



**THE EFFECT OF STOCK SPLIT ANNOUNCEMENT: A
COMPARATIVE ANALYSIS BETWEEN SPRING-UP AND
SPRING-DOWN COMPANY AT INDONESIA STOCK
EXCHANGE**

Thesis

*This is submitted in partial fulfillment of the requirement for the Bachelor
Degree in Management Department-Faculty of Economic*

By:

GYNNE TASYA
03 152 094



**Management Program Study
Faculty of Economics
Andalas University**

**Padang
2008**



No Alumni Universitas

GYNNE TASYA

No. Alumni Fakultas

BIODATA

a) Tempat/ Tanggal Lahir: Padang / 24 Februari 1986 b) Nama Orang Tua: Syamsir dan Tirza Afterina, SH c) Fakultas:Ekonomi d) Jurusan: Manajemen e) No.BP :03 152 094 f) Tanggal Lulus: 22 Juli 2008 g) Predikat Lulus: Sangat Memuaskan h) IPK:3.07 i) Lama Studi: 4 Tahun 10 bulan h) Alamat Orang Tua: Jl. Raden Saleh Gg. Cimpago No. 15 Padang

The Effect of Stock Split Announcement: A Comparative Analysis between Spring-Up and Spring-Down Company at Indonesia Stock Exchange

Skripsi SI Oleh : Gynne Tasya

Pembimbing : Dr. Tafdil Husni, SE.MBA

ABSTRACT

Stock split announcement is one of information in capital market which affected the market reaction. This study compares the effect of stock split announcement (market reaction) that conducted by spring-up and spring-down company at IDX. Those companies classify based on its market to book value of equity ratio. The appliance for measuring the market reaction by calculates the abnormal return for each company. So, the first hypothesis was used to examine a significant difference of market reaction both before and after stock split announcement on spring-up company. The second hypothesis was used to examine a significant difference of market reaction both before and after stock split announcement on spring-down company.

The result of this studies found that spring-up company has quicker of market response than spring-down company. On spring-up company the market reaction has positive value at (d+1) and (d+2) after stock split announcement. On the contrary, spring-down company has reacted positively at (d+3) and (d-4) after stock split announcement.

Keywords: stock split announcement, market reaction, abnormal return, average abnormal return, cumulative average of abnormal return

Skripsi telah dipertahankan di depan sidang penguji dan dinyatakan lulus pada tanggal: 22 Juli 2008

Abstrak telah disetujui oleh penguji:

| | | | |
|--------------|--------------------------|------------------------------|--------------------|
| Tanda Tangan | 1. | 2. | 3. |
| Nama Terang | Dr. Tafdil Husni, SE.MBA | Dr.Harif Amali Rivai, SE.MSi | Drs. Syukri Lukman |

Ketua Jurusan Manajemen: Dr. Harif Amali Rivai, SE. Msi

Alumnus telah mendaftar ke Fakultas/Universitas dan mendapat Nomor Alumnus

| | | |
|---------------------------|------------------------------|--------------|
| | Petugas Fakultas/Universitas | |
| Nomor alumni Fakultas: | Nama | Tanda Tangan |
| Nomor alumni Universitas: | Nama | Tanda Tangan |

CHAPTER I

INTRODUCTION

1.1 Background

Basically, every company always require fund in defraying its operational activity. The fund can be obtained from some source, such as from inside of company; owner equity, and retained earning or other source (outside of company) in the form of loan / debt from other party. Besides loan, for a *go-public company* in the effort of adding its operational activity, fund can be obtained through sale of stock to investor as owner of capital.

Capital market used by company as media in selling its stock to public. The growth of capital market as investment apparatus institute has monetary and economic function that progressively needed by society as an alternative and accumulator of fund (Husnan, 1994: 1) in Rahayu (2006). In its economic function, capital market provides facility to remove fund of *lender* (party or side who's having excess of fund) to *borrower* (fund proper parties). By investing fund that they have, lender expects to get a gain from borrower. Availability of fund from outsider, motivate them to invest without have to waiting for company's operating fund. In its financial function, capital market providing fund without have to involve directly in ownership of real asset which needed to that investment.

Fluctuation of stock price in capital market can influence by level of supply and demand toward the stock price. Beside that, the information in stock exchange such as the condition of finance / performance of company

will influence the stock price which is bargains to the market and various other issues which is influence company profitability in the future directly.

Stock price of company at certain level can become very high, which can identified from height assess earning per share (EPS). This matter caused by that pertinent company has tendency to makes a better prospect in the future. So that bargained stock has higher price. For company, the existence of increasing stock price, assessed as beneficial condition, but on the other side, investor claimed to release higher capital addition to do investment through purchasing of company's stock.

Higher increasing of stock price, will cause decreasing request of purchasing that stock and in the end can cause the stock price become static, or not fluctuate anymore. Decreasing request can be caused by more investor not interest to buy stock at the high price, especially individual investor that has limited level of fund. In fact, more investors turn to buy other company stocks.

To avoid appearance condition, hence effort that needs to be done by company is replace stock price at certain reach. Or in other words, company has to try to descend the stock at interesting price, which draws investor enthusiasm for buying. One of the steps taken by company in order to make that stocks sold can draws investor enthusiasm is through *stock split*.

Mc Cough and Fama (1993) affirming that the main objective conducting stock split is to put the stock in more popular commerce gyration (*popular trading range*), where involving many buyers. Achievable stock price will push investor to conduct transaction of that stock. This matter will

CHAPTER V

CONCLUSION AND RECOMMENDATION

As explained in the previous chapter, the objective of the research is to get empirical evidence about the effect of stock split announcement among listed companies at IDX. It can be used as consideration base for any party before making decision.

According to the data analysis and result that have been explained in the previous chapter, the conclusion, recommendation, implication and limitation of the research will be explained as follow:

5.1 Conclusion of Research

1. Stock split announcement, which is conducted by spring up company for years of 2004-2007, statistically give significant difference of market reaction, both before and after event date.

It's proved empirically as follows:

Significant value of CAAR = 0.001 less than significance level ($\alpha = 5\%$).

2. Stock split announcement, which is conducted by spring down company for years of 2004-2007, statistically give significant difference of market reaction, both before and after event date.

It's proved empirically as follows:

Significant value of AAR = 0.004 less than significance level ($\alpha = 5\%$).

REFERENCES

- Agung Nugroho, Buono, 2001, *Strategi Jitu Memilih Metode Statistic Penelitian Dengan SPSS*, Andi: Yogyakarta
- Almilia and Kristijadi, 2005, *Analisis Kandungan Informasi dan Efek Intra Industri Pengumuman Stock Split pada Perusahaan Bertumbuh dan Perusahaan Tidak Bertumbuh*, Jurnal Ekonomi dan Bisnis Indonesia, Volume 20, No 1.
- Asquith, Healy Paul and Palepu Krishna, 1989, *Earnings and Stock Split*, The Accounting Review, July, p.387.
- Brennan, M.J. and T.E Copeland, 1998, *Stock Split, Stock Prices and Transaction Cost*, Journal of Financial Economics 22, pp. 83-101
- Brigham, Eugene F and Doves, Philip R, 2002, *Intermediate Financial Management*, 7th edition, South-Western: Thomson Learning Inc n
- Copeland, Thomas E, 1979, *Liquidity Changes Following Stock Splits*, The Journal of Finance, March 115-141.
- Husnan, Suad, 1994, *Dasar-Dasar Teori Portofolio Dan Analisis Sekuritas*, 2nd edition, Yogyakarta: UPP AMP YKPN.
- Indah Kurniawati, 2003, *Analisis Kandungan Informasi Stock Split dan Likuiditas Saham: Studi Empiris pada Non-Synchronous Trading*, Jurnal Riset Akuntansi Indonesia, Vol. 6, No, 3.
- Jogiyanto, 2003, *Teori Portofolio Dan Analisis Investasi*, Edisi Ketiga, Yogyakarta: BPFE.
- Kadiyala, Padma and Vetsuypens, Michael, 2002, *Are Stock Split Credible Signal ? Evidence from Short-Interest Data*, Financial Management, Spring, 31, p.31.