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DEBT MARKET TIMING: INDONESIAN COMPANIES ABILITY TO TIME GOVERNMENT BOND RATES

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Abstract

Objective Corporate bond is becoming popular in Indonesian capital market due to the ongoing decline in interest rates and the increase in credit rating. Debt Market Timing Theory believed that managers try to time their bond issuances at the time that has relatively low interest rate. This paper is aimed to analyze the ability of Indonesian public listed companies to do debt market timing.

Method The research samples are limited to the 3-year and 7-year maturity corporate bonds issued by Indonesian publicly listed companies (whose issuances are more than 1 bond within year 2009 and 2011). The ability of company's managers to time government bond rates is observed in the 5 working days window, whether the corporate bonds were being issued at the lowest government bond rates in the window. Bootstrap method is utilized to construct counterfactual data. One Sample T-Test is the statistical tool used for hypothesis testing.

Results The research finds that government bond rates on most corporate bond issuances are the mean value of each 5 working days window. As per bond basis, the managers of 6 out of 24 bonds issuance had perfect market timing ability by successfully issued the bonds at the lowest government bond yield within the window. However, as per company basis, only 1 out of 9 companies are classified to had this great debt market timing ability.

Conclusion Indonesian publicly listed companies had no ability to time their bond issuances during period 2009 until 2011. This paper reveals that the frequency of bond issuances made by each Indonesian company does not neccessarily determine their capabilities to time government bond rates. However, bootstrap is a useful and more robust tool to help assessing the debt market timing ability when the samples taken are relatively small.

Key words

Debt or Bond Market Timing, Bond Issuance, Market Timing Theory, Government Bond Rates, Risk Free Rates, Bootstrap