Changes of Return of Shares Before and After Ex-Dividend Date: Case Study in Indonesia

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ABSTRACT

Investors usually look for information on a company before they decide to invest their capital in the company or not, either in the form of shares or in other forms of investment. This study used 27 companies belonging to the group of stocks 50 Biggest Market Capitalization. The aim of the study to analyze the effect of dividend announcement on stock price changes (returns) before and after the ex-dividend date on the Indonesia Stock Exchange (BEI) in the period January to December 2010 at the Indonesia Stock Exchange. Based on the results of data processing is known that announcements of dividend increases influence on stock returns before and after the ex-date dividend in Indonesia Stock Exchange (IDX). It is characterized by the average significant positive abnormal return on day t-4. The dividend reduction announcement does not affect the stock returns before and after the ex-dividend date on the Indonesia Stock Exchange (IDX). It is shown by the presence of a significant negative abnormal return on day t +9.

Keywords: dividend, ex-dividend date, stock returns

1. INTRODUCTION

The reaction of the stock price as a result of an announcement, it could mean that the announcement contains the information. Stock price reaction can be measured using abnormal stock return as the value of the price change. Announcement of dividend payments is said to contain information when providing a significant return to the market. The opposite is also when the dividend announcement did not provide significant abnormal return is not then it does not contain any information. Information on dividend announcement will be mirrored by the capital market reaction immediately after the announcement of the dividend, both positive and negative reactions. According to Sularso (2003), basically a lot of factors that affect a company's share price on the stock exchange, one with the announcement of the dividend will impact the company's stock price, especially around the announce date and the ex-dividend date. Impact on stock price changes, will also indirectly affect the trading volume of its shares. This is due to the investors give a negative rating to the company. Investors assess the distribution of dividends to the shareholders of a company's cash position caused the wane and the resulting leverage ratio (the ratio between debt and equity) will increase. The greater the dividend paid, the amount of retained earnings will decrease. It is these factors that drive the capital market experts and found that there was a negative abnormal return around the ex-dividend date, but even so some are not agree with this opinion.

The purpose of this study was to analyze the effect of the announcement of the return of dividend increases before and after the ex-dividend date on the IDX and analyzed the effect of dividend decrease announcements on stock returns before and after the ex-dividend date on the IDX

2. Theoretical Framework

2.1 Event Study and Abnormal Return

Event Study is a study that studied the market reaction to an event whose information is published as a notice and can be used to test the information content of the announcement (Jogiyanto, 2002: 392). Event study can be used to test the information content of an announcement and can also be used to test the semi-strong form market efficiency.

Abnormal return or profit above normal profit is the difference between the actual rates of return is expected. Abnormal return can be positive or negative. According to Sularso (2003) to investigate the effect of dividend announcement on stock price changes, testing the individual returns before and after the ex-dividend date

2.2. Similar Research Studies

According Sularso (2003) against 14 companies in Indonesia Stock Exchange (IDX) the share dividend in the period 2000-2002, the period of the study for 120 days were divided into two periods, namely the estimated period for 90 days and the event period for 30 days, including 15 days before and after the event. Method used in the study is event study. The results showed that stock prices react negatively to the dividend announcement information up at the ex-dividend date, and reacted positively to the announcement of dividend information down at the ex-dividend date.

According to Riandaru (2006) research results showed that the positive effect decreased dividend stock return, significantly occurred on day t-2, whereas the increase in the dividend is not a positive influence on stock returns. Siaputra (2006) showed that the average stock price before and after the ex-dividend date and the value of the average stock price after the ex-date dividend statistically significantly different. The result show that there is a significant stock price movement during the two observation periods was due dividend announcement.

Furthermore, the magnitude of the stock price change is not statistically different from the value of the dividend per share distributed.

Nurmala (2006), suggests that dividend policy has no effect on the share price at the auto companies that have gone public on the Jakarta Stock Exchange (JSX). It can be seen from the results of regression during the study period, the effect of dividend policy is very small. Payment of the dividend is not necessary, as it will not affect the prosperity of our shareholders and will not raise the price of a company's stock. Thus, the company must have a profitable investment plan to be implemented throughout the year.

According to Pahlevi (2009) on financial sector companies listed on the Indonesia Stock Exchange (BEI), which was in the year 2007 to 2008, these companies distribute cash dividend to its shareholders. Using a sample of 14 companies, which are divided into two groups of firms, namely the dividend increased by 11 companies and the dividend dropped by 3 companies. The study period consisted of 21 days consisting of 10 days before the event date, one day when the event date, and 10 days after the event date. The results showed that on the dividend and the dividend ride down, the company's stock price changes of the financial sector in 2008 related to the dividend announcement.

Pratiwi (2010) used 22 companies belonging to the group Biggest Market Capitalization 50. The company is divided into two groups consisting of 13 companies announcing dividend increases and 9 companies that announced a dividend. During the 21-day study period were divided into three periods: 10 days before the date of the announcement of the dividend: one day when the announcement of the dividend, and 10 days after the date the dividend announcement. The results showed that there is an increase on the announcement positive abnormal return around the announcement date of dividend on the company that did the hike dividend payment (t-1), and there are negative abnormal return around the announcement date of dividend on the company lower its dividend payment (t-8). Announcements of dividend increases and decreases affect stock returns before and after the ex-date dividend in Indonesia Stock Exchange (IDX).

Information and the announcement of dividend are intricately linked. Miller and Kevin Rock (1985) show that an informationaly consistent signaling equilibrium exists under asymmetric information and the trading of shares that restores the time consistency of investment policy, but leads in general to lower levels of investment than the optimum achievable under full information and/or no trading.

Akbar M. and Humayun Habib Baig (2010) tests the semi-strong form of market efficiency by investigating the reaction of stock prices to dividend announcements. It analyzes cash, stock, and simultaneous cash and stock dividend announcements of 79 companies listed on the Karachi Stock Exchange from July 2004 to June 2007. Abnormal returns from the market model are evaluated for statistical significance using the t-test and Wilcoxon Signed Rank Test. The findings suggest negligible abnormal returns for cash dividend announcements. However, the average abnormal and cumulative average abnormal returns for stock and simultaneous cash and stock dividend announcements are mostly positive and statistically significant.

2.3 Hypothesis

The study was conducted to determine or verify whether there are significant differences on average abnormal return on the 10 days before and 10 days after the ex-dividend date. And hypotheses to be tested are as follows:

H1: The announcement of a dividend hike effect on stock returns before and after the ex-dividend date on the Indonesia Stock Exchange (IDX)

H2: dividend reduction announcement effect on stock returns before and after the ex-dividend date on the Indonesia Stock Exchange (IDX)

3. Methodology

This study used a population of firms belonging to a 50 Biggest Market Capitalization in 2010, 50 Biggest Market Capitalization is listed on the stock idx periodical statistics which are stocks with the largest market capitalization. Samples of this paper are companies from the stock 50 Biggest Market Capitalization ranging from January to December 2010 to conduct a final dividend payment or cash and meet criteria based on research Riandaru (2006) and Pratiwi (2010).

The following are criteria that must be met in the selection of the sample, as follows:

1. Including the stock 50 Biggest Market Capitalization in 2010.
2. Of the same group, only selected firms that distribute cash dividend in 2009 and 2010.
3. The selected company is a company that the amount of dividend to be different from the previous period (or fluctuating up and down and not fixed)
4. Companies that will be sampled did stock split and rights issues
5. The company has a complete data during the observation period

The data were obtained through the website of the Indonesia Stock Exchange (IDX) IDX is www.idx.co.id and Statistics with data companies stock group 50 Biggest Market Capitalization and dividend payment. And the closing stock price data obtained from the JCI website www.finance.yahoo.com.

4. Result and Discussion

This study examined about the company announced a dividend increase and dividend decrease. The process is done to get the same abnormal return between the two. The Abnormal return calculation to find them on the day to day -10 to +10 (for 21 days). Effect of dividend announcements (dividend increases) can be seen from the test Abnormal Return of significant value in the 10 days before and 10 days after the ex-dividend date. Total dividend per share used to compare the current period with a prior period dividend. This study used the dividend per share in 2009 and 2010. It is used to see if the dividend per share in 2009 is greater or less than the dividend per share in 2010. Here is the dividend per share in 2009 and 2010 from companies that become the object of research.

Table. 1 Dividend per Share for Corporate Dividend- Rise

No.	Code	Corporate Name	*Cash* dividend	
			2009	**2010**
1.	HMSP	HM Sampoerna Tbk.	110	615
2.	GGRM	Gudang Garam Tbk.	350	650
3.	BBNI	Bank Negara Indonesia Tbk.	8	47,48
4.	INTP	Indocement Tunggal Prakarsa Tbk.	150	225
5.	BDMN	Bank Danamon Indonesia Tbk.	90,82	90,97
6.	INDF	Indofood Sukses Makmur Tbk.	47	93
7.	KLBF	Kalbe Farma Tbk.	12,50	25
8.	JSMR	Jasa Marga Tbk.	52	87,91
9.	LSIP	PP London Sumatra Tbk.	208	209
10.	BSDE	Bumi serpong Damai Tbk.	4	6
11.	MNCN	Media Nusantara Citra Tbk.	5	7
12.	ASII	Astra International Tbk.	570	830
13.	BBCA	Bank Central Asia Tbk.	40	70
14.	UNVR	Unilever Indonesia Tbk.	100	299
15.	PGAS	Perusahaan Gas Negara Tbk.	10	144,20
16.	ADRO	Adaro Energy Tbk.	12	17
17.	UNTR	United Tractors Tbk.	220	330
18.	ITMG	Indo Tambangraya Megah Tbk.	706	1286
19.	SMGR	Semen Gresik (Persero) Tbk.	215,19	250,45
20.	AALI	Astra agro Lestari Tbk.	155	685
21.	PTBA	Tambang Batu Bara Bukit Asam Tbk.	66,75	466,65

Source: idx.co.id

Based on the table 1. can be seen that the group increasing dividend recorded Indo Tambangraya Tbk as the company that pays the greatest dividend per share in 2009 and 2010 are worth Rp. 706 and Rp. 1286, then Astra International Tbk in 2009 and 2010 amounted to Rp. 570 and Rp. Dividend per share is the smallest 830 in 2009 and 2010 were Bumi Serpong Damai Tbk with a value of Rp. 4 and Rp. 6. In this case the data on the ex-dividend date is used as the event date (t0), so t observation and t events can be determined. Here is the data on the ex-dividend date of the both group of companies

Table .2 Date of *Ex-Dividend* Date for Dividend Rise

No.	Code	Company Name	Ex-Dividend Date
1.	HMSP	HM Sampoerna Tbk.	15th September 2010
2.	GGRM	Gudang Garam Tbk.	14th July 2010
3.	BBNI	Bank Negara Indonesia Tbk.	09th June 2010
4.	INTP	Indocement Tunggal Prakarsa Tbk.	22nd June 2010
5.	BDMN	Bank Danamon Indonesia Tbk.	24th May 2010
6.	INDF	Indofood Sukses Makmur Tbk.	20th July 2010
7.	KLBF	Kalbe Farma Tbk.	16th July 2010
8.	JSMR	Jasa Marga Tbk.	29th June 2010
9.	LSIP	PP London Sumatra Tbk.	18th June 2010

No.	Code	Company Name	Ex-Dividend Date
10.	BSDE	Bumi serpong Damai Tbk.	02nd July 2010
11.	MNCN	Media Nusantara Citra Tbk.	30th November 2010
12.	ASII	Astra International Tbk.	17th June 2010
13.	BBCA	Bank Central Asia Tbk.	01st June 2010
14.	UNVR	Unilever Indonesia Tbk.	29th June 2010
15.	PGAS	Perusahaan Gas Negara Tbk.	09th July 2010
16.	ADRO	Adaro Energy Tbk.	03rd June 2010
17.	UNTR	United Tractors Tbk.	15th June 2010
18.	ITMG	Indo Tambangraya Megah Tbk.	30th April 2010
19.	SMGR	Semen Gresik (Persero) Tbk.	02nd July 2010
20.	AALI	Astra agro Lestari Tbk.	09th June 2010
21.	PTBA	Tambang BatuBara Bukit Asam Tbk.	27th May 2010

Source: idx.co.id

Table 3. Date of *Ex-Dividend* Date for Down Dividend

No.	Code	Company Name	Ex-Dividen Date
1.	BUMI	Bumi Resources Tbk.	29th July 2010
2.	ANTM	Aneka Tambang (Persero) Tbk.	29th June 2010
3.	SMAR	SMART Tbk.	01st July 2010
4.	TLKM	Telekomunikasi Indonesia Tbk.	08th July 2010
5.	BBRI	Bank Rakyat Indonesia Tbk.	29th June 2010
6.	INDY	Indika Energy Tbk.	09th June 2010

Source: idx.co.id

Tabel 4. Test of *Abnormal Return* around *Ex-dividend Date* (Dividen Rise)

Daya	AAR	T-table	T-count	Std. Error	Conclusion
10	-0,0059	1,725	-2,064	0,0028407	HO accepted
9	-0,0014	1,725	-0,378	0,0037348	HO accepted
8	0,0048	1,725	1,474	0,0041040	HO accepted
7	0,0055	1,725	0,821	0,0066724	HO accepted
6	-0,0008	1,725	-0,219	0,0037436	HO accepted
5	0,0015	1,725	0,358	0,0040702	HO accepted
4	0,0007	1,725	0,208	0,0033034	HO accepted
3	-0,0012	1,725	-0,312	0,0038838	HO accepted
2	-0,0036	1,725	-1,287	0,0027762	HO accepted
1	-0,0031	1,725	-0,715	0,0042830	HO accepted
0	-0,0256	1,725	-3.772	0,0042048	HO accepted
-1	-0,003	1,725	-0,839	0,0035712	HO accepted
-2	0,0032	1,725	0,903	0,0035844	HO accepted
-3	0,0089	1,725	1,758	0,0050484	HO rejected
**-4	0,0057	1,725	1,992	0,0028625	HO rejected
-5	0,0003	1,725	0,137	0,0021724	HO accepted
-6	0,0036	1,725	0,915	0,0039073	HO accepted
-7	-0,0006	1,725	-0,130	0,0047035	HO accepted

Daya	AAR	T-table	T-count	Std. Error	Conclusion
-8	-0,0048	1,725	-1,631	0,0029232	HO accepted
-9	-0,0018	1,725	-0,686	0,0026903	HO accepted
-10	-0,0029	1,725	-0,886	0,0032766	HO accepted

The results of the calculation of the average abnormal return on the 21 trading days during the observation period showed two different directions, namely positive and negative. From the above test results can be seen, there are on average significantly positive abnormal return, i.e. at t-4 at 0.0057.The value of t count> t table (1992> 1725). This means rejecting the first null hypothesis that, the dividend reduction announcement effect on stock returns before and after the ex-dividend date on the Indonesia Stock Exchange (IDX).

The announcement of the rise dividend in 50 Market Capitalization biggest influences on stock returns before and after the ex-dividend date on the Indonesia Stock Exchange (IDX). This means that if a company announces a dividend hike, then return the stock will increase. average significant positive abnormal return on the T-4 at 0.0057 indicates that the t-4 prior to the announcement of the event, the information has already been leaked to the public are indicated by the positive reaction of the stock price, so investors are trying to access the information in the company and use the information to conduct the transaction as a result that the reaction occurs before the announcement. According Koetin (1997) some cases surge in the price of a stock exchange floor that smelled a lot of insider information. That is, the purchase or sale of shares took place after information from insiders. The so-called insiders are directors, commissioners, major shareholder or a person who has a close relationship with the issuer's management. It's actually a secret and not to be publicly owned, but leaked to the market actors. Due to this information, investors can project the stock price, investors were buying shares in large quantities in advance. It's called insider trading, a form of stock transaction which is prohibited by Law No.8/1995.

From these results we concluded that the increase in the dividend announcement effect on stock returns before and after the ex-dividend date on the Indonesia Stock Exchange (IDX). This means that if the company announced a dividend increase in the stock returns will increase. This is consistent with the theory by Brigham (1995) in Riandaru (2006) who said that the dividend is a signal to investors, which is assumed to increase in the dividend as a signal or a sign of rising corporate performance now and in the future. Companies engaged in the consumer goods industry has the largest number in the group of companies that increase dividends by the number 5 or 23.80%, this means that most likely is the effect of dividend announcement on stock return increases in companies engaged in the industry consumer goods. A total of 21 sample firms that announced dividend increase is representative of the entire population, it can be seen from the value of the standard error is 0.2% smaller than the significance level of 5%.
The results of the calculation of the average abnormal return (in the condition that dividend decreased) on the 21 trading days during the observation period showed two

different directions, namely positive and negative. There is on average a significantly negative abnormal return on day t +9 t-count value of -1.018 and an average abnormal return of -0.00386 where the value of t count> t table (-1.018> -2.015) are in the reception area of Ho. This means accepting the null hypothesis that the second, that the dividend reduction announcement has no effect on stock returns before and after the ex-dividend date on the Indonesia Stock Exchange (BEI), means that if the company announced a dividend does not mean the return sahampun decreased. At the time of the dividend reduction may increase stock prices or stock prices can remain stable even is not affected by the reduced dividend, indicating the existence of external influences beyond internal effects associated with macroeconomic such as poverty and equity, exchange rate crises, external debt country, the banks and the credit crunch, inflation, economic growth, and unemployment. Some argue fluctuations in stock price movements in the financial markets are very sensitive to changes in economic variables such as monetary and fiscal policies, as well as non-economic variables such as political instability and even the nature of mere rumor Hardianto (2006). The company is engaged in the Minning and Infrastructure, Utilities And Transportation has the largest number in the group of companies that decreased dividends by the number 2 or 33.33%, this means that most likely there is no effect of the announcement of the return of dividend reduction shares in companies engaged in the Minning and Infrastructure, Utilities and Transportation is because the company engaged in the Minning and Infrastructure, Utilities And Transportation has considerable potential to advance that foster confidence for investors to keep buying the company's stock.

5. CONCLUSION

Announcement of dividend increases affect stock returns before and after the ex-dividend date on the Indonesia Stock Exchange (IDX). It is characterized by the abnormal return on average positive effect on day t-4, but here occurs the information had already been leaked to the public are indicated by the positive reaction of the stock price, so investors are trying to access information in the company and use information to make transactions as a result the reaction occurs before the announcement made. This means that if the company announced a dividend increase in the stock returns will increase. This is consistent with the theory by Brigham (1995) in Riandaru (2006) who said that the dividend is a signal to investors, which is assumed to increase in the dividend as a signal or a sign of rising corporate performance now and in the future. Companies engaged in the consumer goods industry has the largest number in the group of companies that increase dividends by the number 5 or 23.80%, this means that most likely is the effect of dividend announcement on stock return increases in companies engaged in the industry consumer goods.

Dividend reduction announcement does not affect stock returns before and after the ex-dividend date on the Indonesia Stock Exchange (IDX). It is characterized by the presence of a significant negative abnormal return on the day t +9. This means that if the company announced a dividend does not mean the return stock decreased. At the time of the dividend reduction may increase stock prices or stock prices can remain stable even is not affected by the reduced dividend, indicating the existence of external influences beyond internal effects associated with macroeconomic such as poverty and equity, exchange rate crises, external debt country, the banks and the credit crunch, inflation, economic growth and unemployment. Some argue fluctuations in stock price movements in the financial markets are very sensitive to changes in economic variables such as monetary and fiscal policies, and variable non-economic as political instability and even the nature of mere rumor (Widarjono, 2005) in Hardianto (2006). The company is engaged in the mining and infrastructure, utilities and transportation has the largest number in the group of companies that decreased dividends by the number 2 or 33.33%, this means that most likely there is no effect of the announcement of the return of dividend reduction shares in companies engaged in the mining and infrastructure, utilities and transportation is because the companies are engaged in the Mining and Infrastructure, Utilities And Transportation has considerable potential to advance that foster confidence for investors to keep buying the company's stock.

General conclusion that the dividend announcement could affect stock returns around ex-dividend date the stock 50 Biggest Market Capitalization can be seen in the increase in the dividend announcement, but investors must also consider external factors relating to macro economics poverty and equity, crisis of values exchange, foreign debt, banking and the credit crunch, inflation, economic growth, and unemployment. The study is in line with studies that have been made by previous researchers, including Sularso (2003), Riandaru (2006), Siaputra (2006), Pahlevi (2009), Pratiwi (2009) but differed with the opinion of the Nurmala (2006) that dividend policy has no effect on the share price at the auto companies that have gone public on the Jakarta Stock Exchange (JSX).

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