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Stock Tender Offer and Stock Prices: Evidence from the Indonesian Stock Exchanges

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Abstract

This study is to investigate the movement of stock price in a tender offer strategy by the firm. The ultimate of success and failure of tenders offers of a firm can be predicted by the stock prices movements. Twenty-three firms listed in Indonesian Stock Exchange are selected as a sample to be analyzed which carry out the tender offer during COVID-19 Pandemic period of year 2020 to 2022. The tender offer positively affects the stock price at the first day after tender offer period and the average stock price of one month period after the tender offer period. This study also shows that the difference between tender offer price and stock price of one day prior the tender offer period will negatively affect the stock price of one day after tender offer period and the average stock price of one month period after the tender offer period. The proportion of number of stocks to be offered in tender offer has no effect on stock price both in one day after stock tender offer period and the average stock price of one month period after the tender offer period. The result of the study is important for the stock market investors to get abnormal returns by buying stocks which will carry out a tender offer strategy and consider the motivation of firm to enhance the firm performance and good reputation of the prospective buyer.

Keywords

Corporate Action, Tender Offer, Stock Price, Abnormal Returns, Indonesian Stock Exchange

1. Introduction

The main goal of a firm is to maximize shareholder wealth which will be reflected by the value of the firm. Firm value increases if the firm earns profits continuously which will be reflected in the increase in the equity or book value of the firm. To increase the value of the firm, a firm not only needs to carry out well its daily business but also may choose corporate actions that can accelerate firm performance.

Using the data of the firms in Egypt as a sample, Ansary & Hussien (2017) argued that the firm announcement of stock split and statement of stock dividend affect positively the firm stock prices. The study of Fitriana et al. (2019) finds that the firm corporate actions which are buy-backs of stocks, announcement of stock dividend and perform stock split have no significant effect on stock returns after the announcement date. The announcement of dividend and buy-back has a low level of impact, and bonus issues, rights issues, and stock splits have a high level of impact on shareholders' wealth (Pradhan & Kasilingam, 2019). Corporate actions have significant impact on shareholders' wealth; the level of impact is different for different corporate actions, but it does not differ according to the nature of the industry (Pradhan & Kasilingam, 2019).

One of corporate actions that can be performed by a firm is stock tender offer. In a tender offer, stockholders offer their stocks by using a tender system to sell the determined numbers of stocks at certain price per share to other shareholders in the certain period of time (days) (Ehrhardt & Brigham, 2011). Firm stock tender offer creates the firms' future earnings prospects information and the level of market risk to stakeholders such as investors, creditors, and other parties related to the firm. Dann et al. (1991) argued that the announcement of firm stock price of the firm tender offer will increase firm stock returns and reduce stock market risk after the occurrence of tender offer.

Consistent with the assumption of the efficient market hypothesis that all information of the surrounding stock market will be reflected in stock prices, the corporate actions such as a stock tender offer will reflect on firm stock price. Samuelson & Rosenthal (1986) argued that the ultimate of success and failure of tenders offers of a firm can be predicted by the stock prices movements. The tender offer of the firm considered success when the stock price of the firm increasing in the period after tender offer. Dodd & Ruback (1977) investigated the effect of stock tender offer to the potential returns of stockholders of bidding and target firms. The results indicated that stockholders of both successful and unsuccessful target firms get positive returns from tender offers, and most of these returns occur in the month after the tender offer period. The successful bidder gets significant positive abnormal returns in the month of stock tender offer period. Bhagata et al. (2005) stated that there are different results of tender offer to stock returns depending on tender offer type. In the hostile tender offers, the bidder and target firm stockholders get higher stock returns. But, in the equity and diversifying firm tender offers, stockholders get lower stock returns.

The study of corporate actions in the effect of stock returns, stock trading volume, and systematic risk also is carried out by Muna & Khaddafi (2022). This study uses the sample of 37 firms listed on the Indonesia Stock Exchange that carried out stock split actions from 2017 to 2020. The results showed a significant difference in abnormal stock returns, stock trading volume, and systematic risk before and after the stock split.

During ten years of 2013 to 2022 firms in Indonesian Stock Exchange have carry out tender offer strategy to enhance their business. Table 1 shows the firms which carry out tender offer for each year.

Table 1 shows that during COVID-19 Pandemics 2020-2022 (June) there are 29 firms carry out tender offer which 19 firms in the year 2021 increase significantly more than years before. This phenomenon is interesting to be studied to test the hypothesis that a tender offer will create the stock price increase as argued by the study by earlier studies (Samuelson & Rosenthal, 1986; Dodd & Ruback, 1977; Ansary & Hussien, 2017).

Although the studies of corporate actions and the effect of stock prices have already been done since the mid of 20th century, the results are still not consistent of each other. The effect of stock tender offers to stock prices is positively correlated for some studies but not have effect for other studies. However, stock tender offer is one of corporate actions still often carried out in by firms listed in stock markets and this practice have always attract investors attention for their decision in stock markets. The studies on firm tender offers as one of the corporate actions and the relation in stock prices or stock returns during Covid-19 Pandemic is never been done before. The study the effect of stock tender offers to stock prices is necessary to be conducted.

2. Literature Review

2.1. Tender Offer

According to USA Security and Exchange Commission, a tender offer is typically an active and widespread solicitation by a company or third party (often called

Table 1. Number of firms carrying out tender offer during 2013-2022.

Year	Firm
2013	2
2014	4
2015	6
2016	2
2017	11
2018	5
2019	9
2020	3
2021	19
2022	7

Data source: Bursa Efek Indonesia.

the "bidder" or "offeror") to purchase a substantial percentage of the company's securities. The main objective of the bidder firm in a stock tender offer is to buy-back the firm common stocks or firm debt issued. There are two kinds of tender offers which are issuer tender offer where the firm buy-back firm stocks and third parties tender offer which are the firm buy stocks of another firm (US SEC, 2022).

According to Services Authority of Republic of Indonesia (OJK, 2022) tender offer is an offer made by a party to obtain equity securities (stocks) issued by the target firm by way of purchase or exchange with other securities through the mass media. It can be concluded that tender offer is an corporate action in which firm shareholders make an tender openly offering to sell the significant portion of their stocks of a firm for the a certain purpose.

Important decisions about how to run a large firm are sometimes made by allowing shareholders to cast a vote. These decisions often affect the firm's bottom line, or profits. In many cases, each share entitles its owner to one vote. When this is the case, the more shares an individual or group has, the more votes and control over firm decisions it also has. Therefore, a successful tender offer allows a firm to increase its equity, or ownership, in its firm by buying back some of its own shares. To entice shareholders to sell their shares back to the firm, the firm will set a price that is higher than the current market price. This is called a premium price. Shareholders who choose to sell their shares in the tender offer may then yield a profit (US SEC, 2022).

Financial Services Authority Regulation Number 54/POJK.04/2015 concerning Volunteer Tender Offering, December 23, 2015 states that tender offer statement by the firm shall contain complete description of the equity securities that are the object of the tender offer which at least contains information on: 1) the price of the tender offer; 2) the execution time of the tender offer; and 3) procedures for tender offer (OJK, 2022). The period of tender offer is a minimum of 30 (thirty) days and can be extended to a maximum of 90 (ninety) days, unless otherwise agreed by the Financial Services Authority. The stock to be offered is at average price of the highest daily trading price on the Stock Exchange for the last 90 (ninety) days prior to the announcement of tender offer.

2.2. Stock Price

According to efficient market hypothesis, the stock prices in the markets always reflect all information about the individual firm and the stock market. The results of many studies are that stock prices move as random walk. Malkiel (2003) in his study argued that the stock prices are unpredictable because stock prices move as a random walk. The reason of that is the information flow freely uncontrollable to the markets and reflected immediately to the stock prices. Study by Lee (1992) found that stock returns of 10 industrial countries, United Kingdom, West Germany, Italy, France, Belgium, Netherlands, Switzerland, Canada, Australia, and Japan follow the random walk process. But the other study by

Rehman et al. (2018) used data of firms of Karachi Stock Exchanges, Bombay Stock Exchanges, and Colombo Stock Exchanges argued that stock prices in the emerging stock markets are move in a not a random walk process because the emerging markets are weak form efficient.

The effect of information or news to individual stock prices and stock market is related to investors' sentiment. Barberis et al. (1998) stated about investor sentiment has uncovered two families of pervasive regularities: *underreaction* of stock prices to news such as earnings announcements, and *overreaction* of stock prices to the information of firms and markets which are considered as the good or bad news. This study also argued a parsimonious model of investor sentiment, or of how investors form beliefs, which is consistent with the empirical findings. The model is based on psychological evidence and results in both underreaction and overreaction for a wide range of parameter values.

Firm which performs a tender offer as a corporate action create information about the future prospect of the firm. Dann et al. (1991) argued that there the announcement of firm stock price of the firm tender offer will increase firm stock returns and reduce stock market risk after the occurrence of tender offer. Samuelson & Rosenthal (1986) argued that the ultimate of success and failure of tender offers of a firm can be predicted by the stock prices movements.

The hypothesis can be drawn that firm tender offer will positively correlated to firm stock price.

3. Methodology

The study of stock tender offers and stock prices conducted used the data of stock firms listed in Indonesian Stock Exchanges for the period of 2020 to 2022 which is during COVID-19 Pandemic. Among 796 firms listed in Indonesian Stock Exchange as of June 2022, there are 29 firms carry out the tender offer during the period of April 2020 until 30 June 2022. Two firms are excluded because they have just finished less than 30 days after the end period of tender offer and it was unavailable data of 30 days average price after the tender offer period on June 2022. Four other firms are also excluded because of the proportion of stocks to be offered are less than 5% of total firm outstanding stocks. This study uses 23 firms which carry out the stock tender offer with a such certain criteria.

Data of all variables are collected from HOTS Application from Mirae Asset securities which is one of securities member of Indonesian Stock Exchanges.

Variables include in this study are:

1) The tender offer price which is the stock price per share which is determined as the offered price during the tender offer period (TOP_t).

2) The stock price before tender offer period which is stock price per share one day before the tender offer period (TOP_{t-1}).

3) The proportion of numbers of stocks to be offered relatives to the total numbers of outstanding firm stocks (TOV).

4) The stock prices after tender offer period which are:

a) Stock price per share one day after the tender offer period (TOP_{t+1}).

b) The average stock price during one month after the tender offer period (TOP_{tavg}).

To analyze these variables, this study uses linier regression to accept or reject the hypothesis with the equations below.

Hypothesis:

1) The effect of tender offer to the stock price of one day after the tender offer period

H1.a—The tender offer price positively affects the stock price of one day after the tender offer period.

$$TOP_{t+1} = a + bTOP_t + e \tag{1}$$

H1.b—The price difference between the tender offer price and the stock price before tender offer period will positively affect the stock price of one day after the tender offer period.

$$TOP_{t+1} = a + b\left(TOP_t - TOP_{t-1}\right) + e \tag{2}$$

H1.c—The tender offer price and the proportion of number of stocks to be offered positively affects the stock price of one day after the tender offer period.

$$TOP_{t+1} = a + b_1 TOP_t + b_2 TOV + e \tag{3}$$

2) The effect of tender offer to the average stock price of one month period after the tender offer period.

H2.a—The tender offer price positively affects the average stock price of one month period after the tender offer period.

$$TOP_{tavg} = a + bTOP_t + e \tag{4}$$

H2.b—The price difference between the tender offer price and the stock price before tender offer period will positively affect the average stock price of one month period after the tender offer period.

$$TOP_{tavg} = a + b\left(TOP_t - TOP_{t-1}\right) + e \tag{5}$$

H2.c—The tender offer price and the proportion of number of stocks to be offered will positively affect the average stock price of one month period after the tender offer period.

$$TOP_{tavg} = a + b_1 TOP_t + b_2 TOV + e \tag{6}$$

4. Data Analyses and Interpretation

4.1. Correlations Analyses among Variables

Table 2 shows the correlations among variables:

From the Table 2, this study shows that all variables concerning stock prices (TPO_t, TOP_{t-1}, TOP_{t+1}, TOP_{tavg}) have significance level of 0.000 which are <0.01 at confidence level of 99%, it means that there are positive correlations of each other. But the variables of the proportion of number of stocks to be offered

Table 2. The correlations among variables.

	TOP_t	TOV	TOP_{t-1}	TOP_{t+1}	TOP_{tavg}
TOP_t	1	−0.399 0.073	0.905** 0.000	0.926** 0.000	0.936** 0.000
TOV		1	−0.361 0.108	−0.363 0.106	−0.368 0.101
TOP_{t-1}			1	0.998** 0.000	0.996** 0.000
TOP_{t+1}				1	0.999** 0.000
TOP_{tavg}					1

** significant at 0.01 level.

relative to firm outstanding stock (TOV) have significance level of 0.073, 0.108, 0.106, and 0.101 which are >0.05 at confidence level of 95%, it means that TOV have no correlations to TPO_t, TOP_{t-1}, TOP_{t+1}, TOP_{tavg}.

4.2. Regression Analyses

Table 3 shows the results that the tender offer price (TOP_t) has significance of 0.000 < 0.05 at confident level of 95% with coefficient of +1.396 and adjusted R2 = 0.851. The results show that TOP_t affect positively TOP_{t+1} (the coefficient +) and the correlation of TOP_t to TOP_{t+1} can be predicted by 85.10% and the remaining of 14.90% can be predicted by other variables. It means that at the first date after a tender offer period, the stock price will increase. This result supports the hypothesis H1.a. that the tender offer price positively affects the stock price of one day after the tender offer period.

The effect of tender offer to stock price continues during one month after a tender offer period with reflected by the daily average stock price during one month period. The relation of tender offer price (TOP_t) to the daily average stock price during one month period (TOP_{tavg}) is supported by significance of 0.000 lower than 0.05 at significant level or 95% significance level and the coefficient +1.376. The adjusted R square is 0.999 it means that the relations between TOP_t and TOP_{t+1} can be predicted at 99.90% (almost perfect) and the remaining of 0.10% will be predicted by other variables.

This result supports the hypothesis H2.a. tender offer price positively affects the average stock price of one month period after the tender offer period.

The difference between tender offer price to stock price at one day prior to tender offer period ($TOP_t - TOP_{t-1}$) negatively affects the stock price of one day after the tender offer period (TOP_{t+1}) at 0.000 significant and 0.677 adjusted R2 with coefficient −1.501. The adjusted R square is 0.677 it means that the relations between $TOP_t - TOP_{t-1}$ to TOP_{t+1} can be predicted at 67.70% (almost perfect) and the remaining of 33.30% will be predicted by other variables. When the tender

Table 3. The regression analyes among variables.

	Variables	Adjusted R2	Coefficient	Significance
Dependent	TOP_{t+1}			
Independent	TOP_t	0.851	1.396	0.000
	$TOP_t - TOP_{t-1}$	0.677	−1.501	0.000
	TOV			0.933
Dependent	TOP_{tavg}			
Independent	TOP_t	0.999	1.376	0.000
	$TOP_t - TOP_{t-1}$	0.649	−1.437	0.000
	TOV			0.942

offer price lower than stock price at one day prior to tender offer period the stock price of one day after the tender offer period will higher. Contrary, when the tender offer price higher than stock price at one day prior to tender offer period the stock price of one day after the tender offer period will lower.

This result rejects the hypothesis of H1.b that the price difference between the tender offer price and the stock price before tender offer period positively affect the stock price of one day after the tender offer period. This study shows that that the price difference between the tender offer price and the stock price before tender offer period negatively affect the stock price of one day after the tender offer period.

The difference between tender offer price to stock price at one day prior to tender offer period ($TOP_t - TOP_{t-1}$) negatively affects the daily average stock price during one month period after tender offer (TOP_{tavg}) at 0.000 significant and 0.649 adjusted R2 with coefficient −1.437. The adjusted R square is 0.649 it means that the relations between $TOP_t - TOP_{t-1}$ to TOP_{tavg} can be predicted at 64.90% and the remaining of 35.10% will be predicted by other variables. When the tender offer price lower than stock price at one day prior to tender offer period, the daily average stock price during one month period after tender offer will higher. Contrary, when the tender offer price higher than stock price at one day prior to tender offer period, the daily average stock price during one month period after tender offer will lower.

This result rejects the hypothesis of H2.b. that the price difference between the tender offer price and the stock price before tender offer period positively affect the daily average stock price during one month period after tender offer. This study shows that that the price difference between the tender offer price and the stock price before tender offer period negatively affect the daily average stock price during one month period after tender offer.

Concerning the effect of the tender offer price and the proportion of number of stocks to be offered, this result rejects the hypothesis:

H1.c.—The tender offer price and the proportion of number of stocks to be offered positively affects the stock price of one day after the tender offer period;

H2.c.—The tender offer price and the proportion of number of stocks to be offered will positively affect the average stock price of one month period after the tender offer period.

Table 3 shows that the proportion of number of stocks to be offered (TOV) have no significant effect to the stock price of one day after the tender offer period (TOP_{t+1}) at confident level of 0.933 (>0.05) and to the average stock price of one month period after the tender offer period (TOP_{tavg}) at confident level of 0.942 (>0.05).

4.3. Robustness Test

To ensure that the results of the analysis are correct, it is necessary to do a robustness test. The increase or decrease in the stock price of a company can be influenced by information related not only about individual firm but also the stock market as a whole which is bullish or bearish. Information concerning firm stock tender offer of course will affect the individual firm which carry out tender offer. This study investigates the effect of firm tender offer to stock price but unaffected by the movement of stock market as a whole.

Table 4 shows the results that the tender offer price affects positively the stock price relatives to stock market index to check the result still as same as if it is without considering stock market index. If the result is different between if the stock market index is included and if it is not, it means that the stock market index very affected the individual stock prices movements.

From Table 4, it can be seen that the effect of firm tender offer to stock price of both first day after tender offer period (TOP_{t+1}) and the average price of one month after tender offer period (TOP_{tavg}) are positive. The significance of both variables are 0.000 (<0.05), the coefficients are positive sign (+1.427 and +0.859) and both the R square are 0.856 and 0.890.

Table 4. The regression analyes among variables.

	Variables	Adjusted R2	Coefficient	Significance
Dependent	TOP_{t+1}			
Independent	TOP_t	0.856	1.427	0.000
	$TOP_t - TOP_{t-1}$	0.726	−1.535	0.000
	TOV			0.108
Dependent	TOP_{tavg}			
Independent	TOP_t	0.890	0.859	0.000
	$TOP_t - TOP_{t-1}$	0.678	−1.397	0.000
	TOV			0.101

The difference between tender offer price and the price of one day prior to tender offer period ($TOP_t - TOP_{t-1}$) is negatively affect the stock price of both first day after tender offer period (TOP_{t+1}) and the average price of one month after tender offer period (TOP_{tavg}). The significance of both variables are 0.000 (<0.05), the coefficients are negative sign (−1.535 and −1.397) and both the R square are 0.726 and 0.678.

The result also shows that the number of firm stocks to be offered is not affect the stock prices, the significances are 0.108 and 0.101 are above 0.05 at 95% confident level.

All of these results are the same as the results at **Table 3**, which is the stock market index is not included in the analyses. It means that the result of analyses is robust. The positive effect of the firm tender offer to stock prices are not only because of the bullish market which the stock price index tends to increase, but the real increase in stock price happens because of firm corporate action that is stock tender offer.

5. Conclusion and Recommendation

5.1. Conclusion

This study is to investigate the effect of one of corporate actions which is firm stock tender offer to stock prices. This study conducted with data of firms listed in Indonesian Stock Exchange during COVID-19 Pandemic period of year 2020 to 2022. This study uses 23 firms as a sample among 29 firms carrying out a tender offer strategy to increase stakeholders' wealth which is reflected in firm stock price. Indonesian Stock Exchange is weak-form efficiency according to the study of Yang & Pangastuti (2016). In such a market, investors may get the abnormal return because of the information about the specific firm and the stock market. Corporate actions of firm listed in weak-form efficiency market may be followed by stock abnormal return.

The result of the study is consistent to prior study about the positive effect of tender offer to stock price (Dodd & Ruback, 1977; Samuelson & Rosenthal, 1986; Bhagata et al., 2005). The tender offer positively affects the stock price at the first day after tender offer period and the average stock price of one month period after the tender offer period. This study also shows that the difference between tender offer price and stock price of one day prior the tender offer period will negatively affect the stock price of one day after tender offer period and the average stock price of one month period after the tender offer period. It means that when the tender offer price is higher than stock price of the day prior the tender offer period, the stock price of one day after tender offer period and the average stock price of one month period after the tender offer period will decline. But when the tender offer price is lower than stock price of the day prior the tender offer period, the stock price of one day after tender offer period and the average stock price of one month period after the tender offer period will increase.

The proportion of number of stocks to be offered in tender offer has no effect on stock price both in one day after stock tender offer period and the average stock price of one month period after the tender offer period. How much number of stocks to be offer relative to the outstanding firm stock is not relevant to be correlated to the successful or not of tender offer strategy. It can be predicted that the firm motivation of tender offer is much relevant to the successful tender offer strategy. The reputation of the bidder persons or institutions of stock tender offer can be predicted the successful of tender offer.

5.2. Recommendations

To get the potential abnormal returns, the investors in stock markets may buy firm stocks immediately when they hear any information about a tender offer which are: the tender offer price is lower than stock price of the day prior the tender offer period, the motivation of firm is to enhance the firm performance, and the good reputation of the prospective buyer. For the best decision, investors must also include the stock index for their analyses before they buy a firm tender offer stock.

The next study concerning the stock tender offer may be conducted in other stock markets with including the other variables that relevant to the successful of tender offer strategy such as the firm motivation in carrying out tender offer strategy and the reputation of person or institutions as a prospective buyer.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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