CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

Bond is becoming popular in Indonesian capital market as there is an ongoing decline in interest rates and also ongoing increase in the credit rating of Indonesian bond. Both conditions are beneficial for the sake of bond issuers to be able to issue bonds at a low cost. Additionally, the great credit rating increases investors' confidence in entrusting their money in bond instruments. This great condition should be utilized by companies that have habits in issuing bonds by having the ability to determine the right time to issue bonds in which the cost of this kind of financing is relatively low.

Unlike most studies that examined relations between financial factors that indicating the Debt Market Timing condition, this paper focus on investigating the ability of representative companies to time the government bond benchmark rates within their actual issuance of 3-year and 7 year maturity corporate bond during 2009-2011. The conclusions for this research are as follows:

- As per bond basis, the result shows that 12 bonds being issued at the date on which the government bond yield is the mean from the 5 working days bootstrap window. This condition indicates that the companies' managers involved in those 12 bond issuances had no market timing ability. On the other hand, six corporate bonds were successfully being issued on the date that had the minimum government bond rate within the 5 working days bootstrap window (The managers had perfect ability to time these issuances). However, another six corporate bonds were being issued at the date on which the government bond yield is the maximum of the bootstrap window. In another word, the companies had the worst ability to time these 6 bond issuances.

- The analysis of each company basis reveals that 6 companies had no ability to time their bonds issuances, 2 companies had the worst ability to do debt market timing, while only 1 company had the perfect ability to time its bond issuance. The findings show that most Indonesian companies did not successfully issue bonds at the date on which the government bond rates is the lowest from the 5-working days window. The empirical evidence found in Indonesian public listed company is the same with that found in previous study done by Frank and Nezafat (2010) in United States.
- Surprisingly, companies who issued bonds more frequently than others do not represent the superior ability in doing debt market timing. PT Bank Ekspor Indonesia and PT Adira Dinamika Multi Finance that issued more than the others (issued 5 and 4 bonds consecutively) are those in the category of having no debt market timing ability, while the only 1 company that had perfect debt market timing ability is PT Bank Tabungan Pensiunan Nasional Tbk that issued 3 bonds. Even so, the two companies that had worst ability to time their bond issuances are those with only 2 bond issuances during the period (Those in the category of companies with the least number of bond issuances).

- As in the case of overall data capabilities to time their bond issuances, the result from One Sample T-Test does not reject the second hypothesis. This condition exhibits the exposure of representative companies' inability to determine the right time to issue bond. Overall, Indonesian publicly listed companies issued bonds at the date on which the government bond yield is the mean value from the 5 working days bootstrap window. The Indonesian managers do not have the capability to time their bond issuances within the one week (5-working days) window, which is similar to the finding in the United States companies (Frank and Nezafat, 2010).
- The finding of this paper does not support the Market Timing Theory emerged by Baker and Wurgler in 2002. Under this theory, the companies should do financing at the right timing in which they can generate the greates profits (low cost). Indonesian bond issuances have not do debt market timing, indicated by the managers' inability to issue bond at the time in which government bond rate is the lowest in the window.

  Although Graham and Harvey (2001), also Antoniou et al. (2009) found that the CFOs do try to time their bond issuance by issuing bonds when the interest rate in that relevant time is relatively low; the study conducted by Frank and Nezafat (2010) in the United States, also this research in Indonesian debt market, has revealed the inability of companies managers to time the government bond rate in a one week window even though they always strive its best to be able to issue bonds at the time the relevant interest rate is relatively low.

- The representative companies of this paper, those who issued bonds more frequently than other companies and hence should be those having the capability to do debt market timing, fail to issue bonds on the date on which the government bond yield is the minimum within the 5 working days window of their actual bond issuances.

  Since the Indonesian debt market is favorable and steady in 2009 until 2011 and henceafter in 2012 Indonesian bonds were rated as investment grade credit rating, the possible reason behind Indonesian companies' inability to time government bond rates is that the Indonesian CFOs have not seen the debt market timing as one beneficial opportunity to do bond issuances. They have no temptation to exactly predicting when is the right time to issue bond.

5.2 Limitations

- Time constraint

  Due to the limited time, the debt market timing ability is only observed in the 5-working days window. The one-month window and one-quarter window that are tested by Frank and Nezafat in United States are not tested in this paper and hence the result only represents the one-week window outcome in Indonesian context.

- Sample size

  The sample of this research is limited to issuance of three-year and seven-year maturity bonds by the selected representative companies during year 2009 until 2011. Further research can either extend the period of time being investigated or increase the sample size.

- Unavailability of CDS price per company

  Contradict to United States that has daily Credit Default Swaps price per company, Indonesian's information regarding CDS price is limited only to the country basis. The research cannot examine Debt Market Timing Ability of specific company to time its internal credibility, in which they should be able to issue bond at time the CDS price is low (high company's and bond's credibility, also highly safe and attractive for customers).

  Thereafter, this research is limited to only one variable that affect the debt market, the risk free rate. If only Indonesia has extensive information regarding CDS price, this research can add CDS price as one additional variable to test Indonesian public listed companies' ability to time debt issuances.

5.3 Recommendations

Due to some limitations in carrying out this research, there are still many aspects that can be enhanced to provide more valid and robust conclusion to determine in analyzing companies' ability to time the debt market. As for, the recommendations for further researches by other researchers are:

- Extend the size of the window

  In order to provide comparison of companies' debt market timing ability, other researchers can investigate also the one month and one quarter window. If the companies' do not show market timing ability in one window, maybe it can give a different result if the length of window is expanded.

- Calculate the loss from the company's inability to do debt market timing

  In order to prove that Debt Market Timing is crucial for the financing decision, the difference of interest rates between the actual issuance date to the lowest possible rate in the window should also show the loss calculation. This can be done by using the Monte Carlo simulation.

- Use another comprehensive test model

  For better and more extensive research, other researchers can try to implement another feasible and comprehensive model to assist a more practical investigation of companies' debt market timing ability. The utilization of more practical test model allows the investigation of larger sample size and thereafter the conclusion would be more representative.