on the right issue, i.e. on the financial performance measured from the financial ratio of before and after the right issue. In practice, basic reason for a company to execute the right issue is their needs of fund from external source when internal source (company's fund) is not adequate. An alternate to obtain more funds is by offering the stockholders to buy more stock. In order for this to be happened, the company will offer the stock at lower price than present time. Those investors have preemptive right; the right to buy the stock the earliest to maintain their sharess proportion in the company.

Execution of the right issue policy done by companies is a way to gain more funds for investment and to pay the debt. By gaining more funds through the right issue, the company is expected to gain profit from the investment. Furthermore, the profit can be used to pay the debt. Belkaoui (1978) and Kahl (1989) in Edi Subiyantoro (1997) believe that *"The power of a company, shown by its high liquidity ratio, relates to a high rate of disclosure"*. If the liquidity is considered to be a measure of performance, a company with low liquidity may provide detailed explanation regarding why they have lower performance than other company(ies) with high liquidity. Rina Adi Kristianti (2003) stated that *"Companies should maintain their liquidity in order to maintain the continuity of their activities such as investments and to maintain trust from external parties"*. According to Muchamad Syafruddin (1997), *"Liquidity is the ratio between current assets and current liabilities"*.

If this number is interpreted, the number shows companies ability stated with the availability of current assets to pay current liabilities. Robert Ang (1997:24) also stated that “*The bigger the liquidity ratio, the better the companies current assets to ensure current liabilities.*”

Companies’ performance can be assessed from many methods. The method’s chosen depends on the purpose of the establishment of the company, whether it is for economical or non-economical purposes. As stated by Muchamad Syafruddin (1997), “*Profitability is a company’s purpose which has economical properties, so that it can be used as a tool to measure companies’ performance. Profitability is the ability of the company to generate profit by utilizing available economical resources.*”

Several researches regarding financial performance and right issue have been done, some of them are:

Table 1.1. Preliminary empirical study regarding financial performance and right issue

Researcher/Year	Research findings
Matthew Rose/ 1998	➤ In order to improve and reinstate the financial performance, companies try to gain more funds by executing right issue and acquisition, which resulted in an improvement on the financial performance.
Vito J. Racanelli Barron/2003	➤ Companies executed right issue to strengthen its capital’s structure. ➤ Companies’ performance can be improved through the elimination of unnecessary expenses by imitating transformation done by Telkom.
Sri Sulistyanto and Haris Wibisono/2003	➤ A decline in companies’ financial performance post <i>seasoned equity offerings</i> is due to the manager’s being opportunist.
Robert Cyran and Mike Monnelly/2004	➤ A decrease in liquidity experienced by companies leads to a decrease in their financial performance; this has urge the company(ies) to execute right issue to reinstate its liquidity.

This research differs from previous researches in terms of its financial performance analysis in a form of financial ratio; liquidity, solvability, and profitability, done only on companies executing right issue at the Indonesia’s Stock Exchange, while Matthew Rose (1998) focused more on the right issue to improve the company(ies) performance. Furthermore, Vito J. Racanelli Barron (2003) adds on other policy to improve companies’ financial performance through the elimination of unnecessary expenses by imitating the transformation done by Telkom. Sri Sulistyanto and Haris Wibisono (2003) thought that a decrease in performance post seasoned equity offerings is due to the manager’s being opportunist; manipulating the amount of profit on the financial report (higher than the real amount) so that in the future, the market will discover it and carry out correction that leads to a decrease in companies’ performance; this highlight is also different from this research.

Moreover, there are distinct differences between this research and Robert Cyran and Mike Monnelly’s (2004) research; they assumed that a decrease in liquidity leads to a decrease in company’s financial performance so that the company needs more fund to reinstate their liquidity by executing the right issue. Researches regarding right issue have also been done by Arian Fajar Istanto (2000), Leonard Rido S. (2002), Ni Made Adi Erawati (2003). Phenomenon stated above has led us to a question: How it is, in reality, the company’s financial performance having done the right issue. Proxy that is used to assess the financial performance is financial ratio; which consists of liquidity ratio, solvability ratio, and profitability ratio.

1.1. Problem Statement

Based on the background of the research, a problem/question can be formulated “Are there any differences in company’s financial performance before and after executing the right issue.”

2. OBJECT AND METHOD OF THE RESEARCH

Object of this research is the company’s financial performance in a form of financial ratio of before and after the right issue in year 2008. Data of financial reports that are used are financial reports in year 2006 and 2007 (two years before the right issue); also in year 2009 and 2010 (two years after the right issue).

2.1. Method of the research

Method of this research is verificative (explaining) based on the data collected during the research; this data will then be processed, analyzed, and compared to basic theories. The analysis is done through quantitative approach using statistic method to test the hypothesis

2.2. Method of the data collection

In this research, all members of populations are used (as sample); there are 20 companies executing the right issue in year 2008.

Table 2.1. Name of the companies listed in Indonesia’s Stock Exchange Having Executed the Right Issue in Year 2008

No.	NAME OF THE COMPANY	CODE
1	PT. Delta DIndonesia Tbk.	DLTA
2	PT. Ultrajaya Milk Industry & Trading Company Tbk.	ULTJ
3	PT. Ricky Putra Globalindo Tbk.	RICY
4	PT. Budi Acid Jaya Tbk.	BUDI
5	PT. Eterindo Wahanatama Tbk.	ETWA
6	PT. Citra Tubindo Tbk	CTBN
7	PT. Bayer Indonesia	BYSB
8	PT. Merck Indonesia	MERK
9	PT. Bank Century Interwest Corporation Tbk	BCIC
10	PT. Bank Danamon Tbk	BDMN
11	PT. Bank Global Internasional Tbk	BGIN
12	PT. Bank Mayapada Indonesia Tbk	MAYA
13	PT. Bank Negara Indonesia Tbk	BBNI
14	PT. Bank Niaga Tbk	BNGA
15	PT. Medco Energy Corporation Tbk	MEDC
16	PT. Bank Universal Tbk	BUNI
17	PT. Lippo Bank Tbk	LPBN
18	PT. Pan Indonesia Bank Tbk	PNBN
19	PT. Astra International Tbk	ASII
20	PT. Bukit Sentul Tbk	BKSL

Source: *JSX Statistics* various publisher, Indonesia’s Stock Exchange (the data has been processed)

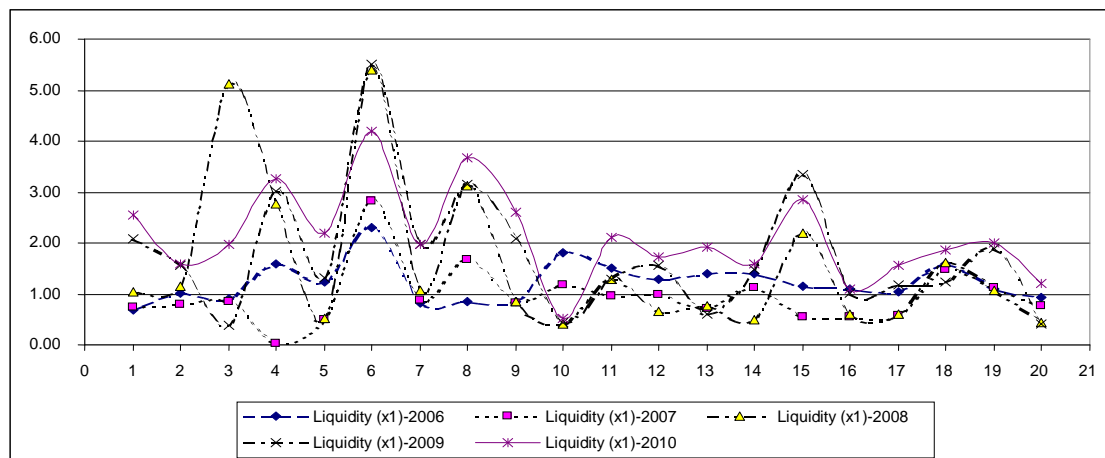
3. DISCUSSION

3.2. Data Analysis and Hypothesis Testing

Analysis is done based on the previously formulated hypothesis. The analysis is done on 20 companies executing the right issue in year 2008.

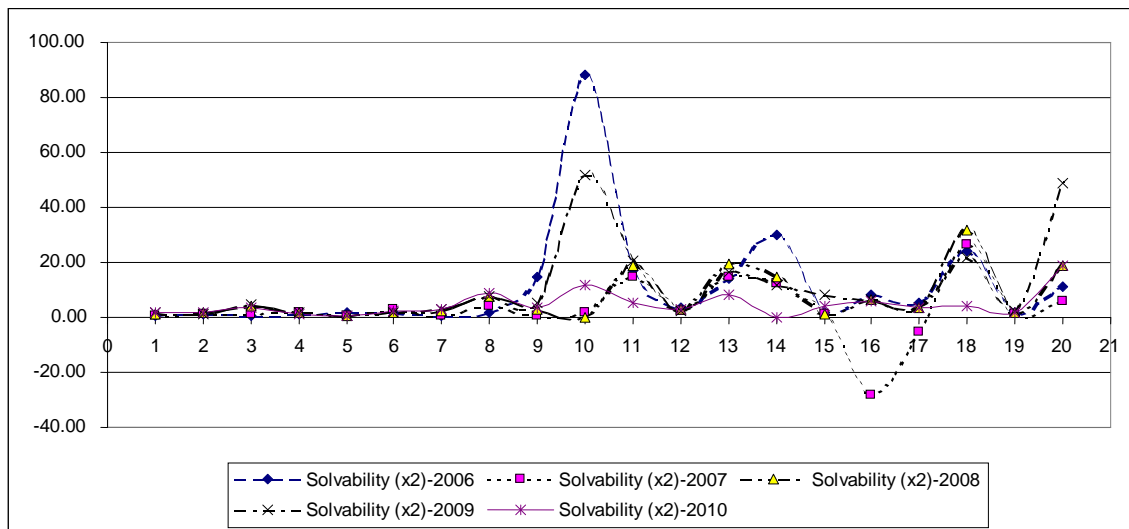
3.2.1. Data Illustration of the Financial Ratio of 20 companies executing the right issue in year 2008

Based on the financial ratio during 5 years (used as research’s data for each observed variabls), liquidity, solvability and profitability can be shown as below:

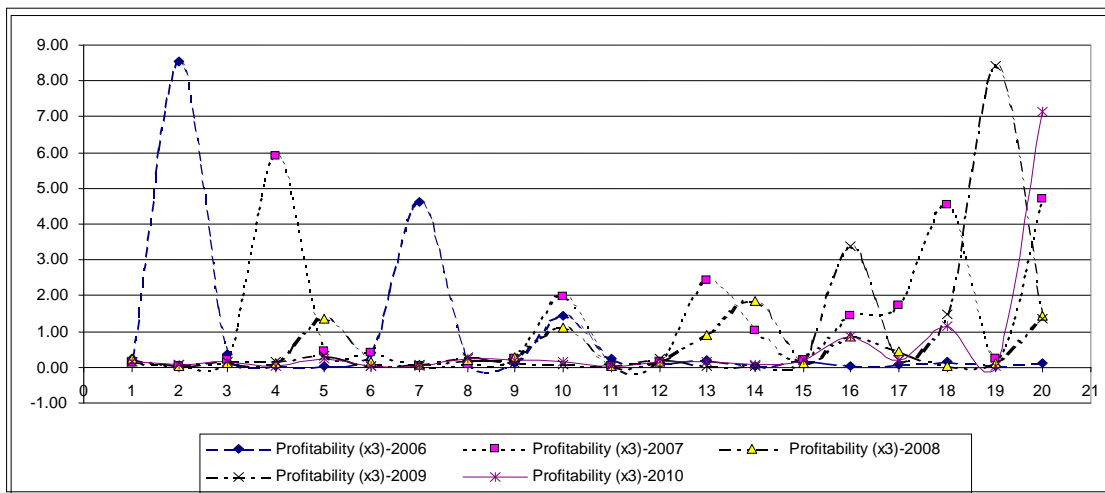


Graph 3.1.

Graph of Financial Ratio (Variabel: Liquidity) of 20 Companies Executing the Right Issue in Year 2008 (2006-2010 periods)



Graph 3.2. Graph of Financial Ratio (Variabel: Solvability) of 20 Companies Executing the Right Issue in Year 2008 (2006-2010 period)



Graph 3.3. Graph of Financial Ratio (Variabel: Profitability) of 20 Companies Executing the Right Issue in Year 2008 (2006-2010 period)

3.2.2. Normality Data Testing

After the financial ratio is calculated, normality data testing is done prior to statistic testing/method. Normality data testing which is done using Kolmogorov Smirnov revealed that the data distribution of financial ratio is not normal; testing result listed on the Table 3.1. below. From the table, it is clear that the testing result is significant ($p < 0,05$), means the data is not normally distributed.

Table 3.1. Test Table of Financial Ratio’s Data Normality

Financial Ratio	Kolmogorov-Smirnov		
	Statistical test	df	p-value
Liquidity Before the Right Issue	0.2226	20	0.0105
Liquidity After the Right Issue	0.1928	20	0.0497
Solvability Before the Right Issue	0.2887	20	0.0001
Solvability After the Right Issue	0.2610	20	0.0009
Profitability Before the Right Issue	0.2241	20	0.0097
Profitability After the Right Issue	0.4223	20	0.0000

Based on the normality data testing, it is revealed that all financial ratios used as variables of the research are not normally distributed; therefore, to test the differences in companies’ financial performance before and after executing the right issue in year 2008, t-test statistic (parametric statistic) can not be used.

Instead, The Wilcoxon Signed Ranks Test (Nonparametric test) is used (Wayne:1989:175).

3.2.3. Comparison of Financial Performance in a Form of Financial Ratio Before and After the Right Issue

In order to find out the differences in financial performance in a form of before and after the right issue, the average of financial ratio before the right issue is compared to that of after the right issue, both in year 2008. The result is listed below:

Table 3.2. Table of Average Value of Financial Ratio Data

	Average	Std. Deviation	Minimum Value	Maximum Value
Liquidity Before the Right Issue	1.0920	0.4183	0.7150	2.5550
Liquidity After the Right Issue	1.9465	1.0241	0.4750	4.8500
Solvability Before the Right Issue	7.2428	12.0613	-9.9350	44.8650
Solvability After the Right Issue	7.8627	9.3622	0.8150	33.6900
Profitability Before the Right Issue	1.0732	1.2041	0.1050	4.2850
Profitability After the Right Issue	0.7030	1.3094	0.0300	4.2400

3.2.3.1. Comparison of Liquidity between Before and After the Right Issue

The test result obtained from average differences of financial ratio for Liquidity variable shown in Table 3.3

Table 3.3. Table of Result obtained from Liquidity Variable Test

	Liquidity After the Right Issue - Liquidity Before the Right Issue
Z-statistic	-3.300
p-value.	0.001

Table 3.3 shows $Z_{\text{calculated}} = -3.300$, which is a test statistic that will further be compared to normal Z-table.

Using significance level (Z-table is obtained = 1.96. $Z_{\text{calculated}}$ is then compared to Z-table using these criterions as follow:

Ho accepted if $:-z_{\text{table}} \leq z_{\text{calculated}} \leq z_{\text{table}}$

Ho rejected if $:z_{\text{calculated}} > z_{\text{table}} \text{ of } z_{\text{calculated}} < -z_{\text{table}}$

Because $z_{\text{calculated}} (-3.300) < -z_{\text{table}} (-1.96)$ then Ho is rejected. Therefore, using the degree of confidence = 95%, it can be concluded that there is a difference between the average of liquidity before and after the right issue. Statistical test using Wilcoxon Signed Ranks Test showed that there is a significant difference between the liquidity of before and after the execution of the right issue ($p\text{-value} < 0.05$).

Therefore, it can be statistically concluded that the average liquidity after the right issue is higher than before the right issue in 2008, or in other words there is an increase in liquidity of 20 go public companies in Indonesia's Stock Exchange after executing the right issue in 2008.

3.2.3.2. Comparison of Solvability Before and After the Right Issue

The test result obtained from average differences of financial ratio for Solvability variable shown in Table 3.4

Table 3.4. Table of Result obtained from Solvability Variable Test

	Solvability After the Right Issue - Solvability Before the Right Issue
Z-statistic	-0.448
p-value.	0.654

Table 3.4 shows $Z_{\text{calculated}} = -0.448$, which is a test statistic that will further be compared to normal Z-table.

Using significance level (Z-table is obtained 1.96. $Z_{calculated}$ is then compared to Z_{table} using these criterions as follow:

- Ho accepted if : $-z_{table} \leq z_{calculated} \leq z_{table}$
- Ho rejected if : $Z_{calculated} > Z_{table}$ or $Z_{calculated} < -Z_{table}$
- Because $Z_{table} (-1.96) < -Z_{calculated} (-0.448) \leq Z_{table}$ then Ho is accepted.

Therefore, using the degree of confidence = 95%, it can be concluded that there is no difference between the average of solvability before and after the right issue.

Statistical test using Wilcoxon Signed Ranks Test showed that there is no significant difference between the solvability of before and after the execution of the right issue (p-value > 0.05). Therefore, it can be concluded that although the average solvability of after the execution of the right issue seems higher than that before (or higher than before the right issue), but it is not statistically significant, or in other words, there is no true increase in liquidity of 20 go public companies in Indonesia’s Stock Exchange after executing the right issue in 2008.

3.2.3.3. Comparison of Profitability between Before and After the Right Issue

The test result obtained from average differences of financial ratio for Solvability variable shown in Table 3.5

Tabel 3.5. Table of Result obtained from Solvability Variable Test

	Profitability After the Right Issue - Profitability Before the Right Issue
Z-statistic	-1.419
p-value.	0.156

Table 3.5 shows $Z_{calculated} = -1.419$, which is a test statistic that will further be compared to normal Z-table.

Using significance level (, Z-table is obtained = 1.96. $Z_{calculated}$ is then compared to Z_{table} using these criterions as follow:

- Ho accepted if : $-z_{table} \leq z_{calculated} \leq z_{table}$
- Ho rejected if : $Z_{calculated} > Z_{table}$ or $Z_{calculated} < -Z_{table}$

Because $Z_{table} (-1.96) \leq -Z_{calculated} (-1.419) \leq Z_{table} (1.96)$ then Ho is accepted. Therefore, using the degree of confidence = 95%, it can be concluded that there is no significant difference between the average of profitability before and after the right issue.

Statistical test using Wilcoxon Signed Ranks Test showed that there is no significant difference between the solvability of before and after the execution of the right issue (p-value > 0.05). Therefore, it can be concluded that although the average of profitability after the execution of the right issue seems higher than that before (or higher before the right issue), but it is not statistically significant, or in other words, there is no real increase in liquidity of 20 go public companies in Indonesia’s Stock Exchange after executing the right issue in 2008.

4.3. Discussion

4.3.1. Liquidity of Before and After the Right Issue

Companies’ current assets is a measure that shows the availability of liquid fund which will immediately be converted to cash available to “pay the bills”. Liquidity is a ratio of current assets and current liabilities.

Companies’ needs in fund to invest or to generate profit is important. Rina Adi Kristianti (2003) stated that “Companies have to maintain their liquidity in order to maintain the companies’ activities to do investment and to maintain trust from external parties”.

Statistical test result using Wilcoxon Signed Rank Test showed that there are significant differences of liquidity between before and after right issue (p-value < 0.05). Therefore, it can be statistically concluded that the average liquidity after the right issue is larger than before the right issue, or in other words there is an increase in liquidity of 20 go public-companies in Indonesia’s Stock Exchange after executing the right issue in 2008. An increase in companies’ liquidity ratio after the execution of the right issue will give them the ability to fulfill their liabilities.

By doing so, the company will gain trust from the external parties that the right issue applied has increased the liquidity of the company. Therefore, the company will regain the opportunity to fulfill its liability using available fund.

4.3.2. Solvability Before and After the Right Issue

Solvability of a company can be measured by comparing the difference between total assets and total liabilities plus the long-term debt with fixed assets ratio. Statistical test using Wilcoxon Signed Ranks Test showed that there is no significant difference between solvability of before and after the right issue (p -value > 0.05).

Therefore, it can be concluded that although the average value of solvability after the right issue seems higher than that of before the right issue in 2008, the difference is not statistically significant, or in other words there is no real increase in the solvability of 20 go public companies in Indonesia's Stock Exchange after executing the right issue in 2008. This happened possibly because the investment done by the company has not fully generated profit. Surely, it will affect the number of the current asset (fund) to pay the overdue bills. A decrease in the solvability after the right issue may also be caused by the company funds are being used to pay debt, which is long-term debt. The rise of long-term debt occurred probably because the company's debt is in a form of foreign currency so that the weakening of Rupiah's value leads to an increase in debt values.

4.3.3. Profitability Before and After the Right Issue

Profitability of a company can be measured by comparing the difference of net income to sales ratio. This is important for the investor because it relates to the long-term profit in the future. Thoroughly, Muchamad Syafruddin (1997) added "Among the company's objectives, profitability is an economic matter; it can be used as a tool to measure performance of the company."

Statistical test using Wilcoxon Signed Ranks Test showed that there is no significant difference between profitability before and after the right issue (p -value > 0.05). Therefore it can be concluded that although the average value of profitability before the right issue seems higher than that of after the right issue in 2008, but it is not statistically significant or in other words, there is no real decrease in the profitability for of 20 go public companies in Indonesia's Stock Exchange after executing the right issue in 2008. The increase has not yet occurred in two years time (2000 and 2001) after executing the right issue probably because the usage of companies' fund for long-term investment. Therefore, the positive result has not yet revealed in two years after the execution of the right issue.

It is understandable that the company which executing the right issue is a company that needed more funds to strengthen their financial. Before the execution of the right issue, the company(ies) has experienced financial difficulties/problems that leads to a decrease in its/their performance. As for the has not yet increased company's profitability in short time period, it is more to a characteristic of the investment which requires long period to reveal positive result (two years is not long enough), also the increase in cost of capital. Investment needs initial expenses, so that when company executes the right issue at early period, it will overlap with the needs to invest in the purchase of goods and new machines, engineering cost, and building rental. Therefore, the profit expected from the investment has not yet gained in short period of time; this has led to a decrease in company's profitability.

5. CONCLUSION AND SUGGESTION

5.1. Conclusion

The result of this research shows that there is a significant difference in liquidity ratio in two years time between before the right issue in 1997-1998 and after the right issue in 2000-2001. A significant increase occurred between year 2000 and 2001 could be caused by extra/more funds obtained from the execution of the right issue in that period of time. While for solvability ratio, there is a significant difference in two-year period between before the right issue in 1997-1998 and after the right issue in 2000-2001; an increase is expected after the execution of the right issue (2000-2001), instead, a decrease occurred. As for the profitability ratio, there is a significant difference in the two years period before (1997-1998) and after executing the right issue (2000-2001); there is no significant increase in 2000-2001 year range. This is possibly because the usage of the company's fund to invest in long-term investment (the result can not be shown in short time period) or to pay the overdue bills.

5.2. Suggestion

This research is only limited to companies executing the right issue in 2008. It is suggested that the next research (es) should involve more variative object and sample. This research is concerned more to the financial performance in a form of financial ratio. Therefore, it is recommended that the following research(es) will explore more on non-financial analysis.

References

- Brealey, Richard A. dan Stewart C. Myers, (1996), *Principles of Corporate Finance*, `5th Edition' Mcgraw Hill Company, London.
- Gitman, J Lawrence, (2000), *Principle of Managerial Finance*, Ninth Edition, RR Donnelley & Sons Company.
- Ilya Avianti, (2000), *Model Prediksi Kepailitan Emiten di Bursa Efek Indonesia Dengan Menggunakan Indikator-indikator Keuangan*, Theses of padjadjaran University, bandung Indonesia
- Muchamad Syafruddin, (1997), Dampak Penerapan Income Alternatif Pada Penilaian Kinerja BUMN di Indonesia, *Confrence Accounting at Gajah Mada University*, Indonesia.
- Munawir S, 2002, *Analisa Laporan Keuangan*, Penerbit UPP-AMP YKPN, Yogyakarta.
- Rina Adi Kristianti, (2003), Pengaruh Likuiditas terhadap Keputusan Investasi Aktiva Tetap Pada Perusahaan Yang Dikelompokkan dalam Financially Constrained, *Manajemen Usahawan Indonesia* No. 05 Th XXXII.
- Robbert Ang, (1997), *Buku Pintar Pasar Modal Indonesia (The Intelligent Guide to Indonesian Capital Market* , Mediasoft Indonesia.
- Robert Cyran and Mike Monnelly, (2004), Breaking Views: Rhodia's acid test, *ProQuest Euromoney*, London: Apr 2004.
- Sofyan Syafri Harahap, (1998), *Analisis Kritis Atas Laporan Keuangan*, first edition of Raja Grafindo Persada Indonesia.
- Sofyan Assauri, (2000), *Rekayasa Keuangan*, *Manajemen Usahawan Indonesia* No. 08 Th XXIX.
- Tjiptono Darmadji, Hendy M Fakhruddin, (2001), *Indonesian Emerging Market*, published by Salemba Empat, Indonesia.