

Debt Micro-Factor Analysis and How Debt Affects Property Company Value: Case Study Indonesian Property Sector

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ABSTRACT

The government can provide policies and create economic growth Which conducive, the property sector will be very prospective. The purpose of this study is to obtain empirical evidence and examine the factors that influence policy debt which has implications for the company value of companies listed on the Indonesia Stock Exchange. These factors are Fixed Assets Ratio, Return on Equity, Company Size, Company Growth and Company Age. This research was conducted on companies listed as property companies for the 2010-2015 period on the Indonesia Stock Exchange. Multiple Regression Analysis was used to test the hypothesis and purposive sampling method was used to take the sample. The results showed that the ratio of fixed assets, return on equity, firm size and company growth had no relationship with debt but firm age had a negative relationship with debt and debt did not have implications for firm value partially. On the other hand, all variables have a significant relationship with debt and have implications for company size. The results show an agency problem

Keywords: Fixed Assets, Return on Equity, Company Growth, Debt to Equity, Firm Value

INTRODUCTION

Every company wants its business activities to run smoothly in accordance with the goals set by the company. Where the company's goal is to achieve maximum profit, increase company value and maximize shareholder wealth.

The same goes for companies engaged in the property sector. This sector has a high capital structure. Land as one of the fixed assets where the price tends to continue to rise every year is one of the factors favored by investors and creditors. Even though in the macro industry this business sector is very vulnerable to fluctuations in interest rates, inflation and exchange rates which will ultimately affect people's purchasing power (Kadim & Sunardi, 2019). But as long as the government can provide policies and create conducive economic growth, the property sector will be very prospective.

This is due to strong economic growth coupled with a growing middle class and rising wealth. In addition, there has been a major change in the property sector with the arrival of the Real Estate Investment Fund (DIRE), where the government has taken over the policy of paying taxes, which has hampered growth in investment instruments.profitable the.

This achievement in the property sector cannot be separated from the policy of financial managers to obtain the most effective sources of funding, either using their own capital(equity) as well as external capital obtained from the use of debt (debt). (Wulandari, et, al., 2022) introduces a modern capital structure theory, namely the Pecking Order Hypothesis which predicts that companies prioritize internal funds over external funds in their funding activities. But companies that are growing certainly require greater capital.

According to (Cahyaningrum, et, al., 2022) higher use of debt will increase profitability, then increase share prices thereby increasing the welfare of shareholders and building greater growth potential. Although on the other hand funding using debt that is too high will also increase high financial risk, it can even cause the company to enter into a crisis (financial distress) Because Debt Holders need extra return to cover the additional risks involved.

Financial managers do have responsibility for managing, making capital structure decisions related to financing or funding matters for all operational and investment activities. One of the important decisions faced by managers in relation to the company's operating activities is a financial decision regarding the composition of the use of own capital, share capital, as well as short-term and or long-term debt by the company. In addition, it also identifies the factors that can influence the capital structure so that it can assist in making decisions for interested parties.

Based on research conducted (Setiawan & Bangun, 2021) where debt influenced by five important factors, namely fixed assets or tangible of fixed assets, market value or growth opportunity for growth opportunities, company size or firm size, profit rate or profitability The company and the age of the company are additional factors that affect debt. Because the age of the company is related to performance and reputation in society, then the longer the company operates it will be assumed that the company has a large accumulation of profits and agency cost of debt small.

When this happens, liquidity difficulties caused by wrong decisions in carrying out debt is a result because debt has a fixed cost. So that whether the company is in a state of profit or loss, the company still has to pay interest costs and loan installments in accordance with the agreement. This is different from stocks whose dividends will be paid based on the condition of the company's financial performance, for example if the company's profits increase, then revenue dividends will also increase, and vice versa.

Seeing the importance of the funding structure that influences the company's debt, there are many factors that influence companies in taking debt and yield policies study – previous research that didn't consistently make researchers interested and motivated to test again study- Research on micro factors that influence debt and their implications for firm value. It is hoped that more empirical evidence will be obtained consistent.

THEORETICAL BASIS

Financial Management

According to Jaja (Pohan, et, al., 2020) in general financial management is defined as the art and science of managing money (the art and science of managing money). If we talk about finance, then there are 3 areas that are interrelated, namely money and capital markets (money and capital market), including securities markets and financial institutions, investments (investment) both made by individual investors or institutions in selecting portfolio securities, as well as making financial decisions within the company.

Fixed Assets

Fixed assets are assets that can be physically seen and are relatively permanent in nature as well as have a long term useful life. Fixed assets are long-lasting assets that do not or gradually run out participating in the production process, and in terms of the length of turnover of fixed assets are assets that experience long-term turnover process. There are several ways to obtain fixed assets as stated (Silvia & Yohanes, 2022), including by buying cash, buying on credit, by making or constructing yourself, through exchange with other assets, whether similar or different, and the latter is acquired through rental / leasing.

Return On Equity

Return on Equity is a tool used by investors and company leaders to measure how much profit is obtained from the company's own capital. For investors, analysis Return On Equity is important because with this analysis it can be seen the benefits that can be

obtained from the investment made. Understanding Return On Equity according to (Nuraeni, et, al., 2021) is the ratio for measuring net profit after tax with own capital. If Return on equity (ROE) is higher, then a company has the opportunity to provide large income for shareholders. In this case it will have an impact on increasing stock prices. The higher this ratio, the better, meaning that the company's position is getting stronger, and vice versa.

Firm's Size

Company size is a grouping of companies into a number of groups, including large, medium or small companies. Company scale is a measure used to reflect the size of a company based on the company's total assets. (Dina & Wahyuningtyas, 2022). Meanwhile Longenecker (2001: 16) argues that there are many ways to define the scale of a company, namely by using various criteria such as the number of employees, sales volume and asset value.

Company Growth

Growth is an indicator for progress or not for a company. A company that is in an industry that has a high growth rate must provide sufficient capital to finance the company. Companies with fast growth tend to use more debt than companies with slow growth (Angeline & Thio, 2023). Thus it can be said that the faster the company's growth rate, the greater the funds needed. The greater the opportunity to earn profits, in which the need for funds can be met from funds originating from the capital market or other external funding sources.

Company Age

(Permata, 2020) suggests that the limited liability company has an unlimited age, in accordance with the assumption of business continuity/going concern. This means that the age of the company shows the company's ability to maintain its business continuity.

Long standing company has a good reputation in terms of debt repayment. In general, companies that have been around for a long time have a positive picture in the banking world. In addition, companies that have been around for a long time and are more experienced tend to choose safe projects over risky projects in pursuit of profits. It's important to note that while a long-standing company with a good debt repayment history is generally viewed positively, other factors also come into play when evaluating a company's creditworthiness and financial standing. Financial institutions conduct

comprehensive analyses, including financial ratios, cash flow projections, industry trends, and macroeconomic factors, to assess the credit risk of a company.

Debt

According to (Setiawan & Bangun, 2021), the notion of debt is an obligation owned by the company that originates from external funds, both from bank loans, leasing, the sale of bonds and the like. Short-term debt is used to fund needs that are of a nature support company activities that are immediate and cannot be postponed and generally must be returned in less than one year. On the other hand, long-term debt is used to finance long-term needs and payments are due in more than 12 months.

Corporate Value (PBV)

(Apriliyanti, et, al., 2019) for companies that have not go public, the value of the company is a number of costs that prospective buyers are willing to incur if the company is sold. As for companies that have go public, the value of the company can be seen from the value of shares in the capital market. Price to Book Value (PBV) is one of the tools to measure the value of the company that will be used in this study. According to (Build, 2021) PBV is a calculation or comparison between market value and book value of a stock.

Go Public Company

Go public is one way for companies to obtain funds, namely by selling and offering to release rights to shares with payment. Business entity/company can go public by selling new shares originating from the authorized capital for old shares originating from paid-up capital (Hwihanus, et, al., 2019). Go public or a public offering of shares is an activity of offering shares carried out by companies/issuers to sell shares or securities to the public based on procedures regulated by capital market laws and implementing regulations.

METHOD

This research is quantitative research with a descriptive and verification approach. The research method based on the philosophy of positivism, is used to examine certain populations or samples, data collection uses research instruments, data analysis is quantitative/statistical in nature, with the aim of testing the hypotheses that have been set.

In this study the authors used quantitative research methods with descriptive and verification approaches. The variables used in this study consist of variable Z which represents firm value (PBV), variable Y represented by THE and the independent variable

X_1 , X_2 , X_3 , X_4 and X_5 which is representative of fixed assets, ROE, Growth, Size and age company (Age).

The population used in this study consisted of 49 property and real estate companies listed on the Indonesia Stock Exchange from 2010 -2015. Based on the criteria or considerations set out above for the entire existing population, there are 10 samples of property and real estate companies with the object under study being the balance sheet.(Balance Sheet), Income statement and stock selling activity.

RESULT

FAR Effect on Debt Variables Effect (THE)

Results Testing influence hypothesis FAR to THE can be seen from the acquisition value of the variable t-count FAR is -1.479195 and has a significant value that is greater than $\alpha = 0.05$, namely $0.1449 > 0.05$. The negative sign on the t-count value means a relationship that shows movement in opposite directions between variables FAR to THE. Where when value FAR increases then value THE decreases, and vice versa.

Number size from Adjusted R-Squared (R^2) is 0.259701. This proves that the percentage variable effect contribution FAR to variables THE is equal to 0.259701. While the remaining 0.740299 is influenced by other factors outside the regression model. The correlation coefficient value is 0.508989 which indicates a fairly strong relationship, because it is in the coefficient interval 0.401 - 0.600 which proves that partially the variable FAR does not have a significant influence compared to the reverse which is strong enough on the variable THE.

ROE Effect on DER

Results Testing the hypothesis states that partially variable ROE has no significant effect on variables THE. Because the value of the t-count is smaller than the t-table, namely $1.901919 < 2.004$, with a probability value that is greater than the significant level value, namely $0.0625 > 0.05$. until H_0 accepted and H_1 rejected.

The magnitude of the number from Adjusted R-Squared (R^2) is 0.259701. This proves that the percentage contribution to the effect of the ROE variable to variable debt is 25.97% while the remaining 0.740299 or 74.03% is influenced by other factors outside the regression model. The correlation coefficient value is 0.508989 which shows a fairly

strong relationship, because it is in the interval 0.401 – 0.600. This proves that partially variable ROE Not Have significant influence that is strong enough to variable debt (THE).

Firm's Size Effect on Debt Variables Effect (THE)

Based on the results of the regression on the t-test shows that the variable company size or firm size does not significantly influence the dependent variable debt. Because the value of the t-count variable SIZE is smaller than the t-table, namely $-0.5656 < 2.004$ and the probability value is greater than the significance level value, namely $0.5938 > 0.05$.

The magnitude of the number from Adjusted R-Squared (R^2) is 0.259701. This proves that percentage variable effect contribution SIZE to the debt variables of 0.259701. While the remaining 0.740299 is influenced by other factors outside the regression model, the correlation coefficient value is 0.508989 which shows a fairly strong relationship because it is in the coefficient interval of 0.401 -0.600. This proves that partially that variable SIZE does not have a significant influence compared to the reverse quite strongly on the Debt variable.

Growth Effect on DER

Based on the results of testing the effect of growth opportunities (GROWTH) against debt(THE) can be seen from the acquisition value of t-count variable GROWTH which is -0.661512 which is smaller than the t-valuetable that is equal to 2.004 and the probability value is 0.5111 which is greater than the significant level, name = 0.05. Until H_0 accepted and H_1 rejected. So it is concluded variable GROWTH has no significant effect on the dependent variable THE.

The magnitude of the number from Adjusted R-Squared (R^2) is 0.259701. This proves that percentage variable influence contribution GROWTH to variables THE is 0.259701 while the remaining 0.740299 is influenced by other factors outside the regression model. So that the value of the correlation coefficient is 0.58989 which shows a fairly strong relationship, because it is in the coefficient interval of 0.401-0.600 which proves that partially the variable GROWTH does not have a significant influence compared to the reverse quite strong on the variable THE. The results of this study are the same as those of Kester (1986) where no significant relationship was found between company growth and debt.

AGE Effect on DER

Based on the results of the regression on the t-test that the company age variable or AGE has a significant effect and is inversely proportional to the debt variable (THE). Because the value of the t-count is greater than the t-table, which is $-4.547100 < 2.004$. (a negative sign on the t-count means it has a negative or inverse relationship). Thus H_0 rejected and H_1 accepted. Variable probability value AGE is smaller than the significance value of $0.0000 < 0.05$.

The magnitude of the number from adjusted R-Squared is equal to 0.259701. This proves that the percentage variable influence contribution AGE to variable THE is 25.97%, while the remaining 74.03% is influenced by other factors outside the regression model. The correlation coefficient value is 0.58989 which shows a fairly strong relationship because it is in the coefficient interval of 0.401-0.600.

Debt Variables Effect on Firm Value

Results Testing the hypothesis of the effect of debt on firm value can be seen from the t-value variable debt, namely 1.617132 or less than the t-table value of 2.004 and the probability value is 0.1114 or greater than the value significant 0.05, so it can be concluded that the independent variable debt has no positive and significant effect on the firm value variable. Which means if the debt value increases, the company value decreases.

The magnitude of the number from Adjusted R-Squared (R^2) is 0.027093. This proves that the percentage of the contribution of the debt variable to the firm value variable is 02.71% while the remaining 97.29% is influenced by other factors outside the regression model. The correlation coefficient value is 0.1645995, which shows a very low relationship because it is located at an interval of 0.00 -0.199. This proves that partially the debt variable does not have a significant effect on the firm value variable.

CONCLUSION

Fixed assets have no significant effect on debt. This indicates that debt taken by property companies tends not to be supported by adequate collateral. The interpretation of these results leads to the conclusion that property companies might not rely heavily on fixed assets as collateral for obtaining debt. Adequate collateral is often a crucial factor for lenders when assessing the creditworthiness of a borrower and determining the amount of debt they are willing to provide. When fixed assets have no significant effect

on debt, it implies that the value of these assets may not have a substantial impact on the borrowing capacity or creditworthiness of property companies. As a result, the companies may need to rely on other factors, such as cash flow, profitability, or other forms of collateral, to secure loans or debt financing.

Profit level has no significant effect on debt, in other words, there is no strong relationship between a company's profitability and the amount of debt it takes on. When profit level has no significant effect on debt, it suggests that a company's ability to generate profits does not significantly influence its borrowing decisions. Profitability is one of the key indicators of a company's financial health and performance. A profitable company is generally seen as more capable of servicing debt because it has the financial resources to cover interest and principal payments.

Company size has no significant effect on debt, in other words, there is no strong relationship between the size of a company and the amount of debt it takes on. When company size has no significant effect on debt, it suggests that the size of the company does not play a substantial role in its borrowing decisions. Whether a company is large or small does not significantly influence its propensity to take on debt.

The growth rate has no effect on debt, in other words, there is no significant relationship between a company's growth rate and its borrowing decisions. When the growth rate has no effect on debt, it suggests that the rate at which a company is growing, whether it's experiencing rapid growth or slow growth, does not significantly influence its propensity to take on debt.

Company age has a negative effect on debt, when company age has a negative effect on debt, it suggests that as companies mature and grow older, they tend to rely less on debt financing. Older companies may have several reasons for having lower levels of debt: 1) Accumulated Capital, older companies may have had more time to accumulate capital through profits and retained earnings. They might have built up sufficient internal funds to finance their operations and expansion without the need for substantial external debt. 2) Lower Investment Needs, As companies age, their capital expenditure requirements might decrease. They may have already made significant investments in their infrastructure, technology, and equipment during their earlier stages, resulting in reduced funding needs. 3) Lower Risk Appetite, older companies may adopt more

conservative financial strategies and be less inclined to take on excessive debt. They may prioritize financial stability and a strong balance sheet over aggressive leveraging.

Debt has no significant effect on firm value, the study's results may support the Modigliani-Miller theorem, which proposes that under certain assumptions, capital structure (the mix of debt and equity financing) does not affect the firm's total value in a perfect market with no taxes, bankruptcy costs, or information asymmetry. It is possible that the company's current level of debt is already at an optimal level, and any further changes in debt may not lead to significant alterations in firm value. Companies often strive to find a balance between debt and equity financing that maximizes their overall value.

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