IMPACT OF DISTRESS LEVEL IN RIGHT ISSUE PRICING AND SHARE PERFORMANCE

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A R T I C L E I N F O

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A B S T R A C T

Research Purposes. *This research aims to observe the influence of distress level and leverage on right issue subscription pricing since previous studies mainly focused on the subscription price's impact rather than its determinants. For further analysis, this research also evaluates the subscription price, distress level, and leverage's influence on share performance.*
Research Methods. *Data analysis technique employs multiple linear regression with Ordinary Least Square (OLS) method, utilizing data from 70 public listed companies which are recorded to have published right issue in Indonesia Stock Exchange during 2004 to 2022.*
Research Results and Findings. *This research discovered that distress level influences the right issue subscription price, and the right issue subscription price significantly influences share performance. Thus, the result of this research may be utilized by companies which are distressed, high-leveraged, or in possession of the characteristics in line with the control variables to consider the most ideal subscription price as well as its implications to the companies' share performance.*

A B S T R A K

Tujuan Penelitian. *Penelitian ini bertujuan untuk mengamati pengaruh tingkat distress dan leverage terhadap harga pelaksanaan right issue karena penelitian terdahulu utamanya berfokus pada dampak dari penetapan harga pelaksanaan daripada faktor yang menentukan harga tersebut. Untuk memperdalam analisis, penelitian ini juga mengevaluasi pengaruh harga pelaksanaan, tingkat distress, dan leverage terhadap kinerja saham.*
Metode Penelitian. *Teknik analisis data menggunakan regresi linear berganda dengan metode Ordinary Least Square (OLS), menggunakan data dari 70 perusahaan yang tercatat telah menerbitkan right issue di Bursa Efek Indonesia selama tahun 2004 hingga 2022.*
Hasil Penelitian dan Temuan Penelitian. *Penelitian ini menemukan bahwa tingkat distress mempengaruhi harga pelaksanaan right issue, dan harga pelaksanaan right issue secara signifikan mempengaruhi kinerja saham. Oleh karena itu, hasil penelitian ini dapat digunakan perusahaan yang memiliki tingkat distress dan leverage yang tinggi,, atau karakteristik lain seperti variabel kontrol untuk mempertimbangkan harga pelaksanaan yang paling ideal serta implikasinya bagi kinerja saham perusahaan.*

INTRODUCTION

With all forms of convenience currently present With all forms of convenience currently present in globalization, companies seeking additional funds lean towards sources directly connecting them with public investors, such as the capital market. Indonesia Stock Exchange acknowledges three corporate equity issuance fundraising methods: initial public offering, right issue, and warrant issuance. In determining the utilized method, companies must consider the future sustainability implications, e.g., direct and indirect costs that might arise, corporate financial performance after receiving additional funds, or the stability of shareholders' composition. Companies should also consider and develop a mix of cost-effective fund

sources in order to finance the company's investments and business needs (Hastutik et al., 2022). Based on those explanations, the right issue can become one of the options that companies might consider. Low- and high-quality companies typically issue rights compared to other methods (Burkart & Zhong, 2023).

According to the Indonesia Stock Exchange's 2022 report, approximately 64.74% of funds raised by equity-issuing companies originated from the right issues. Siswanto (2019) noted that issues in Indonesia are prevalent as they typically have low emission costs and might increase the market's anticipation of the company's shares. Another benefit is that companies only need at least fifty percent of their independent shareholders' approval to conduct the offering (Ramadhan et al., 2022). Right issues will also add to the number of existing shares in the capital market, thus increasing the companies' trading activity or share liquidity (Rezki & Yusniar, 2024). However, the decision to issue rights ultimately lies on the companies' unique business opportunities and the management's consensus on the required funds (Gupta & Maurya, 2021). The decision might also depend on external factors, such as ongoing policy uncertainty (Dang et al., 2021).

During a suitable issue, companies publish a certain amount of new shares and grant pro-rata rights for their shareholders to purchase the new shares at a predetermined price before the shares are offered to other parties. As a result, the companies gain funds equal to the subscription price multiplied by the amount of shares purchased. Since the right issue is mainly published because there is a need for additional funds (Chen & Liu, 2022), some research attempted to map the typical characteristics of issuing companies, such as poor financial quality (Lee et al., 2014), over-dependence against debt (Asad et al., 2020; Burgstaller, 2009), ownership structure dominated by certain institutions (Lin et al., 2019; Liu et al., 2016; Njah & Trabelsi, 2019), high level of information transparency (Gao et al., 2022; Ratih et al., 2023), large issue size (Bley, 2014; Kim & Song, 2019), and low free cash flow (Chen & Liu, 2022). Some research consequently analyzed the performance of right issue in terms of issuance cost (Dang et al., 2021; Gupta et al., 2019; Muslim & Setiawan, 2021), discount rate (Bobenhausen et al., 2020; Bobenhausen & Salzmann, 2021; Mateus et al., 2017), raised funds (Walker & Wu, 2019), shareholders' participation rate (Balachandran et al., 2008), share performance post-announcement (Kolari et al., 2021), ownership dilution (Burkart & Zhong, 2023; Di Martino & Busatto, 2018; Siswanto, 2019), and indications of misuse (Rizka & Hendranastiti, 2023).

This research completes the literature by testing the effects of several company characteristics on right-issue subscription pricing. It is still an understudied part of the suitable issue literature, as most research focuses on the subscription price's effect on the companies post-issue. At the same time, few discuss the determinants of subscription price (Bobenhausen et al., 2020). The first determining characteristic to discuss is distress. Distressed companies often turn to the right issues as their funding source since their options are limited (Di Martino & Busatto, 2018; Walker & Wu, 2019) and there is suspected evidence that issue proceeds will lower the cost of financial distress (Botta & Colombo, 2019; Roslen et al., 2023). Despite this, the influence of the distress level on subscription price has never been explored. The second characteristic is high-leveraged, which is also one of the sample groups in Mateus et al.'s (2017) research. Burgstaller (2009) concluded that high-leveraged companies tend to choose the right issue as their funding source since it does not require them to increase their debt and incur fixed interest payments regardless of their profitability (Cassim, 2023), or since the companies have exhausted their debt capacity as explained by Pecking Order Theory. Despite being studied multiple times, the results discussing leverage's effects on subscription price still need to be clarified. Thus, this research incorporates the variable as well. Meanwhile, subscription price refers to purchasing new shares from a company's proper issuance. Discussing that variable tends to need more depth because it is only a part of the discount rate formula. Previous research also rarely highlighted the subscription price range and its difference from the company's share price in the market. Hence, this research seeks to do so. Additionally, this research evaluates how the subscription price, distress level, and leverage influence the companies' share performance.

Utilizing samples of Indonesian companies that issued rights from 2004 to 2022, the findings indicate that distress level, ROA, and firm size influence the right issue subscription price, while leverage and PBV do not. Additionally, the rights issue subscription price, PBV, and firm size significantly influence share performance, whereas distress level, leverage, and ROA do not. This study contributes to the right issue literature by offering

more profound insights into the dynamics of rights issue pricing in Indonesia, which shows some significant differences from results found in other countries. Based on the results above, this research mainly aids Indonesian companies with a high distress level, good financial health, or abundant alternative funding sources to determine their ideal right-issue subscription price.

This research will be divided into several sections. The second section will dissect past research, accompanied by theories, to develop the hypotheses. The third section comprises the research method and statistical testing. The fourth section comprises the results of the statistical testing and its analysis. The last section comprises this research's conclusions, implications, and suggestions.

LITERATURE REVIEW

Right Issue Subscription Price

A right issue is considered successful when the shareholders' participation level is decently high and the company obtains the targeted funds. One of the methods of achieving this is offering a discount or a low subscription price (Chiarella et al., 2019). It should be noted that subscription price differs from subscription cost, as the former refers to the purchasing price for newly issued shares while the latter refers to the overall price that a shareholder must pay, e.g., cost for collecting information, securing necessary capital, or physically applying for their entitled shares (Liu et al., 2022). This research will solely focus on the subscription price instead. When companies decide on a subscription price that is cheaper than the market price, it seems to subtly push the shareholders to either exercise their rights or sell them to other investors to avoid the rise of opportunity cost (Bøhren et al., 1997; Muhtaseb, 1994), while also creating value for the right issue (Liu et al., 2022). This effort will result in an increased shareholders' participation rate. According to Information Asymmetry Theory, discounting can also induce external investors, usually unaware of the company's value, to participate in the right issue (Chan et al., 2021). It will also benefit the company in the form of self-insurance against right issue failure (Duong et al., 2015). Sometimes, a discount can evoke positive market reactions towards the company's share performance post-issue.

However, this discounting effort also has some downsides for the issuing company. Firstly, by setting a low subscription price, the company is forced to issue more shares to reach its target, thus lowering its Earnings Per Share (EPS) and operating performance (Chen & Liu, 2022). According to the Downward Sloping Demand Curve Hypothesis, share prices will also fall when more shares enter the market (Kumar et al., 2018). Secondly, the risk of the failure of the right issue might persist, especially if the shareholders doubt the company's reputation and decide not to use their rights. In another case, companies majorly owned by retail shareholders might suffer as they are less likely to take up their shares even when faced with a deep discount (Liu et al., 2022). Several researchers also found that the subscription price discount could cause a company's share price decline. For instance, companies that revealed last-minute information related to a right issue, especially its subscription price (Singh, 1997) or dilutive coefficient (Di Martino & Busatto, 2018), would experience a negative share performance since the market deemed the news unfavorable. The public's suspicion towards the company's management board, as discussed in Rent Protection Theory and Market Timing Theory, would also result in the company's share performance post-issue. Most studies have associated discounts with negative market reactions (Liu et al., 2022).

Several theories have been developed to answer why companies still choose to discount their right issues despite all the possible downsides listed above. The first one is the Rent Protection Theory by Wu et al. (2016), which suggested that management purposely manipulated financial reports to justify a low right issue subscription price, thus eventually providing the shareholders with capital gain from exercising their rights (Lubis et al., 2023). Fong and Lam (2014) and Liu et al. (2016) found subtle evidence of such acts in Hong Kong and China, respectively. The second theory, by Parsons & Raviv (1985), summarized that companies set discounts due to ongoing uncertainty and information asymmetry. Issuing companies may be pressured to set discounts because shareholders and investors require compensation for their investment risk (Chan et al., 2021; Gupta et al., 2019). It is similar to the case of underwritten rights issues, which required a joint agreement between management and underwriters. Underwritten issues may have low subscription prices (i.e., high discounts) due to the underwriters' perceived risk towards the issue (Singh, 1997), especially for those made by companies with volatile share performance (Mateus et al., 2017) or made during a country's economic policy

uncertainty (Chan et al., 2021).

The third theory is the Transaction Cost Hypothesis, which assumes companies set lower subscription prices to absorb the shareholders' transaction cost (Ünal & Ergün, 2023). Previous literature has also discovered other determinants such as price pressure, underwriter prestige and certification, liquidity risk, exchange trade venue, offer placement, underwriting method, ownership structure, and institutional investment (Rubalcava, 2020). However, the final reason is related to firm-specific characteristics that might leave companies with dire consequences if their right issues fail. One example is for overnight offerings, which have zero trading days between the right issue announcement and issuance. While comparing overnight offerings to non-accelerated offerings, Gustafson (2018) discovered that the former set discounts at 4.24%, approximately 1.27% larger than the latter, to maximize shareholders' takeup during the offer window.

On the other hand, Bobenhausen et al. (2020) found that companies across 81 countries were either driven by the level of uncertainty avoidance, the firm's quality, or the level of firm value uncertainty. Mateus et al. (2017) also discovered that managers would set discounts in two scenarios: either when the risk and cost of right issue failure are still equal to the share price decline or when the company urgently requires additional funds while facing an unconducive capital market condition, piling debt, and the threat of suffering a loss shortly. In the latter scenario, the costs of unsuccessful right issues may be exceptionally high as they can increase the likelihood of corporate failure (Altman, 1968). Thus, solely driven by Altman's (1968) and Mateus et al.'s (2017) findings, this research considers distress level and leverage as company characteristics that might affect the right issue subscription price.

Share Performance

The performance of a company's shares after certain events is commonly measured with cumulative abnormal returns (CAR), where abnormal returns of shares are summed up throughout a specific period to reflect the total change in share price. The CAR calculation period is relatively short to minimize the odds of another influence or noise arising (Asad et al., 2020; Brown & Warner, 1985). The signaling theory can explain the emerging abnormal returns, which points out that investors react to an event because of the circulation of news or information not publicly known yet, thus creating uncertainty in the market. The information gap between management and shareholders or investors is explained in the Information Asymmetry Theory. In short, the market will respond positively to good news and reflect it in a positive abnormal return. The same rule applies to the circulation of bad news; it will produce negative abnormal returns. Whether the response is a good or a bad one depends on the reputation of the signaler (Yasar et al., 2020), while the capital market's efficiency determines the reaction's speed.

Theoretically, the issuing company's share price in the market should increase for a few days after a right issue announcement before decreasing to the extent value of the rights (Goet, 2021). One instance of that is found in Van Vuuren et al.'s (2023) research in South Africa, which showed that the issuing companies receive negative abnormal returns post-announcement, before reverting into positive abnormal returns post-issue. Other than that, it is rarely seen in real life. In the case of Chinese equity offerings, several company-specific factors (e.g., ownership concentration and agency matters between the management and shareholders), as well as environment-specific factors (e.g., investor protection and the influence of powerful moneyed interests), affect the market's reaction (Liu et al., 2016). It differs from banks' equity offerings since the reactions depend more on the stringency of regulations (Li et al., 2019) and the ongoing crisis (Chiarella et al., 2019). Since the majority of research in Indonesia only focuses on the impact of the right issue announcement on share performance, this research will dig deeper by evaluating several chosen company-specific factors and the signals they carry on the share performance during the right issue period.

Hypothesis Development

A distressed company tends to possess credit risk and a marginal debt load that exceeds a reasonable limit (Walker & Wu, 2019). If the distressed company's financial performance persistently declines, it may eventually end in bankruptcy and harm its creditors and investors (Habib et al., 2020; Widayanti & Damayanti, 2022). Distress level or the probability of a company going bankrupt soon can be measured with the Altman Z Score (Altman, 1968). According to the 2019 standard, the closer the Altman Z Score is to three, the lower the probability of a company going bankrupt. The opposite happens when the score is closer to zero. Thus, it is known that the Altman Z

Score and distress level are inversely proportional. The formula has an accuracy rate of 82% to 94% in predicting companies' bankruptcy from 1969 to 1999 and was proved by Ursel (2006) in the US, where 20% of the company sample announced bankruptcy within three years of publishing the right issue. It is also known that a distressed company can only raise more funds to preserve its survival.

Moreover, the right issues carried out by a distressed company must succeed because alternative methods of fundraising are limited (Habib et al., 2020). Vermeille's (2017) research in France showed a 30% right issue failure rate in her distressed sample companies, defined by how they conducted another distressed equity offering or an in-depth balance sheet restructuring within less than four years since the observed issue. Those efforts will certainly incur more capital and time expenses for the companies. Thus, the easiest way to avoid such failure is by setting the subscription price as low as possible (Melia et al., 2020).

H_1 : Distress level influences subscription price.

Generally, a high-leveraged company possesses a debt-to-asset ratio (DAR) exceeding 0.7. This indicates that the purchase of corporate assets is mainly funded by debt, causing liquidity risk to rise. A high-leveraged company experiences tremendous pressure to ensure the success of the right issue because of its limited access to fundraising sources. Banks and other financial institutions may hesitate to lend their funds to risky companies (Cassim, 2023), especially if such companies have maximized their debt capacity or possessed collateral with lesser value than the needed debt (Siswanto, 2019). Furthermore, a high-leveraged company commonly experiences problems determining the subscription price because of its share price volatility in the market (Christie, 1982). Once the share price abruptly falls under the subscription price, the right issue will fail because both shareholders and investors will choose to purchase the company's cheaper shares in the market. To mitigate that risk, a high-leveraged company should set subscription prices as low as possible and ensure that it continuously remains under the circulating share's price. Mateus et al. (2017) concluded that leverage positively determines the discount rate in non-financial companies, i.e., a negative effect on the subscription price. However, somehow, in the case of financial companies, leverage positively affects subscription prices. The difference in result occurs because investors prefer to participate in financial companies' right issue, where the raised funds can be further processed for credit activities. Thus, financial companies do not need to attract shareholders or investors by setting a low subscription price.

H_2 : Leverage influences subscription price.

The first variable to be tested is the right issue subscription price. Several studies have tried to explain the effects of right issue subscription price on a company's share performance. For example, Heinkel and Schwartz (1986) used the signaling theory to explain how good-quality companies use subscription prices as a signaling mechanism because it is difficult for poor-quality companies to imitate. The better the company's quality, the higher the subscription price (Balachandran et al., 2008; Bobenhausen et al., 2020; Jang & Yoon, 2022; Muhtaseb, 1994). Consequently, companies that set low subscription prices are perceived to be unhealthy. As observed by Mateus et al. (2017), investors swiftly and negatively reacted when Barratt Developments, Redrow, Mothercare, and RPC Group issued rights with low subscription prices because such acts emitted negative signals regarding the success of the issuance and the companies' future financial performance while suggesting that the companies are in dire need of funds. Those reactions are consistent with the findings in South Korea (Dhatt et al., 1996; Kang, 1990; Kim & Song, 2019), Australia (Balachandran et al., 2008), China (Liu et al., 2016), Türkiye (Ünal & Ergün, 2023), US (Muhtaseb, 1994), New Zealand (Marsden, 2000), Singapore (Tan et al., 2002), UK (Mateus et al., 2017), as well as Bobenhausen & Salzmann's (2021) research which involved 86 countries. However, those results are not consistent with findings in Italy (Bigelli, 1998), Singapore (Duong et al., 2015), and Indonesia (Aisy & Nainggolan, 2022; Angkasajaya et al., 2019; Sartika et al., 2016). Duong et al.'s (2015) Costly Self-Insurance Hypothesis might explain the contrasting results. Their research predicted that companies with higher Net Present Value (NPV) projects might incur more expensive costs due to missed or delayed opportunities while they were still looking for additional funds through uninsured right issues. The situation will undoubtedly harm the companies if it lasts too long (Goet, 2021). Thus, they lowered their subscription price to raise the funds quickly. Due to information asymmetry, the market participants might infer the company's project quality through the degree of its

subscription price discount. The higher the discount, the higher the firm's project quality will likely be. Emerging markets might even react as such since they concluded that the acquired proceeds would fund company projects with positive NPVs (Angkasajaya et al., 2019; Tan et al., 2002). Overall, the varying results are likely affected by the cross-country capital market transparency (Bobenhausen & Salzmann, 2021) and the general public's perceptions of the company.
H_3 : Subscription price influences share performance.

The second variable to be tested is the distress level. When a distressed company announces its plan to issue some rights, investors react negatively because that act is considered a declaration of the company's incapability to operate without fresh capital (Chong et al., 2019). The company's action might also be considered risky, which in turn causes the share price to decline (Pamungkas et al., 2023). Walker and Wu (2019) also found that the average abnormal returns of distressed companies' shares were 1.5% worse than those of non-distressed companies. However, investors tend to 'forgive' distressed companies whose prospects are improving in research and development costs, long-term value-to-book score, institutional ownership, and the likelihood of meeting debt obligations, as seen from their slightly better abnormal returns. In other words, once a distressed company can release information regarding its prospect in the coming future or possesses the potential to free itself from the threat of bankruptcy (Jostarndt, 2009), investors will receive a more favorable signal from the right issuance.
H_4 : Distress level influences share performance.

The last variable that is tested is leverage. When a high-leveraged company publishes a right issue, investors can interpret it as incapable of utilizing its debts well. Lee et al. (2014) found that investors react more negatively to the right issues of low-leveraged companies because of the assumption that managers will use debts for their gains, causing the company to require additional equity from the public to fund their less prospective projects. Similarly, Xiao (2023) found that Chinese companies that issue offerings in their cost-sticky states (i.e., high information asymmetry and fewer debts) also suffered negative share performance. Leverage's positive influence on share performance was also found by Di Martino & Busatto (2018) in Italy, Gao et al. (2022) in China, Kang & Stulz (1996) in Japan, and Sartika et al. (2016), Suroso (2022), as well as Tannady et al. (2023) in Indonesia. However, Isiker and Tas (2021) found that abnormal returns worsen for high-leveraged companies compared to low-leveraged ones. Bley (2014) and Kim and Song (2019) found similar results in Germany and South Korea. Cassim (2023) also reported the plummeting share price of both EOH Holdings Limited and Nampak Limited, South African companies that issued rights during their high-leveraged states. Rezki and Yusniar (2024) provided mixed results in their research for Indonesian financial companies as their samples suffered negative share performance pre-issue, yet they improved positively post-issue. In the case of right issues made by European banks, the larger the leverage reduction is, the more positive the bank's abnormal returns (Botta & Colombo, 2019). Furthermore, based on prior discussions regarding the pressure for high-leveraged companies to ensure their issue's success, their rising costs and losses are higher than those of low-leveraged companies'. According to Owen & Suchard (2008), high-leveraged companies in Australia also create additional costs with the mandatory use of underwriters while issuing equity. These facts might result in the public's lack of enthusiasm towards high-leveraged companies' right issuance.
H_5 : Leverage influences share performance.

Research Model

The following figure shows this research's first model, in which subscription price becomes the dependent variable.

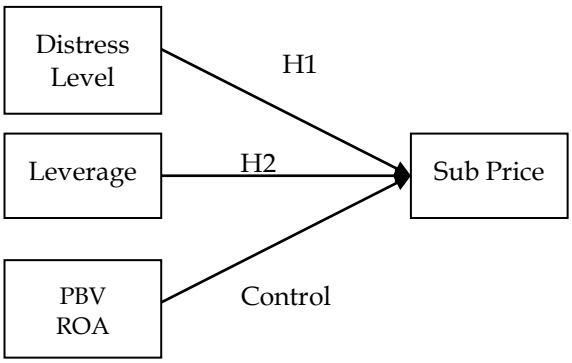

Figure 1. Research Model 1

Based on the research model above, the following is the equation which will be utilized in the hypothesis test:

Subscription price = α + β1 Distress level + β2 Leverage + β3 PBV + β4 ROA + β5 Firm size + ε ..(1)

The following figure shows this research's second model, in which share performance becomes the dependent variable.

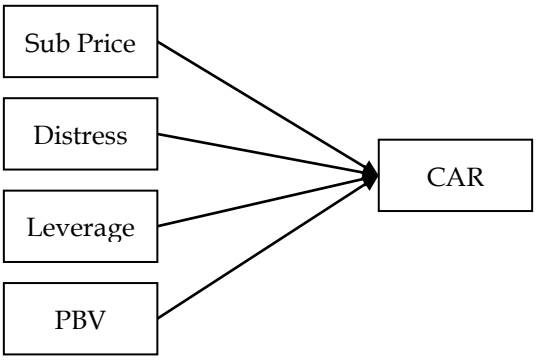

Figure 2. Research Model 2

Meanwhile, the following is the second equation which will be used in the hypothesis test:

Share performance = α + β1 Subscription price + β2 Distress level + β3 Leverage + β4 PBV + β5 ROA + β6 Firm size + ε ……. (2)

The determination of those models follows Mateus et al.'s (2017) research. The first test is related to the corporate characteristics which influence the determination of the right issue subscription price. Meanwhile, the second test is related to the subscription price as well as the corporate characteristics which influence CAR during the observation period.

RESEARCH METHOD

Population and Sample

The sample gathering was performed using the purposive sampling of secondary data method, with the criterion that companies had published right issue between 2004 - 2022, and their execution was recorded on the Indonesia Stock Exchange (IDX) website. The utilized data are quantitative. Data such as the date and right issue subscription price and daily share price were collected from the official IDX website, official company websites, and Yahoo Finance. Meanwhile, the distress level, leverage, and control variables data were obtained from financial statements from 2003 - 2021 and accessed through IDX, official company websites, and Refinitiv. Initially, there were 107 companies in the research population. However, since the two companies conducted the right issue several times, the utilized right issue data are only the first carried out (Gao et al., 2022).

Furthermore, the researchers eliminated two companies because of data limitations and 33 companies with outlier data. In the end, the sample consists of 70 companies. The data processing utilized the Stata 18.0 application.

Table 1. Purposive Sampling

Criteria	Total
Companies' right issue (2004 - 2022)	107
(-) Back-to-back right issue in 300 days	2
(-) Incomplete data	2
Total observation, unprocessed	103
(-) Outlier data processed through Stata	33
Total Observation	70

Regulations related to the practice of right issue in Indonesia tended to be lenient until Financial Services Authority Regulation Number 14/POJK.04/2019 was issued on April 30, 2019. Initially, the researchers predicted that the average frequency of right issue publication by the population companies would decrease since then. However, the value has soared from around four in the previous years to ten publications per year.

Operational Definition of Variables

There are two equation models in this research. In the first equation, the utilized dependent variable is the right issue subscription price, while distress level and leverage serve as the independent variables. Price to book value (PBV), return on assets (ROA), and firm size serve as control variables. The distinction between the first and second equation is the switch of dependent variable into share performance, while subscription price becomes an independent variable.

The researchers decided the cumulative abnormal returns (CAR) observation period to be three days, according to Brown & Warner (1985) and Asad et al.'s (2020) research. The three-day period in question includes one day before the execution of the right issue, the execution date, and one day after. The distress level variable measurement follows Altman's (1968) formula. The use of the debt-to-asset ratio (DAR) variable matches the research by Balachandran et al. (2008), Mateus et al. (2017), and Walker and Wu (2019). PBV was considered a control variable because it has been used as a predictor as well as a control variable by Indonesian researchers multiple times

(Rafik & Azmi, 2019; Suroso, 2022), while the use of ROA and firm size matches the research done by Gao et al. (2022) and Kim & Song (2019).

Table 2. Operational Definition of Variables

Variable	Description
CAR	Cumulative abnormal return around execution date of right, using a 3-day event window [-1, +1]
Sub	Right issue subscription price per share, as announced by the issuer companies
Distress	Altman Z Score = 1.2A + 1.4B + 3.3C+ 0.6D + 1.0E A = Working capital / Total assets B = Retained earnings / Total assets C = Earnings before interest & tax /Total assets D = Market value of equity /Total liabilities E = Sales / Total assets
Lev	Debt to asset ratio = Total liabilities divided by total assets
PBV	Price to book value = Current share price divided by book value per share
ROA	Pretax ROA = Earnings before interest and tax divided by total assets
Size	Natural logarithm of total assets

Data Analysis Technique

This research utilizes a data analysis technique in the form of descriptive statistics and multiple linear regression analysis with the Ordinary Least Square (OLS) method. The data processing was performed in Stata 18.0 application. The analysis aims to determine the influence of independent and control variables on the dependent variable. The next section will explain descriptive statistics, the result of classical assumption tests, and the result of hypothesis testing.

RESULTS AND DISCUSSION

Result

Descriptive Statistics Results

Table 3 explains the research's descriptive statistics in detail.

Table 3. Descriptive Statistics

Variable	N	Mean	Standard Deviation	Min	Max
CAR	70	.008	.082	-.154	.331
Sub	70	972.057	1368.45	100	7000
Distress	70	2.471	2.243	.017	8.973
Lev	70	.353	.290	.000	1.928
PBV	70	2.176	3.181	.031	25.310
ROA	70	2.753	7.514	-19.7	24.675
Size	70	28.669	2.090	23.56	32.763

Altman (1968) established that an Altman Z Score over 3 falls within the safe zone, a score between 1.8 and 3 falls within the grey zone, and a score below 1.8 signals distress. From the 70 sample companies, 35 were considered distressed (50%), 13 were considered within the grey zone (18.57%), and the remaining 22 were within the safe zone (31.43%). The proportion of distressed issuer companies in Indonesia is higher than that of the US, only at 39.3% (Walker & Wu, 2019). The issuance of rights by distressed companies in Indonesia was commonly seen between 2014 - 2016 and 2019 - 2022. Distressed companies in the sample are known to have low right issue subscription price and a negative CAR. Even though distressed companies are commonly categorized as high-leveraged, this is not evident.

Generally, a leverage score below 0.5 is considered low-leveraged, a score between 0.5 and 0.7 is considered moderate, and a score above 0.7 indicates a high-leveraged state. This research included six high-leveraged sample companies, nine moderate companies (12.86%), and 55 low-leveraged companies (78.57%). This shows that only a few high-leveraged companies raise funds with the right issue. The likelihood of these companies utilizing alternative funding sources, such as increasing debt or publishing other equities, contradicts Kim & Song's (2019) findings. The high-leveraged companies in this sample possess a high distress level, low right issue subscription price, as well a negative CAR.

The right issue subscription prices ranged between Rp 100.00 to Rp 7,000.00 per share. They were lower than the company's share price two days before the execution of the right issue, which resided between Rp 25.00 to Rp 8,000.00. Further testing discovered that sample companies set discounts with an average of 23.61%. That value is decently high when compared to Canada's 4.11%

(Rubalcava, 2020), Indonesia's 9.03% (Rizka & Hendranastiti, 2023), US' 2.84% (Chan et al., 2021) and 13.5% (Ursel, 2006), and India's 19.8% (Tuli & Shukla, 2014). However, it is still lower than UK's 25% (financial) and 29% (non-financial) (Mateus et al., 2017), Australia's 36.82% (Owen & Suchard, 2008), India's 36.94% (Kumar et al., 2018), Singapore's 36.31% (Tan et al., 2002) and 46% (Duong et al., 2015), Hong Kong's 36.82% (Lee et al., 2014), and South Korea's 58% (Dhatt et al., 1996). However, only 29 out of 70 sample companies (41.42%) set low subscription prices, so there is a possibility that right-issuing companies in Indonesia opt for other alternatives to promote shareholders' and investors' participation.

Table 3 also summarizes the three control variables in this research. The average PBV score of sample companies, which exceeds 1, shows that the growth potential of the sample companies is decently high (Rafik & Azmi, 2019). Pretax ROA has a poor score (Bobenhausen & Salzmann, 2021; Mateus et al., 2017), causing it to become an alarm for the financial health of companies. Lastly, issuing companies in Indonesia have a balanced firm size proportion, with 34 companies scoring above 28.66 and the rest scoring below that average. The firm size represents the company's capability to access the capital market.

The average CAR value during the event window is 0.77%, lower than the findings in South Korea (Dhatt et al., 1996) or Greece (Tsangarakis, 1996). However, that result is still higher than the findings in Japan (Kang & Stulz, 1996), China (Liu et al., 2016), and Italy (Di Martino & Busatto, 2018). That CAR value is still better than that of Suthiono & Atmaja (2019) and Bobenhausen & Salzmann's (2021) research in Indonesia, with each CAR value being -1.66% and -2.89%. Generally, investors react positively toward financial companies' rights issues (Bohren et al., 1997; Lee et al., 2014), primarily if those companies issue rights to fulfill capital adequacy regulations (Li et al., 2019) and reduce risk (Lubis et al., 2023). That positive reaction might also be explained by Bley's (2014) findings in Germany, which showed the same reaction to the right issues unexpectedly made by weak and unhealthy firms. In Indonesia, Ramadhan et al. (2022) argued that the market reaction was not too severe because of the minimum fifty percent approval from the investors. They also discovered that issues made for restructuring purposes experienced weaker reactions than those made for investment.

Classic Assumption Test

The classic assumption test determines whether the model in research is free from bias and capable of showing a significant relationship. Skewness and kurtosis tests show the P-Value under the Prob > chi2 column to be less than 5%, meaning the data does not distribute normally. It is possible because this research utilized secondary data from different industries in various years. The multicollinearity test aims to determine the strength of the relationship between two or more variables as seen through the variance inflation factor (VIF). All independent variables have a VIF score below 10, which means there is no multicollinearity. This research did not conduct an autocorrelation test because the utilized method is OLS. This research also did not conduct a heteroscedasticity test because the regression analysis had already utilized a robust option.

Regression Analysis Model 1

Table 4 explains the multiple regression analysis results for this research's first model, in which subscription price becomes the dependent variable.

Table 4. Multiple Regression Analysis (Model 1)

Sub	Coef	Robust Std Error	t	P > | t |
_cons	-6792	2268.85	-2.99	0.004
Distress	116.26	63.2507	1.84	0.071
Lev	370.66	610.175	0.61	0.546
PBV	3.6273	51.6410	0.07	0.944
ROA	33.548	17.4463	1.92	0.059
Size	252.73	80.6618	3.13	0.003
No. of obs	= 70	R^2	= 0.2107	
F (5, 64)	= 4.06	Root MSE	= 1262.4	
Prob>F	= 0.0029			

Regression Analysis Model 2

Table 5 explains the multiple regression analysis results for this research's second model, in which share performance becomes the dependent variable.

Table 5. Multiple Regression Analysis (Model 2)

CAR	Coef	Robust Std Error	t	P > | t |
_cons	-.218	.1186059	-1.84	0.071
Sub	-.000011	5.62e-06	-1.89	0.063
Distress	.004073	.005965	0.68	0.497
Lev	-.033925	.0238116	-1.42	0.159
PBV	.009942	.0032013	3.11	0.003
ROA	.002025	.0014554	1.39	0.169
Size	.007349	.0040917	1.80	0.077
No. of obs	= 70	R^2	= 0.2416	
F (6, 63)	= 5,84	Root MSE	= .075	
Prob>F	= 0.0001			

Discussion

This research's first hypothesis is accepted since the results show that the companies' distress level positively and significantly influences the right issue subscription price with a P value of 0.071 and a significance level of 10%. Every 1% increase in distress level will lead to a rise in subscription price by Rp 116.256, defying the assumption that distressed companies will implement a low subscription price. Franks & Sanzhar's (2003) research in the UK discovered that distressed companies would publish the right issue if there were an opportunity for tremendous growth or a debt concession option from a creditor. With the existence of a prospective plan to utilize right issue funds, shareholders may be more willing to execute their rights. Certainly, that plan also needs to be supported by reparation of the business condition or an improvement of the company's financial performance, which can justify the company's decision to set a high subscription price and secure a certain amount of funds.

Leverage is positive and insignificant, as seen in its P value of 0.546. In other words, this research's second hypothesis is rejected. The direction of that relationship is in line with the research in the UK (Mateus et al., 2017), which predicted that high-leveraged financial companies would not need to set a low subscription price. Investors prefer to participate in the right issues of financial companies as opposed to non-financial ones, potentially because the company can utilize the funds raised by the right issues to expand its credit activities. Furthermore, the existence of a profitable expansion goal and growth potential can prompt the setting of a higher subscription price. When the researchers performed a repeated regression without financial companies, which consisted of 30% of the total sample, the direction of the relationship became negative, although it is still insignificant.

Regarding control variables, ROA and firm size have a positive and significant influence, as seen by the P value, respectively, at 0.059 (a 10% significance level) and 0.003 (a 1% significance level). ROA illustrates the company's financial health and overall quality, which leads to the high subscription price. It is by the results of Bobenhausen et al. (2020), Heinkel & Schwartz (1986), and Mateus et al. (2017). Meanwhile, the high firm size refers to the abundance of alternative funding sources. It lowers the pressure on the companies to ensure the right issue's success, which in turn allows them to set a higher subscription price.

This research's third hypothesis is accepted since the right issue subscription price negatively influences CAR with a P value of 0.063 in the 10% significance level. Every 1% increase in subscription price leads to a CAR decline of 0.0000106, rejecting Heinkel & Schwartz's (1986) assumption that a higher subscription price emits a positive signal regarding the company's quality. This result is to Bigelli's (1998) research in Italy, Duong et al.'s (2015) research in Singapore, as well as Aisy & Nainggolan (2022), Angkasajaya et al. (2019), and Sartika et al.'s (2016) research in Indonesia. However, it differs from research in South Korea (Dhatt et al., 1996; Kang, 1990; Kim & Song, 2019), Australia (Balachandran et al., 2008), China (Liu et al., 2016), Turkiye (Ünal & Ergün, 2023), US (Muhtaseb, 1994), New Zealand (Marsden, 2000), Singapore (Tan et al., 2002), UK (Mateus et al., 2017), as well as Bobenhausen & Salzmann's (2021) research which involved 86 countries. One massive difference between the findings in Indonesia and other countries is that the market does not view a low subscription price as a negative signal (Aisy & Nainggolan, 2022; Sartika et al., 2016), contrasting Heinkel & Schwartz (1986) and the majority of studies. The outcome in Indonesia might be explained by the Information Asymmetry Theory, where uninformed investors infer a company's project quality through its subscription price discount (Duong et al., 2015). It can also be caused by the unique characteristics of the Indonesian market; Angkasajaya et al. (2019) and Tan et al. (2002) found that such reactions could be found in emerging markets since the investors concluded that the right issue proceeds will be used to fund company projects with positive NPVs. Potentially, that result might also be caused by using samples from the COVID-19 pandemic, when investors

leaned towards cheaper investments. From the 22 samples that issued rights between 2019 and 2022, 7 out of 10 companies (70%) that implemented a low price obtained a positive CAR. Meanwhile, of the 48 issuing companies between 2004 and 2018, only 5 out of 19 companies (26.31%) did so. Another reason would be that under normal circumstances if investors sense that the high subscription price is not worth the benefit, the right issue will not be well received.

However, this research's fourth hypothesis is rejected since distress level possesses a positive and insignificant influence, as seen by the P value of 0.497. The direction of that relationship is based on Jostarndt's (2009) research. However, it differs from that of Chong et al. (2019), Pamungkas et al. (2023), Susilowati & Simangunsong (2019), as well as Walker & Wu (2019) before considering the companies' prospects. From the 35 samples of distressed companies, 13 companies (37.14%) are known for possessing a positive CAR. This is potentially caused by the factor of anticipation related to how the share market often reflects future expectations. If investors believe in the prospect of a company's performance, they might hold or purchase more shares from that distressed company. Furthermore, Jostarndt (2009) found a positive sentiment held by investors in Germany towards distressed issuers because that action is believed to be able to save the companies from their distressed status.

Lastly, this research's fifth hypothesis is rejected as leverage possesses a negative and insignificant influence, determined by the P value of 0.159. The direction of the relationship matches those of Bley (2014), Cassim (2023), Isiker & Tas' (2021), as well as Kim Song's (2019) research. However, it differs from Di Martino & Busatto (2018), Gao et al. (2022), Kang & Stulz (1996), Lee et al. (2014), Sartika et al. (2016), Suroso (2022), Tannady et al. (2023), and Xiao's (2023) findings. Among the six high-leveraged companies in the sample, the proportion of companies that experienced positive, negative, and neutral CAR is 33.33% each. Asad et al. (2020), and Di Martino & Busatto (2018), stated that investors will only positively receive the right issue of companies with a capital structure thatthat exceeds the target because it means that the company strives to adjust that ratio.

Regarding control variables, PBV and firm size positively and significantly influence CAR, with a P value of 0.003 (in the 1% significance level) and 0.077 (in the 10% significance level), respectively. A high PBV indicates a high growth potential, causing the issuance of rights to be received positively by investors (Suroso, 2022). However, the finding regarding PBV differs from research performed by Rafik and Azmi (2019) in Indonesia. Meanwhile, firm size, measured with the total asset or market capitalization, can influence the perception of investors, share liquidity, and corporate strategy. The bigger the scale of the company is, the more observable CAR is regarding specific events. The firm size finding is in line with that of Asad et al.'s (2020) as well as Mateus et al.'s (2017), yet differs from Gao et al.'s (2020), Kang & Stulz' (1996) and Kim & Song's (2019).

CONCLUSION

This research found that distress level, ROA and firm size influence the subscription price of the right issue. Also, right issue subscription price, PBV and firm size significantly influence share performance. The Indonesian market is susceptible to rights issues, which companies make with a low subscription price, abundant alternative funding sources, or a big scale. One massive difference between the findings in Indonesia and other countries is that the market does not view a low subscription price as a negative signal, contrasting the majority of foreign studies. The outcome in Indonesia might be explained by the Information Asymmetry Theory or the unique characteristics of the Indonesian market. Potentially, it might also be caused by using samples from the COVID-19 pandemic, when investors leaned towards cheaper investments. Another reason would be that under normal circumstances if investors sense that the high subscription price is not worth the benefit, the right issue will not be well received. Based on the results above, this research mainly aids Indonesian companies with a high distress level, good financial health, or abundant alternative funding sources to determine their ideal subscription price for the right issue. One must be careful while determining their price; it cannot be as low as possible. Otherwise, it might send a negative signal to the public or cause an unfair wealth loss for non-participating shareholders. It must be a reasonable amount, too, primarily if the company is majorly owned by retail shareholders who wish to participate in the right issue.

However, this research still has some limitations. The samples are yet to be categorized based on their industries, causing the result to be general. Furthermore, combining companies from the financial and non-financial industries caused

many population companies to fail as a sample because of the stark difference in distress level and leverage values. Future research can consider using different corporate characteristics, such as determining the effects on the right issue subscription price or the company's share performance. Commonly used variables in other countries that have yet to be seen in Indonesia are the regulation of the right issue, capital market information asymmetry, and costs, either direct or otherwise, which arise from equity issuance. Future research can further explore the moderating or intervening variables between right issue subscription price and share performance to explain Indonesia's different results from other countries. The unexpected increase in right issuances during recent years also needs more profound research, especially after the stricter rules made by the Financial Services Authority in 2019.

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