Analysis Performance of Stock Price of Spin Off Companies on the Indonesian Stock Exchange

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Keywords: Spin-off, Abnormal Return, Return on Assets, Buy and Hold Abnormal Return and Market-to-Buy Ratio

Abstract: The purpose of this study is to look at significant abnormal returns, buy and hold abnormal returns, return on assets, market-to-book ratios of parent companies and spin-off companies on the Indonesia Stock Exchange. This research is a research program using the type of data that is quantitative data taken from the Indonesia Stock Exchange database in 2009 - 2018. The population in this study are 8 companies in which there are 4 companies in the construction sector, 1 company in the retail sector, 1 companies in the consumption sector and 2 companies in the banking sector.

1 INTRODUCTION

A spin-off company is a subsidiary that is split from a parent company which then becomes an independent company. Spin-off decisions are made to restrict the focus of a particular business and leave other businesses that are relatively irrelevant or to get rid of businesses with low profit margins. Joel Greenblatt in his book entitled "You can be a stock market genius: uncover the secret hiding places of stock market profits" says that buying shares of spin-of companies can produce extraordinary returns because proven historically spin-off company stock consistently outperformed the market and parent company averages. The same thing was expressed by Peter Lynch in his book "One Up On Wall Street" saying that underneath one of the characteristics of The Perfect Stock is spin-off company shares. The profits of the parent company that do spin-offs can increase the efficiency of the parent company and reduce risk by reducing losses from non-strategic business units that lead to higher growth and performance of the parent company, which is able to make the share price rise.

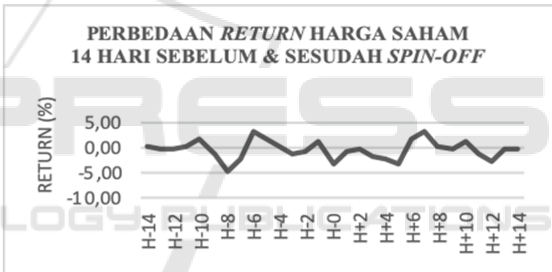

Figure 1.1.

In Figure 1.1 the company's stock returns PT. housing construction. TB 14 days before and 14 days after the spin-off where on the day the spin-off takes place (H-0) the share price drops by 2.87%. This reaction can be used by using returns as price changes or by using abnormal returns (Jogiyanto, 2013). Then the ROA ratio is used to see whether the assets that have been burdening the company after being allocated to the subsidiary through a spin-off that generates a return on assets.

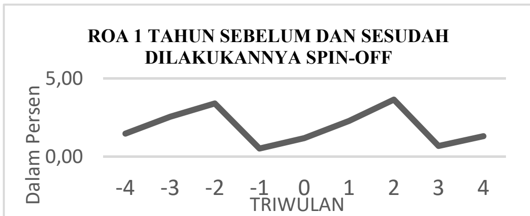

Figure 1.2.

Fakhri, M., Sadalia, I. and Silalahi, A.
Analysis Performance of Stock Price of Spin Off Companies on the Indonesian Stock Exchange.
DOI: 10.5220/0009199100690073
In *Proceedings of the 2nd Economics and Business International Conference (EBIC 2019) - Economics and Business in Industrial Revolution 4.0*, pages 69-73
ISBN: 978-989-758-498-5

In Figure 1.2 seen when the spin-off (Quarter 0) ROA has increased but in Quarter 3 has decreased sharply. Thus the allocation of assets by the parent company does not make the return on assets increase continuously. McConnel (2004) in his research found that Spin-off company stock prices outperformed index prices and holding companies, because spinoff companies have high valuations because the resources that were once owned by the parent company belonged to spin off companies.

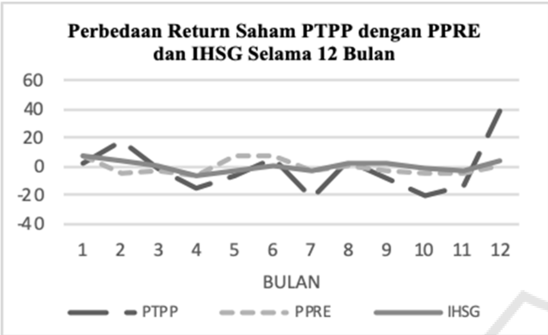

Figure 1.3.

In Figure 1.3 the spin off company return, namely PPRE (PT. PP Precision. Tbk) is only 3 times the share price outperforming the market and the parent company, PTPP (PT. Perumahan Perumahan. Tbk) Returns from long-term investments from companies that have completed an event (event) and sold after the length of time a person holds a predetermined hiolding period is a buy and hold abnormal return (BHAR). The ROA of the parent company and the spin-off company are compared to see who is the most superior in generating return on assets, whether the parent company separates the business divisions that have been less profitable or the spin off companies that receive assets from the parent company and become their own.

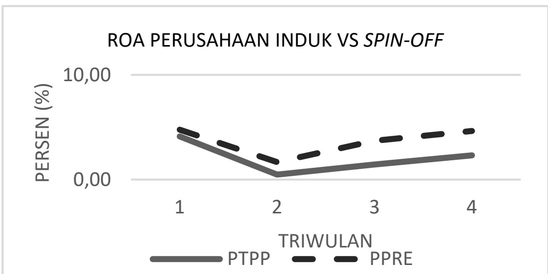

Figure 1.4.

In Figure 1.4 ROA spin-off companies are higher than the parent company. In this case the spin-off company is able to generate maximum return on assets than the parent company. Market-to-book ratio is a ratio that shows the extent to which investors are optimistics by comparing stock prices with book values, the higher this ratio indicates investors are more optimistic about the prospects and performance of the company in the future

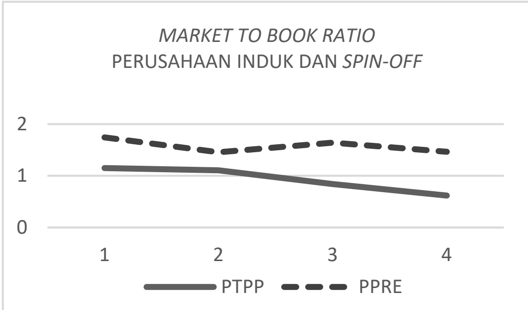

Figure 1.5.

In Figure 1.5, investors tend to be more optimistic about the performance and prospects of the spin-off company, namely PPRE (PT. PP Presisi .Tbk)

2 LITERATURE REVIEW

2.1 Stock

Stock can be defined as a sign of ownership or ownership of an individual investor or institutional investor or trader of their investment or the amount of funds invested in a company. Share characteristics include obtaining dividends, having voting rights at the GMS, it is possible to have Pre-emptive Rights or Right Issues, and there are potential capital gains or capital losses (Azis, 2015).

2.2 Stock Price

The stock price is a reflection of the sale and purchase transactions carried out between sellers and buyers in hoping that they will get benefit in the future (Suryawan, 2017). Stock prices are formed due to demand and supply from investors in the capital market

2.3 Stock Valuation

The reason for valuing a stock is to predict the future price of the stock or the potential movement of the stock in the market to determine the exact time when the stock is sold or bought. According to Tandelilin (2010) in valuing stock prices there are 3 valuations, namely: book value, market value and intrinsic value.

2.4 Nilai Buku

According to Marks et al (2012) book value is a concept on accounting that simply refers to the value of assets reflected in the company's financial statements. Sometimes book value is used as a benchmark in shareholders to buy or sell the company's shares

2.5 Return on Asset

Return on assets (ROA) is an indicator to determine the extent to which a company's ability to profit from its assets. One of the advantages of profitability ratios such as ROA is that this ratio not only measures profitability in terms of revenue or profit, but also refers to the capital needed (Gal, 2013).

2.6 Nilai Pasar

Market value is the value determined as the price at which buyers and sellers are willing to make the transaction (Vanderhoof, et al 1998). Market value is determined by supply and demand between sellers and buyers in the capital market. According to Marks et al (2012) market value can be considered as the highest value of business interest in the open market and market value is usually considered as the highest value for business.

2.7 Book-to-Market Ratio

According to Heal (2008) book-to-market ratio is the market value divided by the book value of its assets, which must represent the acquisition costs of these assets today. If the book-to-market ratio is more than 2, it means that the company's manager has made the value of the asset far higher than the value paid to obtain the asset and add value to the company.

2.8 Stock Price Performance

According to Best (2013) the performance of stock prices is an assessment of the number of transactions and share growth in a company. Stock price performance is considered important from the company's point of view because if the trend of stock price performance decreases, then the company's performance in the eyes of investors is bad. The weakening of the company's stock price performance is the advantage of the company's competitors.

2.9 Stock Return

Stock return is income that is stated in percentage of initial investment capital. Investment income in these shares is the profit gained from buying and selling shares, where if to be called capital gains and if losses are called capital losses (Samsul, 2006).

2.10 Abnormal Return

In finance, an abnormal return is the difference between an expected return of security and an actual return. Abnormal returns are sometimes triggered by "events". For example includes mergers, dividend announcements, productive company announcements, increased interest rates, lawsuits, etc. all of which can contribute to abnormal returns (Aggarwal, 1993).

2.11 Buy and Hold Abnormal Return

According to Mitchell (200) the buy and hold abnormal return is the return on the average long-term investment of a company that has completed an event and is sold after a predetermined hiolding period.

2.12 Corporate Action

Corporate action is an event that is approved by the board of directors and authorized by shareholders (Brose, 2014). In corporate action, every change in the company will affect the stock price and dividend flow. Reporting and taking timely corporate action is very important to assess risk and to determine the value of each share held (Kanna, 2010).

2.13 Divestment

There are three types of divestments. First, sales of operating units to other companies. Secondly, the sale of operating units to management is now through a Leveraged Buyout (LBO). Third, the separation of certain operating units to be independent from the company, while the shares are then shared pro-rata with the parent company. The third way is called a spin-off (Mardiyanto, 2008).

2.14 Spin-off

Spin-offs are divisions or business units that are separated from the parent company so as to create a new and independent business entity where usually the majority shareholder is the parent company (Uddin: 2010).

2.15 Research Purpose

Referring to the research problem formulation that has been described, the purpose of this study is:

1. Analyze whether there is a significant difference Abnormal Return of the parent company's stock before and after the spinoff
2. Analyzing whether there is a significant difference Return on assets of the parent company before and after the spinoff
3. Analyzing whether there is a significant difference between Buy and Hold Abnormal Return on the parent company and the spin-off company after the spin-off process
4. Analyzing whether there is a significant difference Return on assets in the parent company and the spin-off company after the spin-off process
5. Analyzing whether there is a significant difference Market-to-buy ratio in the parent company and the spin-off company after the spin-off process.

2.16 Benefit on Research

The benefits of this research include the following:

1. For investors. Useful to increase investor understanding of the performance of the company's stock price spin-off and be taken into consideration when investing in shares of companies that have already made a spin-off
2. For companies. As a basis and consideration for companies that intend to make a spin-off. The company can analyze the potential profits and losses that will arise before making a spin-off so that the company can formulate the right steps that can be taken to increase its share price.
3. For Academics. Useful as an additional reference that can be used as an alternative source or concept
4. For researchers. Useful for giving in formulating policies in order to provide the knowledge gained
5. For the Capital Market. As a basis for controlling or supervising issuers that carry out spin-offs. Thus the spinoff is expected to provide benefits to all parties.

3 METHOD

This research is an event study is a study that studies the market reaction to an event whose information is published as an announcement. The type of data used in this study is quantitative. Quantitative data is data in the form of numbers or qualitative data that are considered / scoring (Sugiyono, 2017). The data source used is secondary data. Secondary data is data that is already available by other parties so there is no need to be extracted directly from the source by researchers (Sinulingga, 2017). Data obtained from the database of the Indonesian branch office of the Indonesian branch of the Medan city. The sample in this study uses the Purposive Sampling method, in which the sample selected by the criteria of the holding company and spin-offs listed on the Indonesia Stock Exchange for the period 2009 - 2018, so that there are 8 sample companies that will be examined.

4 RESULT AND DISCUSSION

Based on the results of the analysis and discussion, the following conclusions can be drawn:

1. Based on the results of different tests on the variable abnormal return for 14 days before to 14 days after the event period, it was found that AR was significantly different or not significantly dependent on the time span of the comparison. Most abnormal returns after the spin-off showed a decrease but not significant. Thus, corporate actions carried out by the parent company by separating its business units through spinoffs are not used as information that attracts investors to buy shares that make spinoffs, where it is indicated by the existence of negative abnormal returns around the spinoff date, not yet fully proven and applies to all conditions.
2. Based on the results of different tests of return on assets during the event period, which is 4 quarters before up to 4 days after, it was found that ROA is significantly different or not significant depending on the time span of the comparison. Most ROA after the spin-off showed a decrease. This result does not match the efficiency of the assets.
3. Based on the results of different buy and hold abnormal return tests between the parent company and the spin-off company, it was found that the parent company and the spin-off company did not outperform the JCI for 12 months and did not differ significantly, but the parent company's stock price growth was superior to that of the parent company spin-off company. The parent company's stock return is superior to the spin-off company, indicating that investors prefer to invest in the parent company because it is considered more mature and more convincing performance in

the future by separating divisions that have been burdening the parent company's performance.

4. Based on the results of different return on asset tests between the parent company and the spinoff, it was found that ROA was not significantly different. The majority of the parent company's ROA and spinoff has decreased this indicates that the efficiency of the assets of the parent company and the receipt of valuable assets from the parent company belonging to the spin-off company does not make the company's net profit on assets increase.
5. Based on the results of the market-to-book difference test between the parent company and spin-off, it was found that the parent company MtB and spin-off decreased and were not significantly different. The decrease in MtB that occurred at the parent company and spinoffs indicated that market optimism towards the parent company and spinoffs decreased which resulted in the company's market value falling against the book value

Based on the conclusions above, some suggestions can be given, namely:

1. Based on the results of this study, investors who want to buy and sell shares in companies that do business units (spin-offs) should not make this information the only benchmark in investment decision making, but also need to consider factors other factors such as the financial performance or fundamentals of the company concerned
2. The results of this study are useful for the Indonesia Stock Exchange to control and supervise for companies that will or have already conducted spinoffs. BEI can create a special index of spin-off companies for spin-off companies, to be able to monitor historically and make it easier for investors to see stock price movements and the fundamental performance of spin-off companies
3. The results of this study can also be considered by companies listed on the Indonesia Stock Exchange who want to do spin-offs to better plan for more mature business and need to seriously calculate the initial investment that will be prepared for spin-offs. So that the spin-off process conducted by the company becomes attractive for investors who want to invest in the parent company and the spin-off company itself

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