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DESCRIPTIVE OF QUANTITATIVE DATA | SUPPLEMENTARY

The Effect of Corporate Action / Stock Split Corporate Action on LQ-45 Stock Performance

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Abstract: All companies listed on the Indonesia Stock Exchange always expand, pay debts, or increase capital in the form of corporate actions. Also included in the LQ-45 registered companies also carried out corporate actions. Therefore, this study aims to analyze the influence of stock split corporate actions on LQ-45 stock performance. This study uses a quantitative research method using descriptive analysis techniques. Hypothesis testing in this study uses an analysis tool, namely Eviews. Based on the results of the study, it shows that there is an influence of corporate action/corporate action stock split on the performance of LQ-45 shares. With the corporate action of stock split, the company is expected to add investors and increase stock purchase transactions at affordable prices.

Keywords: Price, Shares, Stock Split

1. INTRODUCTION

The capital market serves as a platform where various parties, particularly companies, sell shares and bonds to raise capital or strengthen their financial position (Fahmi, 2017). According to Law No. 8 of 1995, the capital market encompasses the public offering and trading of securities, the involvement of companies with the securities they issue, and the interactions among institutions and professionals regarding the issuance of securities. The capital market is also considered an abstract concept that brings together investors and issuers in need of long-term funds that can be transferred. In the Dictionary of Money and Capital Markets, the capital market is defined as a physical or abstract market where parties offering and requiring long-term funds meet. This market is typically characterized by annual or long-term instruments, with participants including insurance companies, pension funds, savings banks, and entrepreneurs. The government and the general public (Budisantoso, 2006) are also interested in purchasing these bonds.

The most commonly traded financial instruments in today's markets are stocks. Stocks represent ownership in a company and grant rights to the owner. Investors purchase stocks with the expectation of earning a profit, which can then be distributed to the public. The potential returns for shareholders include capital gains, where the selling price exceeds the purchase price, and dividends. Dividends are a portion of a company's profits distributed to shareholders based on the number of shares owned (Hadi, 2013). Currently, many organizations have transitioned to public company status and are attempting to sell their shares on the exchange. Companies listed on the stock exchange are clearly interested in increasing their market value, one method of which is by raising their stock prices. However, excessively high stock prices can negatively impact investors' ability to purchase shares. Therefore, some organizations opt to participate in corporate actions.

Corporate actions are significant corporate events that can materially affect the stock prices of the companies involved in the exchange (Robert, 1995). These actions, which may be undertaken voluntarily by a company's management, can be monetized by the market, leading to changes in the



company's stock price. The term "materially significant" here refers to actions that involve a considerable amount, though this amount is relative to investor perception. Corporate actions typically relate to the company's performance or survival, the impact on its stock price, or corporate governance—all of which influence the company's stock price on the exchange (Robert, 1995). In the capital market, stock price changes can occur at any time, often triggered by specific events. As Tobing and Pratomo (2014) explain, one way companies manage their stock prices within an optimal trading range is by conducting a stock split as part of a corporate action. Common corporate actions include:

1. Stock Splits: The company divides existing shares into smaller shares to make the stock more liquid and affordable for smaller investors.
2. Rights Issues: The company offers new shares at a price close to the market price, typically to existing shareholders, to raise additional capital.
3. Dividends: The distribution of a portion of the company's profits to shareholders, which can be in the form of cash or additional shares.
4. Mergers and Acquisitions: The combination of two companies or the acquisition of one company by another.
5. Share Buybacks: The company repurchases its shares from the market to reduce the volume of shares in circulation and potentially increase the stock price.

According to data from the official website of the Indonesia Stock Exchange, 49 stocks have conducted corporate actions involving stock splits, with 11 of these companies being part of the LQ-45 index. This observation, along with previous research, has led to interest in studying the impact of corporate actions, particularly stock splits, on the performance of LQ-45 stocks.

2. LITERATURE REVIEW

2.1 History and Role of the Indonesian Capital Market

The history of the capital market in Indonesia is long-standing and predates the establishment of the Singapore Stock Exchange, which was formed in June 1930 by 15 companies as part of the Singapore Association to regulate the securities industry there (Fahmi, 2017). The growth rate of the Indonesian stock exchange was not consistently measured by the country's political, economic, and financial conditions. The stock exchange in Indonesia's capital declined in the 1940s during the German invasion. However, it re-emerged in 1952 and faded from view until August 10, 1977. In 1968, Bank Indonesia established the Money and Capital Market Preparation Team, which was later replaced by the Money and Capital Market Advisory Board in 1972, remaining popular among Indonesian governors. By the end of 1976, this organization had produced Bapepam (the Capital Market Supervisory Agency) and PT. Danareksa. Since its establishment in 1977, the capital market has been supervised by Bapepam, an agency under the Ministry of Finance. Key market participants include securities companies acting as intermediaries between investors and issuers, playing a crucial role in creating the capital market. In the 1970s, Bapepam also assumed a new function as a development agency. In 1992, the management of the stock exchange was privatized, a common practice worldwide. The rapid market growth necessitated workplace efficiency and automated trading, leading to the establishment of the Jakarta Automated Trading System (JATS) and its legal support in 1995. According to Law No. 8 of 1995, the capital market is a process involving public offerings and trading of securities, the relationships between companies and the securities they issue, and the interactions between institutions and professionals concerning the issuance of securities. The capital market is also viewed as an abstract concept that connects investors with issuers in need of transferable long-term funds. The primary objective of the capital market is to facilitate the movement of funds, especially those aimed at long-term commitments, from those with money or relationships



with companies to finance or lend to companies. Typically, capital market participants use intermediaries and underwriters.

2.2 Definition and Functions of the Capital Market

The capital market is a place where various parties, especially companies, sell shares and bonds to raise capital or strengthen their financial positions (Fahmi, 2017). According to Law No. 8 of 1995, the capital market involves the process of public offering and trading of securities, the relationships between companies and the securities they issue, and the interactions between institutions and professionals regarding the issuance of securities. It is also considered an abstract concept that brings together investors and issuers needing transferable long-term funds. The capital market plays a significant role for those looking to generate income from investments. Its primary functions include:

- a. For Companies: The capital market offers a space and opportunity for companies to obtain funding sources with lower risk (cost of capital) compared to short-term money market funds.
- b. For Investors: It provides an alternative investment option, especially for those seeking high liquidity. The capital market facilitates access for investors and other professionals, enabling them to utilize the market for potentially high returns.
- c. For the National Economy: In promoting the national economy, the capital market facilitates the meeting of lenders and borrowers. This arrangement makes it easier to provide funds to the real sector to enhance productivity while allowing investors to earn returns on their investments.

Stocks are a common component of the capital market and are popular among investors due to their higher returns compared to other market instruments like mutual funds, deposits, and bonds. According to Dr. Hadi (2013), stocks represent assets that can be owned or traded by individuals or institutions in a market where the documents are negotiable. From this perspective, stocks are considered a form of security that serves as evidence of ownership by an individual or institutional entity.

2.3 Corporate Actions

Corporate actions refer to significant corporate activities that can materially affect the number of shares outstanding and the company's stock price. These actions, voluntarily undertaken by a company's management, have the potential to be monetized by the market, influencing the issuing company's stock price. The term "materially significant" implies that these actions carry substantial weight, although the extent of this weight depends on investor perception (Hadi, 2013).

2.4 Stock Splits

A stock split increases the number of shares outstanding by reducing the par value of each share. For instance, a one-share par value is split into two shares, each with a par value half of the original (Fahmi, 2015). According to Fahmi (2015), companies may choose to implement a stock split for several reasons:

- a. To Avoid Overly High Stock Prices: Making shares more affordable and accessible to the public.
- b. To Maintain Stock Liquidity: Ensuring that shares remain easily tradable.
- c. To Attract Potential Investors: Increasing the appeal of the stock to a broader range of investors.
- d. To Enhance Accessibility for Small Investors: Making stocks more affordable so that small investors can participate.
- e. To Increase the Number of Shares Outstanding: This can improve liquidity and marketability.
- f. To Reduce Risk for Investors: Allowing for greater diversification in their investment portfolios.



- g. To Implement Investment Diversification: Facilitating a more diversified portfolio for investors.

Scott, Martin, Petty, and Keown offer additional perspectives on the rationale behind stock splits: To Prevent Shares from Becoming Too Expensive: This can increase the number of shareholders and improve trading liquidity; To Return Stock Prices and Trading Volume to Targeted Ranges: Ensuring that the stock remains within a range that is conducive to active trading; To Communicate Information about Investment Opportunities: Signaling potential increases in earnings and cash dividends to investors.

2.5 Previous Research

Previous studies serve as a valuable reference for the author in composing this research, enriching theoretical insights and facilitating comparisons. Below is a summary of relevant prior research: Santi Safitri and Mohammad Nofal (2022) examined the LQ45 Index companies and found both positive and negative abnormal returns around the stock split events. Their research showed significant abnormal returns before and after the splits, suggesting that these events influence stock prices. Fidia Pangestika, Giyah Yuliani, C.H. Asta Nugraha, and Siti Aminah (2023) focused on the effects of stock split and right issue policies on stock prices between 2018 and 2020. Their study supported the signaling theory, which posits that stock splits convey information about a company's potential for substantial future returns, as evidenced by a significant impact on stock prices. Astri Rahayu and Aqamal Haq (2023) analyzed factors influencing stock split decisions, finding that stock liquidity and stock return positively and significantly affected these decisions among companies listed on the Indonesia Stock Exchange from 2017 to 2021. However, earnings per share did not significantly impact the decision to split stocks. Muhammad Taufiq Abadi (2022) investigated the Indonesian Stock Exchange, revealing that stock splits significantly affect both trading volume and stock prices. His analysis indicated that stock splits lead to noticeable changes in trading activity and stock price levels. M. Farhan Maulana, Ahmad Mulyadi Kosim, and Abrista Devi (2021) explored the influence of stock price levels, stock returns, and trading volume on stock splits within the ISSI for the period 2015–2020. They found that stock splits resulted in significant stock price increases, enhancing liquidity, although trading volume did not show a corresponding significant increase, possibly due to investor concerns about the issuer's performance.

3. RESEARCH DESIGN AND METHOD

This study is quantitative and employs descriptive analysis to investigate the impact of stock splits conducted by companies listed in the LQ-45 index. The data collection method utilized is documentation, with secondary data derived from company annual reports. The data sources include companies in the LQ-45, accessed through the official websites of the Indonesia Stock Exchange (IDX), individual company websites, RTI Business, and the MOST (Mandiri Sekuritas Online Securities Trading) application.

3.1. Population and Sample

According to Wijaya (2013), the population refers to the entire set of elements (individuals, events, products) that can be used to draw conclusions in a study, thus representing the totality of research subjects. The population for this study consists of the number of corporate stock split actions undertaken by companies listed in the LQ-45 index on the Indonesia Stock Exchange from 2012 to 2017. Each year, the IDX designates 45 companies as part of the LQ-45 index. A sample is a subset of the population selected based on specific characteristics and techniques (Wijaya, 2013). For this study, the sample includes companies in the LQ-45 index for 2024 that conducted stock splits:



Table 1. Sample of LQ-45 Companies Conducting Stock Splits

No	Ticker Symbol	Company Name
1	AKRA	PT AKR Corporindo Tbk
2	BBNI	PT Bank Negara Indonesia Tbk
3	BMRI	PT Bank Mandiri Tbk
4	BBCA	PT Bank Central Asia Tbk
5	BRPT	PT Barito Pacific Tbk
6	EMTK	PT Elang Mahkota Teknologi Tbk
7	HRUM	PT Harum Energy Tbk
8	MDKA	PT Merdeka Copper Gold Tbk
9	SIDO	PT Industri Jamu dan Farmasi Sido Muncul Tbk
10	SRTG	PT Saratoga Investama Sedaya Tbk
11	UNVR	PT Unilever Indonesia Tbk

3.2. Hypothesis Testing

The hypothesis is tested using a paired sample t-test. If the stock split corporate actions are deemed significant information by investors, the market is expected to respond accordingly. The study aims to test the following hypotheses: H0: there is no effect of stock split corporate actions on the performance of LQ-45 stocks, and H1: there is an effect. A significant market response, reflected in notable changes in the stock prices, would support H1. The hypothesis H1 is accepted if the p-value from the paired sample t-test is less than 0.05, indicating that "the market responds positively to stock split information. A stock split is a process that increases the number of shares by proportionally reducing the nominal value per share (Halim, 2015). According to Rusdin (2008), stock prices are determined by the principles of supply and demand or the bargaining dynamics in the stock market. Stock prices can change rapidly within seconds, minutes, or hours due to the continuous activity of buyers and sellers. This study measures the variables using units of Indonesian Rupiah and the number of shares.

4. RESULT AND DISCUSSION

4.1. Result

Data Normality Test

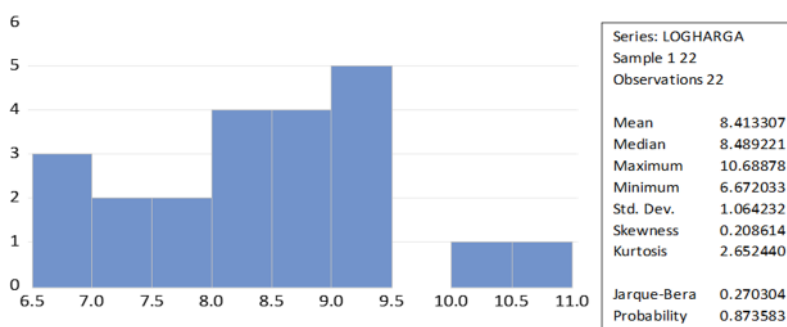


Figure 1: Histogram of Stock Price Variable

Based on Figure 1, the normality test results show a significance value of 0.87, which is greater than 0.05. This indicates that the data is normally distributed, and there are no issues with data normality.

Paired Sample t-test

Table 3: Results of Paired Sample t-test

Test for Equality of Means of L OGHARGA
Cetegorized by values of KODE
Date: 03/07/24 Time: 10:03
Sample: 1 22
Included observations: 22

Method	df	Value	Probability
t-test	20	2.677228	0.0145
Satterthwaite-Welch t-test	19.58476	2.677228	0.0147
Anova F-test	(1, 20)	7.167548	0.0145
Welch F-test	(1,19.5848)	7.167548	0.0147

The paired sample t-test results for stock splits show a t-test value of 0.0145. Since this value is less than 0.05, it indicates a significant difference in stock prices before and after the stock split. Therefore, H₀ is rejected and H₁ is accepted, indicating that stock split policies significantly impact the stock prices of companies within the LQ-45 index.

4.2. Discussion

The analysis using the paired sample t-test revealed a significance level of 0.0145, which is below the 0.05 threshold. This finding confirms that there is a significant difference in stock prices before and after the corporate action of a stock split. It demonstrates that the stock split policy influences the stock prices of companies listed in the LQ-45 index. Notably, companies such as AKRA, BBCA, BBNI, BMRI, EMTK, HRUM, MDKA, SIDO, SRTG, and BRPT experienced an increase in stock prices following the stock split announcement. In contrast, PT Unilever Indonesia Tbk (UNVR) saw a decrease in stock prices during the same period. Various factors could explain UNVR's price decline, including the company's performance and financial reports, which are crucial considerations for investors when making transactions.

5. CONCLUSIONS

Based on the findings of this study, the paired sample t-test for stock splits resulted in a significance value of 0.0145, which is less than 0.05. This indicates that stock split policies significantly affect the performance of LQ-45 stocks. More companies experienced an increase in stock prices following the announcement of a stock split corporate action compared to those that saw a decrease. Other factors can also influence the market's response to a stock split announcement. Companies with strong performance tend to attract investor interest, leading to a positive reaction from investors when a stock split is announced. Thus, the theory proposed by Robert in 1995 regarding the impact of corporate actions on stock prices is relevant in the context of this research.

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