STOCK MARKET REACTION TO DIVIDEND ANNOUNCEMENT IN INDONESIAN LISTED COMPANIES

By

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ABSTRAK


Kata kunci: kumulatif abnormal return, pengumuman dividen, event study
ABSTRACT

This study aims to investigate the share price reaction to dividend announcement. It also examines whether or not the cumulative abnormal return (CAR) is affected by control variables which include dividend change, earning change, dividend yield, normal trading volume, pre-cumulative abnormal return (PRECAR) and firm size. This study uses two methods to estimate the model. The first method is event study and the second method is Ordinary Least Square (OLS) regression. The sample firms utilized in the event study and OLS regression are 415 and 243 companies respectively which are listed on the Indonesia Stock Exchange (IDX) during 2006 – 2010. The findings from the event study analysis indicate the share price reaction to dividend announcement is positive for dividend increase and negative for dividend decrease. The OLS regression result shows that the PRECAR variable is positive and significant while the other independent variables are insignificant.

Keyword: cumulative abnormal return, dividend announcement, event study
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<th>Description</th>
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<tbody>
<tr>
<td>AMEX</td>
<td>American Stock Exchange</td>
</tr>
<tr>
<td>ASSET</td>
<td>Total Assets</td>
</tr>
<tr>
<td>BETA</td>
<td>Systematic Risk</td>
</tr>
<tr>
<td>BLUE</td>
<td>Best Linear Unbiased Estimator</td>
</tr>
<tr>
<td>BOARD</td>
<td>Board Ownership</td>
</tr>
<tr>
<td>CAR</td>
<td>Cumulative Abnormal Return</td>
</tr>
<tr>
<td>CLT</td>
<td>Central Limit Theorem</td>
</tr>
<tr>
<td>DEBT</td>
<td>Total Debt</td>
</tr>
<tr>
<td>DIV</td>
<td>Dividend Change</td>
</tr>
<tr>
<td>DW</td>
<td>Durbin-Watson</td>
</tr>
<tr>
<td>DY</td>
<td>Dividend Yield</td>
</tr>
<tr>
<td>EARNCHG</td>
<td>Earnings Changes</td>
</tr>
<tr>
<td>EARNVOL</td>
<td>Earnings Volatility</td>
</tr>
<tr>
<td>IDR</td>
<td>Indonesian Rupiah</td>
</tr>
<tr>
<td>IDX</td>
<td>Indonesian Stock Exchange</td>
</tr>
<tr>
<td>INST</td>
<td>Institutional Holdings</td>
</tr>
<tr>
<td>JSX</td>
<td>Jakarta Stock Exchange</td>
</tr>
<tr>
<td>KLSE</td>
<td>Kuala Lumpur Stock Exchange</td>
</tr>
<tr>
<td>KSE</td>
<td>Karachi Stock Exchange</td>
</tr>
<tr>
<td>LEV</td>
<td>Leverage</td>
</tr>
<tr>
<td>NASDAQ</td>
<td>NASDAQ Stock Market</td>
</tr>
<tr>
<td>NV</td>
<td>Normal Trading Volume</td>
</tr>
<tr>
<td>NYSE</td>
<td>New York Stock Exchange</td>
</tr>
<tr>
<td>OLS</td>
<td>Ordinary Least Squares</td>
</tr>
<tr>
<td>PRECAR</td>
<td>Pre-Cumulative Abnormal Return</td>
</tr>
<tr>
<td>PTB</td>
<td>Price to Book Ratio</td>
</tr>
<tr>
<td>Q</td>
<td>Tobin’ Q Rate</td>
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<td>ROA</td>
<td>Return on Assets</td>
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<tr>
<td>ROE</td>
<td>Return on Equity</td>
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<tr>
<td>RUPS</td>
<td><em>Rapat Umum Pemegang Saham</em></td>
</tr>
<tr>
<td>SIZE</td>
<td>Size of Company</td>
</tr>
<tr>
<td>SSX</td>
<td>Surabaya Stock Exchange</td>
</tr>
<tr>
<td>VIF</td>
<td>Variance Inflation Factor</td>
</tr>
<tr>
<td>YEAR</td>
<td>Year of Company</td>
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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In the last decade, a company’s dividend policy and its effects on the value of the company has generated interest among researchers in the field of finance. Accounting and financial analysts were more interested in corporate performance, cash flow analysis and solvency issue. The research on dividend policy today focuses more on the relationship between dividend policy and its effect on the price of the stock. This includes trying to come up with a model which would explain the relationship between the two variables. The researchers have formulated three assumptions about the issue. Firstly, dividend has a positive impact on stock price. Secondly, stock price is negatively related to dividend policy and finally, firms’ dividend policy is irrelevant to stock price valuation.

Miller and Modigliani (1961) create an assumption based on perfect capital market situations which express an idea about how dividend affects the firm value. They postulate that dividends do not impact the firm value in a perfect capital market scenario. In other words, the value of a firm is independent of its dividend policy. Meanwhile, Gordon (1959) makes a statement on the dividend discount model which explains that the dividend payment augmentation should be accompanied by the increase in value of a company. The income generated by a company could be used to settle debt or allocate cash dividend to shareholders. The issues that have been discussed include whether a company should allocate its income to shareholders by
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REFERENCES


