THESIS

ANALYSIS OF THE EFFECT OF STOCK SPLIT ON STOCK PRICES AND STOCK RETURNS IN COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE (IDX) 2017-2019 PERIOD

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MANAGEMENT DEPARTMENT
FACULTY OF ECONOMIC AND BUSINESS
UNIVERSITAS HASANUDDIN
MAKASSAR
2021

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is my own research and to the best of my knowledge there is no other scientific works that has been submitted by others to obtain an academic degree in other universities or academic institutions, and there are no works or opinions that have been written or published by others except those cited in the text and mentioned in the bibliography.

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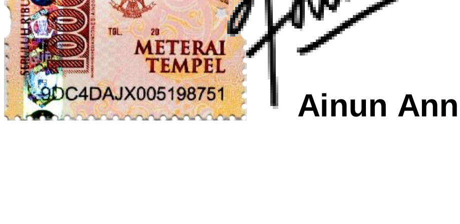

Ainun Annisa

PREFACE

Assalamualaikum Wr.Wb

All perfect praises belong to the Almighty alone, Allah SWT. The only one who has bestowed mercy, bestiwed his grace, blessing, and guidance to me so that I can complete my final thesis entitled “Analysis of the Effect of Stock Prices and Stock Returns in Companies Listed on the Indonesia Stock Exchange (IDX) 2017-2019 Period”

This thesis is one of the requirement for taking the final examination of the Bachelor of Economics at the Faculty of Economics and Business in Universitas Hasanuddin.

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Ainun Annisa

ABSTRACT

Analysis of the Effect of Stock Split on Stock Prices and Stock Returns in Companies Listed on the Indonesia Stock Exchange (IDX) 2017-2019 Period

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To invest in a company, investors usually react if there is a stock split taken by the company. The market reaction can be measured using stock prices and stock returns after the stock split. This study analyzes the effect of stock split on stock prices and stock returns in companies listed on the Indonesia Stock Exchange with population companies listed on the Indonesia Stock Exchange in the 2017-2019 period. The sample used in this study amounted to 29 companies using the purposive sampling method. The type of research used in this research is event study research with the total observation 11 days. Hypothesis testing is done by using the Wilcoxon Signed-Rank test and Paired Sample T-Test. Before this test was carried out, the normality test was conducted first with the Kolmogorov-Smirnov. This study indicates that the stock split does not positively and significantly affect stock prices and stock returns.

Keywords: Stock Split, Stock Prices, Stock Returns

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CHAPTER I

INTRODUCTION

1. 1 Background

The rapid development of Indonesia's economy today can be seen from the number of companies listed on the Indonesia Stock Exchange (IDX). This happens because one way for companies to get funds is to withdraw funds from outside the company from the capital market. According to (Tandelilin, 2010), the capital market is a meeting between parties who have advantages and need funds by trading securities (shares). According to (Kusumawati, 2014), company funding sources can be obtained from internal and external funding sources. External sources of funding are one way to meet the costs of growing company activities because it is no longer possible for companies to get funding through internal sources and loans from creditors due to creditors' limited debt level. One of the right ways if a company wants to get external funding sources is through the capital market.

Companies that decide to get additional capital from the capital market will decrease the company's share ownership percentage. The company has an obligation to provide information to the public, especially investors, to assess its condition. Investors, when investing, will take into account the return they will get. Investors try to get the maximum return and minimize the risk that will be borne. In addition to calculating the returns obtained from each investment activity carried out, investors will also pay attention to the level of share prices as an indicator in determining their investment. The share price reflects the value of a company. If the level of a company's share price can be very high, there is a tendency that the company has good prospects in the future. However, if the stock price is too high, it can also have an adverse impact because too high a stock will also cause the company's shares to become liquid. Likewise, a stock price that is too low often means that the company is underperforming. Therefore, every company that issues shares will pay close attention to the market price of its shares.

The level of stock prices is a factor that affects the supply of shares and demand for shares. If the level of the share price is considered high by investors, then the demand will decrease. Meanwhile, if the level of share prices is low, the amount of demand will increase. Investors' perceptions of the stock price level will determine the balance of supply and demand for shares. When investors consider the stock price level to be too expensive, investor interest will decrease. Changes in stock prices and stock returns can occur if there is information circulating in the market.

According to (Brigham & Houston, 2007), the market can be said to be efficient if the stock price quickly reflects all the information available in the market. This states that the information available in the market can influence the ups and downs of stock prices. This information relates to actions that must be announced to the public and related to corporate actions, commonly referred to as corporate actions. A corporate action is a news/announcement that generally attracts related parties' attention in the capital market. Therefore, the company will strive to maintain the share price at a reasonable and ideal range so that it is within the majority of potential investors' limits. To restructure stock prices and stock returns, companies usually take corporate actions is a stock split.

The stock split is one of the actions that a company usually takes if the price per share is considered too high so that it will reduce the ability of investors to buy it, the goal is to lower the stock price, and it is hoped that the company's shares will be more actively traded so that many investors can own it (Tobing & Pratomo, 2014). According to (Prasetyo et al., 2015), a stock split is an activity to split a share into several shares (n shares). The price per new share after the stock split is 1 / n from the previous price. According to (Halim, 2018), a stock split is a company's action to split the number of one share into more shares with a lower nominal per share. For example, the number of shares outstanding is 2 million shares with a value of IDR 1,000 per share. The company's equity value is 2 million x IDR 1,000 = IDR 2 billion. The company breaks down from 1 share to 2 shares, then the price per new share becomes IDR 500, and the number of shares outstanding is 4 million shares. The value of the company's equity has not changed, fixed at 4 million x IDR 500, - = IDR 2 billion.

Meanwhile, according to (Baker & Powell, 1993), states that the stock split is a "cosmetic" change. This is because a stock split is an effort made by companies to make their shares attractive to investors. This will create an illusory effect for investors because it seems as if they will hold more shares and become prosperous. The stock split actually has no economic value, but this will have a big impact on its shares' liquidity. According to (Wijanarko, 2012), generally, companies that do stock splits have good performance, which can be seen from their high share prices.

According to (Indriyani, 2005), this has also been supported by a signaling theory which states that if the company's stock price is considered too high by investors when the company carries out a stock split, this is considered to give a good signal. to investors, because the company will have good prospects in the future, where a high stock price is considered a signal that reflects the company has a good performance so that it can provide the expected return in the future. According to (Tobing & Pratomo, 2014), a stock split is an effort to increase and maintain stock trading liquidity, affecting the amount of return that will be obtained. Return is the level of return that investors are interested in on an investment they do.

A stock split can be done when the stock price tends to decline and the stock market is in a bearish condition. In the face of a sluggish (bearish) capital market, many companies take pro-active steps to keep their shares attractive in the market. Several companies on the Indonesia Stock Exchange (IDX) conducted stock splits in the 2017-2019 period. Data on companies that carried out a stock split on the Indonesia Stock Exchange (IDX) is shown in table 1.1.

Tabel 1.1: Companies that Conducted Stock Split in the 2017-2019 Period

No.	2017	2018	2019
1.	PSKT	TOWR	TAMU
2.	PPRO	CLEO	PTSN
3.	KKGI	TOPS	TMAS
4.	IIKP	GEMA	BRPT
5.	BFIN	IKAI	JSKY
6.	SMDR	MARI	MDKA
7.	MEDC	BUVA	ANDI
8.	BMRI	KPIG	TBIG
9.	INAI	-	-
10.	ESSA	-	-
11.	BBRI	-	-
12.	MKNT	-	-
13.	PTBA	-	-

Source: ticmi.co.id

Based on the table above, PT. Bank Rakyat Indonesia Tbk (BBRI) again carried out corporate action, namely a stock split on November 10, 2017, with a ratio of 1: 5. Previously, the company made a similar move in 2011. According to Hari Siaga Amijarso, who is the Corporate Secretary of BRI, explained that the background of the Company choosing to conduct a stock split was due to the stock price of PT. Bank Rakyat Indonesia (BBRI) has experienced an increase in the last 5 years with a CAGR (Compound Annual Growth Rate) of 14.02 percent. However, the stock trading volume shows a downward trend in line with higher stock prices (KOMPAS.com).

In 2019, based on historical data, it can be seen that the weight of the shares of PT. Bank Rakyat Indonesia Tbk (BBRI) has managed to increase by 1% point since carrying out a stock split in 2017 to 2019. (CNBCINDONESIA.com). This proves that the stock split results give a positive reaction to the market because investors get information from the company that the previously high stock price becomes smaller in nominal value as a result of the nominal share price split itself. The effect of a stock split on stock returns was also stated by (Fatmawati & Asri, 1999), which stated that after a stock split, the stock price would tend to fall and then rise again. So that traded shares will be more liquid and in demand by investors. An increase will follow the increase in share prices in stock returns. In this case, when the company carries out the stock split, there is a possibility of an abnormal return, which can be seen from the number of stock returns that investors receive. According to (Hartono, 2017), abnormal return is the difference between the return that actually occurs and the return expected by investors.

Also, the impact of a stock split on stock returns was stated by (Grinblatt et al., 1984), which states that around the stock split announcement, there is an abnormal stock price behavior. The decline in price after the stock split is expected to be followed by an increase in stock returns, and an increased return will attract investors to invest so that it can be seen that the stock split contains one information, where the capital market can react by showing changes in abnormal returns and the company stock prices.

Research on stock splits has been conducted previously by previous researchers, where the research discusses stock prices and stock returns. These studies have found mixed results. According to (Farinha & Basilio, 2006), in his research entitled stock split: real effects or just a question of maths? An empirical analysis of the Portuguese case shows a significant abnormal return at the time of the announcement and the period after the announcement of the stock split. According to (Tobing & Pratomo, 2014) in his research, it shows that stock splits have a significant effect on stock prices before and after the company conducts a stock split. According to (Sibangariang, 2014), his research that uses variable stock prices, stock returns, and trading volume, shows that there are differences in stock price variables before the stock split and after the stock split. Besides, according to (Khajar, 2016), in his research entitled stock split analysis of stock prices and stock trading volume, the LQ-45 index for the 2010-2016 period stated that stock prices rose and a positive abnormal return after the company conducted a stock split.

However, on the other hand, there are different research results found by previous researchers. According to (Tondang, 2015), who conducted a study entitled analysis of stock splits' effect on stock liquidity and stock returns in companies listed on the Indonesia Stock Exchange, stated that stock splits had no significant effect on stock returns. Also, according to (Mahala et al., 2015), who conducted a study entitled stock price analysis before and after the stock split showed that with a stock split, the market did not respond positively, so that there was no significant difference in stock prices before and after the stock was made. Split. Besides, according to (Diky, 2003) and (Retno, 2006), who conducted a study entitled the effect of a stock split on changes in market share prices on the Jakarta Stock Exchange, it was concluded that the stock split had no significant effect on changes in stock market prices. This study is consistent with the research conducted by (Copeland, 1979) entitled liquidity change following a stock split. The same thing was also found by (Djajasaputra, 2009), who examined the comparative analysis of stock prices, stock trading volume, and stock abnormal returns before and after a stock split. The result is that there is no difference in stock prices, stock trading volume, and stock abnormal returns before and after the stock split.

This research is an event study, which is a study that investigates the market reaction to the information content of a particular announcement or publication of certain events (Tandelilin, 2010). According to (Bodie et al., 2018), explains that event study is an empirical research technique in finance that allows researchers to assess the effect of certain events on stock prices or stock returns of a company. Based on this, the researcher wants to retest some of the research that has been done before and develop it so that it can prove the correctness of the theory from previous research which is still feasible or not if applied to the present by conducting a research entitled "**Analysis of the Effect of Stock Split on Stock Prices and Stock Return in Companies Listed on the Indonesia Stock Exchange for the 2017-2019 Period** ".

1.2 Research Questions

1. Does the stock split have a positive and significant effect on stock prices in companies listed on the Indonesia Stock Exchange?
2. Does the stock split have a positive and significant effect on stock returns in companies listed on the Indonesia Stock Exchange?

1.3 Research Purposes

The research purposes to be achieved by the author in conducting this research are:

1. To analyze the effect of the stock split on the company's stock price on the Indonesia Stock Exchange for the 2017-2019 period.
2. To analyze the effect of the stock split on the company's stock return on the Indonesia Stock Exchange for the 2017-2019 period.

1.4 Significance of The Study

As for some of the benefits expected from this research are as follows:

1. Theoretical Benefits

   This study can be used as a reference for further expansion of research and can be used as a source of information to increase and increase knowledge and insight about the effect of stock splits on stock prices and company stock returns on the Indonesia Stock Exchange (IDX).

2. Practical Benefits

   a. Author

      The results of the research conducted can provide proof that the knowledge that has been put forward, in theory, can be proven empirically. In addition to increasing knowledge in the field of the capital market.

b. Investors

This research is expected to provide input to investors to determine the performance of the company's stock price and the return that can be obtained after the company has conducted a stock split and minimize the risk of future shares so that investors can make decisions to hold, sell or buy shares when the stock split announcement occurs.

c. Agencies and Companies

The results of this study are expected to be one of the basic considerations for companies in making decisions in the financial sector, especially to achieve financial management goals, namely maximizing the value of shareholder wealth and can contribute to the development of science in finance, particularly regarding the effect of stock splits on stock prices and stock returns in companies listed on the Indonesia Stock Exchange (IDX).

1.5 Structure of Research

The writing of this proposal is divided into five chapters. The preliminary section encompasses the title of the thesis, approval sheet, validation page, statement of authenticity, preface, abstract, table of contents, list of images and graphics, list of tables, and list of attachments.

Chapter I: Preliminary – generally explains the background regarding the research's object, formulation of the problem, the research purpose, and the systematic research.

Chapter II: Literature review – focused in review of literature that consists of explanation of grand theory that used in the research, as well as the lists of previous research related to the topic researcher choose and the conceptual framework of the research before the hypotheses concluded.

Chapter III: Research method – gives explanation about the methodology used by the research in order to gain and processing the data, and discuss about the type of research carried out in the paper along with variables, type and sources of data, population and sample, method of collecting data and data analysis technique.

Chapter IV: Research finding and discussion – contains general description of the research object, respondent's identity, reliability and validity test, moderated regression analysis, research instrument test, hypotheses test and discussion.

Chapter V: Conclusion and suggestions – contains the results of conclusion from the discussion in the previous chapter as well as the suggestion given by the researcher related to the results of the study.

CHAPTER II

LITERATURE REVIEW

2.1 Grand Theory

2.1.1 Signaling Theory

Signaling theory was first introduced by (Spence, 1973) in his research entitled Job Market Signaling. This theory involves two parties, namely an insider such as management who acts as a party providing a signal and an outside party such as an investor who acts as a party receiving the signal. Spence said that by providing a signal, management tries to provide relevant information that investors can use. Then, the investor will adjust his decision according to his understanding of the signal.

According to (Brigham & Houston, 2007), the signaling theory explains why companies present information for the capital market. This information provides an overview of the company's prospects. In general, signals are interpreted as signals made by the company (manager) to outsiders (investors), hoping that external parties will change the company's value. Signaling theory suggests how companies should provide signals to interested parties. That is, the signal chosen must contain the strength of information to change the external party's assessment of the company.

According to (Ijak, 2018), the signaling theory explains that in any event in the form of announcements, corporate actions, or publications regarding a company, whether intentional or unintentional, will have a load of information that is used as a signal to be conveyed to investors. According to (Baker & Powell, 1993), the signaling theory used in the stock split explains the information asymmetry because management has more information related to the company's prospects than outsiders (investors). In this case, when the company carries out a stock split, it will give a positive signal to investors because, of course, the company manager will provide good prospects in the future to outsiders (investors) who don't know about it. Information is the most important element for investors and companies because information essentially provides information, records or descriptions for the past, present and future conditions for the company's survival. Investors in the capital market need complete, relevant, accurate, and timely information as an analytical tool for making investment decisions.

The company's reason for doing a stock split is that, basically, the company has good prospects in the future due to its performance. If the company's past performance is poor, investors will give a negative signal because investors will no longer trust it. Based on the opinion of the researchers, it is stated that the policy of a company to do a stock split, that is, seen from the condition of a company that is healthy, especially in terms of company finances or has good fundamentals, because if the company does a stock split, it cannot be considered that the company is in a fall stock condition. So, when the market reacts to the stock split announcement, this reaction is sole because investors know the company's prospects where the clarity of this theory can be seen from the signs that describe a company's condition.

According to (Kunz & Rosa-majhensek, 2008), announcing a company's stock split can reduce the occurrence of information asymmetry between company management and investors by giving positive signals in advance about the company's prospects. Signaling theory states that stock splits can provide information to investors regarding the prospects for a substantial increase in future returns. An increasing return is predictable and is a signal associated with short-term profits and long-term profits.

The signaling theory also states that managers will only split shares if they are optimistic that the company's stock price will increase again or at least its share price will not decline. However, if the manager considers that if the stock split decision decreases its stock price, the manager will not decide to do the stock split. If this happens at a relatively low stock price, it will increase the transaction costs incurred (Retno, 2006).

2.1.2 Event Study

According to (Sitthipongpanich, 2011), an event study is an empirical analysis used to measure the effect of stock prices on an event. The event study is an essential method because it can evaluate the impact of a company's policy. According to (Noor Rokhman et al., 2009), an event study is a way to find out market reactions resulting from an event whose information is published as an announcement. If an announcement contains information, it is expected that the market will react to the announcement. According to (Djajasaputra, 2009), market reactions can be measured using stock prices, abnormal returns, and stock trading volume. The published information can be in the form of:

1. Information sourced from internal companies (corporate action), only affects the price of securities of the company that published the information.
2. Information that affects the prices of several companies' securities. This information can be in the form of government regulations or regulatory regulations, which only impact the securities of the companies subject to the regulation.

3. Information affecting the price of securities of all companies listed on the capital market. This information can be in the form of government regulations or regulatory regulations that affect all listed companies.

According to (Peterson, 2013), an event study is a research method that observes events in stock prices in the capital market. Besides, according to (Hartono, 2015: 263), an event study is a study that studies market reactions to an event whose information is published as an announcement. Market reactions resulting from an event related to corporate action, namely, one of the stock split announcements made by companies listed on the Indonesia Stock Exchange (IDX) to determine whether or not shareholders obtain an abnormal return. Because an event will change investors' perceptions causing unusual movements during the announcement period.

There are various kinds of terms in the event study, such as event window, event date, and estimation period. The estimation period is also called the event window, which has various lengths. The event window's length generally ranges from 3 - 121 days for daily data and 3 months - 121 months for monthly data. Meanwhile, the estimation period commonly used is around 100 days - 300 days for daily data and around 24 - 60 months for monthly data. According to (Kritzman, 1994), the purpose of the event study is to measure the relationship between an event and the rate of return of the security. Also, event studies can measure the impact of an economic event on firm value.

The standard methodology that is usually used in event studies, according to (Tandelilin, 2010: 127-128) is:

1. Collect samples, namely companies that have an announcement that shocked the market (event). Price changes can occur if there is an event that

surprises the market, for example, the announcement of a company that will conduct a merger, stock splits, issuance of new shares or an announcement regarding company earnings. However, the important thing to note in using earnings as an event is that we need to determine that the earnings information must shock the market. Shocking earnings announcements occur when the earnings are not by the expected amount.

2. Determine the day of the announcement or event.
3. Determine the observation period. The observation period is usually counted in days. If the study counts 30 days around the announcement, then the 15 days before the announcement are marked with - 15, -14, -13, ..., -1. Simultaneously, the day of the announcement will be marked with 0 and 15 days after that marked with +1, +2, +3, ..., +15.
4. Calculating the return of each sample every day during the observation period.
5. Calculating the abnormal return, which is calculated by subtracting the actual return that actually occurs with the expected return. Some studies use market equilibrium models to calculate expected returns, while some other studies usually use market indices:

$$AR_{it} = R_{it} – R_{mt}$$

Information:

AR_{it} = abnormal return of securities i on day t

R_{it} = return saham of securities i on day t

R_{mt} = market return or expected return

6. Calculate the average abnormal return of all samples each day. From the data obtained, we can describe the effect of the event on price changes during the specified observation period.
7. Sometimes, the daily abnormal returns are combined to calculate the cumulative abnormal return over a certain period. For example, the cumulative abnormal return is calculated for 15 days before the announcement. Then it is compared with the cumulative abnormal return 15 days after the announcement.
8. Studying and discussing the results obtained. The data obtained are then described and concluded to determine the impact of the announcement on the price changes.

2.1.3 Stock Split

The stock split is the action of splitting the stock price. One of the ways companies change stock prices is by conducting a stock split. The stock split is the action of splitting the nominal value of shares into a smaller nominal value. According to (Brigham & Houston, 2007), the company's stock split is a step to increase the number of shares outstanding, such as increasing the number of shares outstanding by multiplying the number of shares outstanding by giving two new shares to each shareholder for every one share it previously owned. According to (Prasetyo et al., 2015), a stock split is an activity to split a share into several shares (n shares). The price per new share after the stock split is 1 / n from the previous price. The stock split is also defined as breaking the nominal value of stock into smaller fractions and the number of shares into a large number.

The stock split is an activity carried out by company managers by making changes to the number of shares outstanding and the nominal value per share following the split factor. The split factor compares the number of shares outstanding before the stock split with the number of shares outstanding after the stock split. If before the stock split, the share price in the market was IDR 1,000 per share, then after the stock split, the price of the new shares that prevailed in the market would be IDR 500 per share (Indriyani, 2005). For example, the number of shares outstanding is 1 million shares with a value of IDR 1,000 per share. The value of the company's equity is 1 million x IDR 1,000 = IDR 1 billion. The company breaks down from one share into 2 shares so that the price per new share is IDR 500, and the number of shares outstanding is 2 million shares. The value of the company's equity has not changed, fixed at 2 million x IDR 500, - = IDR 1 billion (Hartono, 2015).

Usually, a stock split is carried out when the stock price is considered too high, thereby reducing investors' ability to buy shares. Therefore, in reality, a stock split does not add value to the company. In other words, a stock split has no economic value because a stock split is simply replacing the outstanding shares by reducing the value of the shares. In contrast, the balance of stock capital and retained earnings remains the same. The number of stock split events in the capital market indicates that a stock split is an important tool in capital market practice because a stock split is a management tool to form the company's market price, and in the capital market if a company has a good performance, the stock price will increase faster. With a stock split, the company's shares in the capital market will be cheaper, and the number will be higher. According to (Hogan, 2017), this stock split tends to have a more positive effect on long-term investors because the company is profitable. Usually, companies that do stock split are companies with good fundamentals, but whose share prices are too high (expensive) to trade.

Basically, according to (Suryansyah et al., 2018), two types of stock splits can be done: stock split-up and stock split-down.

1. Stock split-up

   Stock split-up is a decrease in par value per share which increases the number of shares outstanding. For example, a stock split with a split factor of 2: 1, 3: 1, and 4: 1. Stock split with a 2: 1 split factor means that two new shares (the sheet after the stock split) can be exchanged for one old share (the sheet before the stock split). Stock split with a 3: 1 split factor means that three new shares (the sheet after the stock split) can be exchanged for one old share (the sheet before the stock split) and so on.

2. Stock split-down

   Stock split-down is an increase in par value per share and reduce the number of shares outstanding. For example, solving down with a solution factor of 1: 2, 1: 3, 1: 4. Stock split with a 1: 2 split factor means that one new share (the sheet after the stock split) can be exchanged for two old shares (the sheet before the stock split). Stock split with a 1: 3 split factor means that one new share (the sheet after the stock split) can be exchanged for three old shares (the sheet before the stock split) and so on. The purpose of the split down is to increase the stock price in the market so that the company image increases. So far, the companies have only conducted stock splits-up, and reverse stock cases (stock split-down) are rare.

Several market players, especially issuers, believe that stock splits have various benefits, including (1) making stocks more attractive to investors. Because psychologically, investors are more interested in buying cheaper stocks. With more and more investors interested in this stock, the price will likely increase, even though there is no guarantee that (2) it increases the attractiveness of small investors to invest, and (3) the number of shares outstanding becomes more many investors invest. The more shareholders, the more liquid the market is (Nurfitri S & Tjun, 2009). The Board of Directors will inform the information regarding the stock split policy based on the General Meeting of Shareholders (GMS). According to (Susanti, 2005), argues that most companies carry out stock splits intending to keep stock prices at the optimal trading range to increase shareholder liquidity. Besides, it was found that after the company conducted a stock split, stock prices tended to fall and then rise again. According to (Brigham & Houston, 2007), a company's average stock price will increase after the company announces a stock split. If a company does not announce an increase in profit, its share price will fall back to its original level.

2.1.4 Stock Price

According to (Putranto & Darmawan, 2018), the stock price is the price that occurs on the stock exchange at a certain time. Stock prices can change up to or down in a matter of time very quickly. It can change in a matter of minutes, and it can even change in a matter of seconds. This is possible depending on the demand and supply between the buyer of shares and the seller of shares. According to (Hartono, 2015), the stock price is the price that occurs on the stock exchange at a certain time, and market players determine the share price. The high and low stock price is determined by the supply and demand for shares in the capital market and is usually the closing price. According to (Pahlevi, 2012), the company's value can be seen from the price of shares owned by the company. The company's total value is the sum of the two value components, namely the market value of equity plus the market value of debt. The measure of investor wealth focuses on the performance of the company's stock price. According to (Brigham & Houston, 2007), several factors influence stock price fluctuations, namely internal factors and company external factors. The company's internal factors that affect stock prices, namely:

a. All of the company's financial assets, including shares, generate cash flow.
b. When cash flow occurs, the receipt of money or profit is reinvested to increase additional profit.
c. The level of risk of cash flows received.

Meanwhile, external factors that can affect stock prices are the country's economic conditions, social and political conditions, growing rumours, tax laws, interest rates, and stock market conditions. According to (Rinati, 2016), the factors that affect stock prices can be divided into three categories, namely:

a. Fundamental Factors

   Provide information about company performance and other factors that can influence it. These factors include:

   1) Management's ability to manage operational activities.
   2) The company's future business prospects.
   3) Marketing prospects of the business being carried out.
   4) Technological developments in company operations.
   5) The company's ability to generate profits.

b. Technical Factors

   Presenting information that describes the market for an effect either individually or as a group. In assessing stock prices, many analysts pay attention to several things, such as the following:

   1) The state of the capital market.

2) The development of exchange rates.

3) Volume and frequency of interest rate transactions.

4) The power of the capital market in influencing the company's share price.

c. Socio-Political Factors

A country also influences the stock price on the stock exchange due to the response to external conditions that can affect the company's condition. These include the following:

1) The rate of inflation that occurs.

2) Monetary policy undertaken by the government.

3) Economic conditions.

4) The political situation of a country.

It can be seen that if a share of a company experiences excess demand, the stock price tends to rise. Conversely, if the supply is excess, the share price tends to fall. According to (Hasibuan & Chalili, 2016), stock prices describe the value of a company for investors. The better the company manages its business for profit, the higher its value in the eyes of investors. Even though the company has good performance, prices may fall depending on market conditions. According to (Rusdin, 2008), share value is divided into three types, namely:

1. Par Value

The nominal value is the value stated on the shares concerned, which functions for accounting purposes. The nominal value must exist and be stated on the share securities in the rupiah currency, not in a foreign currency.

2. Base Price

The base price of a share is closely related to the market price of a share. In principle, the basic price of shares is determined from the initial price when the shares were issued, and this base price will change in line with the company's actions related to shares, including rights issues, stock buyback, warrants, and others. The base price is used in the calculation of the stock price index.

3. Market Price

The market price is the easiest price to determine because the market price is the market price share in the ongoing market. If the market for securities is closed, the stock market price is the closing price. So the market price is what states the ups and downs of a stock.

To see the development of a company's stock price can be seen through the company's stock price index. The stock price index is an indicator used to show stock price movements. The index movement describes how the market conditions on the exchange, whether the market is active or sluggish. The function of the stock price index, namely, as an indicator of market trends, as an indicator of the level of profit, as a benchmark for a portfolio, facilitates a portfolio with a passive strategy and is useful for facilitating the development of derivative products.

2.1.5 Stock Return

An investor always expects a return on his investment. According to (Brigham & Houston, 2007), the return is the difference between the amount received and the amount invested and divided by the amount invested. Based on this definition, it can be seen that stock return is the rate of return in the form of returns obtained from an investment. Besides, according to (Halim, 2018: 300), stock returns can be referred to as stock returns and is a change in the value of the stock price period t with t-1, which means that the greater the change in stock prices, the higher the stock return. The greater the expected return, the greater the chance of risk that occurs. Conversely, the smaller the expected return, the smaller the risk that must be borne. According to (Brigham & Houston, 2007), some factors affect stock returns, including:

1. Internal Factors
   a) Announcements regarding marketing, production, sales such as advertising, contract details, price changes, new product recalls, production reports, product safety reports, and sales reports.
   b) Funding announcements, such as announcements relating to equity or debt.
   c) Announcements of the management board of directors such as changes and changes to managing directors and organizational structure.
   d) Announcement of diversification takeovers, such as mergers, equity investments, reports of taking over by acquisitions, divestment reports and others.
   e) Investment announcements, such as conducting factory expansion, research development and other business closings.
   f) Employment announcements, such as new negotiations, new contracts, strikes and others.
2. External Factors
   a) Announcements from the government such as changes in savings deposit rates, foreign exchange rates, inflation and various economic regulations and deregulations issued by the government

b) Legal announcements, such as employee claims against the company or their managers and company claims against their managers.

c) Securities industry announcements, such as annual meeting reports, insider trading, exchange or share price trading, trading restrictions or delays.

d) Fluctuations in foreign policy and exchange rate fluctuations also have a significant effect on stock price movements on a country's stock exchange.

e) Various issues both at home and abroad.

According to (Tandelilin, 2010) based on the investor's point of view, one of the important indicators for assessing the company's prospects in the future is to see the extent to which the company's profitability has grown, one of which is Return on Assets (ROA). This indicator is significant to pay attention to determine the extent of the company's assets to generate profits that will later affect the increase in stock prices and provide returns following the level desired by investors.

According to (Tandelilin, 2010: 105), the stock return is one of the factors that motivates investors to invest and is also a reward for investors' courage to bear the risk of their investment. Return on investment consists of two main components, namely:

1) Yield, a return component that reflects the cash flow or income obtained periodically from an investment. Yield is only in the form of zero (0) and positive (+) numbers.

2) Capital gain (loss, the return component which is an increase (decrease) in the price of a gain (loss) for investors. Capital gain is in the form of minus (-),

zero (0), and positive (+) numbers. Systematically, the return of an investment can be written as follows:

stock return = yield + capital gain (loss)

Besides, according to (Hartono, 2017), returns are divided into two types, namely:

1) Return realization (realized return) is the return that has occurred. Realized return is calculated using historical data. Return realization is important because it is used as a measure of the performance of the company. This historical return is also useful as a basis for determining the expected return and risk in the future.
2) Return expected (expected return) is the return expected by investors in the future. In contrast to realized returns that have already occurred, expected returns have not yet occurred. This study, using realized returns, namely returns that have occurred or returns that have actually occurred.

In this case, when the company's stock split is carried out, there is a possibility of an abnormal return, which can be seen from the number of stock returns that the investors receive.

2.1.6 Abnormal Return

Abnormal return is the difference between the actual return and the expected return. The actual return is the return received by investors on their investment, while the expected return is the return expected by investors in the future. Besides, according to (Hartono, 2017), abnormal return is the difference between the return that actually occurs and the return expected by investors. A positive abnormal return indicates that the return received is greater than the expected return. On the other hand, if the return received is smaller than expected, it is called a negative abnormal return (Wijanarko, 2012).

According to (Seniari Utami & Agung Ulupui, 2013), this abnormal return can be used as a tool to measure whether there is a market reaction to an announcement or event published on the capital market. When there is a difference in abnormal returns between the period before the event and the period during the event, during the period after the event, or the period before the event and after the event took place, it can be said that the market reacts to the event.

Meanwhile, according to (Tandelilin, 2010: 105), abnormal returns can also reflect the level of efficiency of a market, abnormal returns can occur in markets whose efficiency is half as strong. In a semi-strong market, abnormal returns only occur around the announcement (publication) of an event as a representation of the market's response to the announcement. A market is stated as a half-strong form of efficiency if the information is absorbed or responded to quickly by the market if there is a prolonged abnormal return, this reflects part of the market's response to being late in absorbing information, so the market is considered inefficient in a half-strong form. According to (Brown & Warner, 1980), to calculate expected return, three estimation models can be used, namely:

1) Mean-Adjusted Return Model

   This estimation model assumes that the expected return has a constant value which is the same as the previous average realization return during the estimation period. This model can be calculated using the following formula:

$$E\ (R_{it}) = \frac{\Sigma R_{it}}{t}$$

Information:

$E(R_{it})$ = expected return of securities i on day t

ΣR_{it} = actual return of securities i on day t

t = estimation period

The estimated period is the period before the stock split event and the period of the event is also known as the observation period.

2) Market-Adjusted Return Model

This model assumes that the best predictor for estimating the profit of security is by using the current market return index. So that in this model there is no need for an estimation period to form an estimation model, because the estimated return is the same as the market index return. How to calculate it as follows:

$$AR_{it} = R_{it} - R_{mt}$$

Information:

AR_{it} = abnormal return of securities i on day t

R_{it} = return saham of securities i on day t

R_{mt} = market return or expected return

To get the market return or expected return (Rm_t), it can be calculated using the following formula:

$$R_{mt} = \frac{IHSG_t - IHSG_{t-1}}{IHSG_{t-1}}$$

Information:

R_{mt} = Market return

$IHSG_t$ = JCI for a certain period

$IHSG_{t-1}$ = JCI in period t-1

3) Market Model

In this estimation model, to calculate the expected return, it must be done in two steps, the first by forming an expectation model first by using the realization data during the estimation period and the second using the expectation model to estimate the expected return in the observation period. The expectation model can be formed using the OLS (Ordinary Least Square) regression technique. The equation is as follows:

$$E\ (R_{it}) = \alpha i + \beta i\ R_{mt} + \varepsilon_{it}$$

Information:

$E\ (R_{it})$ = the expected return of security I in the estimated period t

αi = intercept, independent of R_{mt}

βi = slope, systematic risk, dependent on Rm_t

R_{mt} = market return

ε_{it} = the security's residual error i in the estimated period t

2.2 Previous Research

Table 2.1: Previous Research Summary

No.	Researcher	Research Title	Research Result
1.	Tondang (2015)	Analysis of the Effect of Stock Split on Stock Liquidity and Stock Return in Companies Listed on the Indonesia Stock Exchange	The results showed that the stock split had no significant effect on stock liquidity (trading volume) and stock returns (abnormal return).
2.	Tobing & Pratomo (2014)	Analysis of the Impact of Stock Split on Stock Prices and Trading Volume in Companies Listed on the IDX (Manufacturing, Mining, Financial and Agricultural sectors from 2010-2013)	The results showed that there were significant differences in stock prices before and after the stock split activity and so did the stock trading volume differed

			significantly before and after the stock split.
3.	Khajar (2016)	Stock Split Analysis of the Stock Price and Trading Volume of the LQ-45 Index for the 2010-2016 Period	The results showed that stock prices rose and there was a positive abnormal return after the company conducted a stock split.
4.	Faris (2013)	The Effect of Stock Split on Stock price and Stock Trading Volume in Go Public Companies Listed on the IDX in 2006 - 2011	The results showed that there were differences quite significant between before the announcement stock split after the announcement of the stock split of the stock price and share trading volume.
5.	Angela (2013)	Analysis of the Effect of Stock Split on Abnormal Return of Shares in Companies Listed on the Indonesia Stock Exchange	The results showed that the stock split had no effect on abnormal returns and there was no significant difference to abnormal returns before and after the stock split.
6.	Sitompul (2011)	Analysis of the Effect of Stock Splitting on Stock Prices and Stock Trading Volume (Case Study: Companies Going Public on the IDX 2006-2007 Period)	The results showed that there was a significant difference in stock prices before and after the stock split in small companies, while the stock prices in large companies did not have a significant difference before and after the stock split. The results of the Paired T-Test on the volume of stock trading show that there is no significant difference before and after the stock split.
7.	Puspita & Yuliari (2019)	Analysis of the Effect of Stock Split on Stock Prices, Abnormal Return and Systematic Risk of Company Shares (Study on Companies Listed on the IDX 2016-2018)	The results showed that there were significant differences in stock prices and abnormal returns before and after the stock split. However, systematic risk does not

			show any difference after and before the stock split.
8.	Zein et al., (2009)	The Effect of Stock Split on Stock Price and Liquidity	The results showed that there was a significant abnormal return at the time of the stock split. However, there is no significant difference in the activity of stock trading volume.
9.	Kristianiarso (2014)	Analysis of Differences in Stock Liquidity, Stock Price, and Stock Return Before and After Stock Split (Study on Go Public Companies Conducting Stock Split Period 2011-2014)	The results of this study indicate that there is a significant difference between stock returns before and after the stock split. However, there is no significant difference in stock pricess and stock trading volume before and after the stock split.
10.	Pratama (2017)	Analysis of the Impact of Stock Split on Changes in Stock Prices and Stock Returns	The results showed that there were significant differences before and after the stock split on stock prices. However, the abnormal return did not show a significant difference after the stock split.

2.3 Research Framework

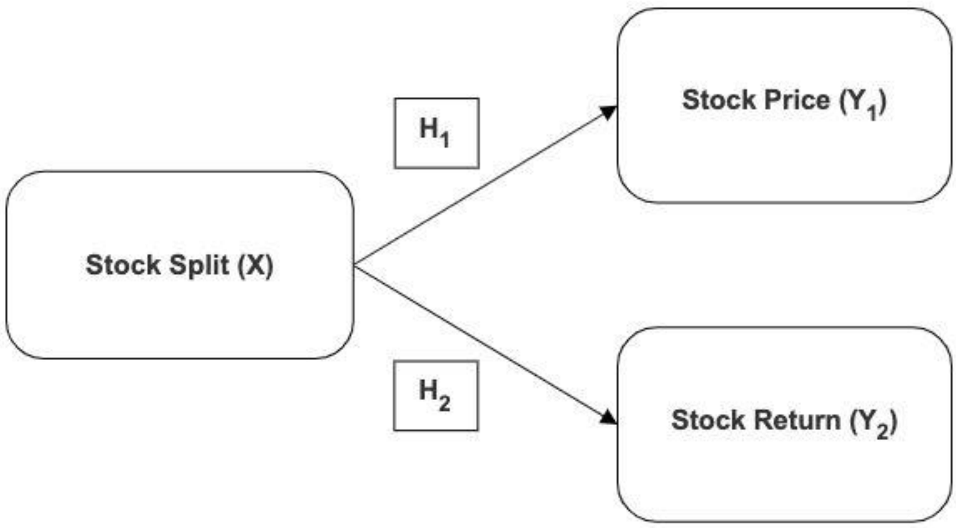
The stock split is the action of splitting stock prices. According to (Brigham & Houston, 2007), the company's stock split is a step to increase the number of shares outstanding, such as increasing the number of shares outstanding by multiplying the number of shares outstanding by giving two new shares to each shareholder for every one share it previously owned. Usually, a stock split is carried out when the stock price is considered too high, thereby reducing the ability of investors to buy shares. With a stock split, the company's shares in the capital market will be cheaper and the number will be higher. So, one way that companies can do to get stock prices back to normal and make investors want to invest again is to do a stock split.

According to (Hartono, 2015), the stock price is the price that occurs on the stock exchange at a certain time, and the stock price is determined by the market players. The high and low of the stock price is determined by the supply and demand for shares in the capital market and is usually the closing price. The demand and supply of shares occur because of many factors, one of which is the announcement of the stock split by the company. According to the signaling theory, the company considers stock splits to give good signals to the public regarding the company's good prospects in the future, with the hope of getting a positive response from the market, for example in the form of an increase in stock prices, this shows that the stock split influences stock prices.

Based on the results of research conducted by (Baker & Gallagher, 1980), the management view of the stock split event. The results of this study indicate that most of the company's financial employees believe that a stock split is a good plan that will bring stock prices to an optimal level. A low stock price will attract investors and increase the base of share ownership.

According to (Brigham & Houston, 2007), the return is the difference between the amount received and the amount invested and then divided by the amount invested. Based on this definition, it can be seen that stock return is the rate of return in the form of returns obtained from an investment. As mentioned above, the signaling theory states that a stock split is considered a company to give a good signal to the public regarding the company's good prospects in the future, this will cause a positive reaction in the capital market. This is because what the company does can make stock prices cheaper. Low prices can attract investors to buy these shares in the hope that trading activity will increase. High trading activity will create a high increase in stock prices. The high increase in stock pricess is expected to be equivalent to the high return received by investors. Therefore, the stock return is the level of profit that investors will receive and the stock split generates a positive reaction in the public.

Figure 2.1: Research Conceptual Framework



2.4 Research Hypothesis

A hypothesis is a provisional assumption from a study that must be verified. From the formulation of the problem and the previous description, the hypothesis that can be put forward are:

1. The Effect of Stock Split on Stock Prices

The stock split is a company's policy if the company's share price is considered too high, making it difficult for the shares to be traded. Therefore, the company will try to maintain the stock price in a reasonable and ideal range so that it is within the majority of potential investors' limits so that the shares will attract investors to invest. Based on the signaling theory, the stock split policy generates a positive signal because company managers are optimistic that its stock price will increase again or at least its share price will not decline. According to (Prasetyo et al., 2015), a stock split is an activity to split a share into several shares (n shares). The price per new share after the stock split is 1/n from the previous price.

However, in reality, a stock split does not affect its value because a stock split is simply replacing the outstanding shares by reducing the value of the shares. In contrast, the balance of stock capital and retained earnings remains the same. The number of stock split events in the capital market indicates that a stock split is an important tool in capital market practice because a stock split is a management tool to form the company's market price, and in the capital market if a company has a good performance, the stock price will increase faster. With a stock split, the company's shares in the capital market will be cheaper, and the number will be higher.

According to (Hogan, 2017), the stock split tends to have a more positive effect for long-term investors because the company is profitable. If the demand for shares increases, there will be stock price movements. This research is in line with that conducted by (Tobing & Pratomo, 2014), (Khajar, 2016), (Faris, 2013) and (Puspita & Yuliari, 2019), which show that the stock split has a significant effect on stock prices. Based on the explanation above, the following research hypothesis can be formulated:

H1: Stock split has a positive and significant effect on stock prices in companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2019 period.

2. The Effect of Stock Split on Stock Returns

Return is the rate of return in the form of returns obtained from an investment. According to (Wijanarko, 2012), a stock split causes the stock price to be lower to affordable for potential investors. Thus it is hoped that the stock trading activity will increase. The increase in stock trading activity will cause the stock price to be higher so that it is expected that the stock returns that investors will receive will increase. This is in line with the signaling theory, which states that a stock split will cause a positive reaction in the capital market. Therefore, stock returns are one of the positive reactions that arise in connection with the stock split.

This research is in line with (Fatmawati & Asri, 1999), which states that stock prices tend to fall after a stock split and then rise again. So that traded shares will be more liquid and in demand by investors. The increase in share prices, it will be followed by an increase in stock returns. In this case, when the company's company carries out the site is a possibility of an abnormal return, which can be seen from the number of stock returns that investors receive. Also, this research is supported by (Kristianiarso, 2014), (Puspita & Yuliari, 2019), (Khajar, 2016), and (Tondang, 2015). Based on the explanation above, the following research hypothesis can be formulated:

H2: Stock split has a positive and significant effect on stock returns in companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2019 period.