FIRM VALUE OF THE PROPERTY, REAL ESTATE & BUILDING SECTOR IN INDONESIA AT THE BEGINNING OF THE COVID-19 PANDEMIC

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ABSTRACT

Movements in Indonesian stocks through the Composite Stock Price Index (IHSG) in 2020 experienced great turmoil as a result of the Corona Virus Diseases-19 (Covid-19). The data shows that the value of companies listed on the Indonesia Stock Exchange (IDX) is not in its best condition. This study uses an associative quantitative approach to examine 38 listed issuers in the property, real estate & building sector during 2020. The results of this study are able to prove that the firm value during the current pandemic is influenced by financial distress.

Keywords*: financial distress, firm value, Covid-19*

1. INTRODUCTION

The emergence of Corona Virus Disease-19 (Covid-19) at the end of 2019 had such a big impact on the world until now. It was recorded that until the end of 2020 there were 735,124 positive Covid-19 people in Indonesia (Source: www.liputan6.com) [1]

The increasing number of positive cases ultimately affects all aspects of society. One of the most felt impacts is in the socio-economic field. The performance of the Composite Stock Price Index (JCI) during 2020 was quite volatile. In early January, the JCI was still at 6,323. In March, the index fell drastically to a point of 3,937 or down 26.55% from the figure at the beginning of the year. Then on January 31, 2021, the index rose again and reached 5,940 (Source: market.bisnis.com) [2].

The condition of the JCI that continues to rise and fall certainly indicates that the value of companies listed on the Indonesia Stock Exchange (IDX) is not in optimal condition. The main purpose of establishing a company is to provide maximum welfare to stakeholders, especially shareholders through increasing company value (Brigham and Houston, 2010). The description of the company's condition can be reflected in the value of the company so that potential investors will give a good view (Hermuningsih, 2012) [3].

The situation that is currently encountered as a result of the pandemic has not receded, one of which is that many companies are experiencing financial distress. Various sectors began to experience difficulties in paying off their obligations because their operations were disrupted. According to Rayenda (2007) [4], financial distress occurs due to the company's inability to manage and maintain financial performance stability and have an impact on operational and net losses for the current year. It was recorded that five (5) companies were removed from the list of issuers listed on the IDX from January to August 2020 (Source: investasi.kontan.co.id) [5].

According to Pranowo (2010) [6], companies can be delisted from the Indonesia Stock Exchange (IDX) because the company is in financial distress or is experiencing financial difficulties. This certainly indicates that conditions during 2020 are not good enough so that issuers must be willing to leave the capital market. A company can be categorized as being in financial distress when the company has a performance that shows negative operating profit, negative net income, negative book value of equity, and companies that have merged (Brahmana, 2007) [4]. These indicators certainly greatly affect the assessment of investors or creditors on the firm value.

When the company is in a state of financial difficulty, public confidence in financial performance will decrease and the impact on the company's stock price will fall. Currently, the value of the company is not only influenced by its financial performance. Many investors use other indicators when deciding to invest. One of them is social media which is a platform for investors to conduct social interactions. Social interaction contains sentiment which then gives rise to new preferences for investors in making investment decisions so that they are able to influence stock movements (Mufidah & Rafik, 2018) [7].

There are also investors who judge the company based on the disclosure of Corporate Social Responsibility (CSR). This will improve the company's reputation if the disclosure is considered positive by the public. Robert (1992) [8] explains that companies categorized as high-profile will tend to get the spotlight from the public because their operations cause a much greater environmental impact than low-profile companies.

This study examines the relationship between financial distress and firm value in the property, real estate & building sectors during 2020 with the consideration that the development of the sector will certainly attract investors' interest due to land and building prices that tend to rarely fall. Technically, the supply of land is fixed while the demand for it also tends to increase because it is directly proportional to the increase in population, the need for housing, offices or other facilities.

2. LITERATURE REVIEW

Signalling Theory

Signalling theory was developed in economics and finance that uses asymmetric information between companies and outsiders because management knows more about the company's prospects and future opportunities than outsiders (Goranova, Alessandri, Brendes & Dharwadkar, 2007) [9]. Signal theory is also relevant to be used as a reference to explain the relationship between sender and receiver of signals, especially signals in the capital market, and is widely used to solve the problem of information asymmetry (Spence, 2002) [10]. Information asymmetry will occur if management does not fully convey all information that can affect the value of the company to the capital market. To avoid information asymmetry, companies must provide information as a signal to investors. Information asymmetry needs to be minimized, so that publicly listed companies can transparently inform investors about the company's condition.

Firm Value

The principle that the company was founded to carry out the production process in an effort to maximize profit has become a logical reason today. Furthermore, in the financial sector, it has

another main focus, namely maximizing shareholder wealth. This goal will be achieved when the company has a good value of the firm through the multiplication of the share price per share and the number of shares outstanding. This shows that shareholder wealth will be reflected in the value of the company, which is indicated by the share price of the company concerned on the stock exchange.

Financial Distress

Financial distress is a condition where the company is facing financial difficulties. According to Platt & Platt (2006) [11], financial distress is defined as the stage of decline in financial conditions that occurs before bankruptcy or liquidation occurs. Financial distress is reflected in the company's inability or unavailability of funds to pay its maturing obligations. This condition is caused by three conditions including insufficient capital, large debt and interest expenses and the occurrence of losses (Rodoni & Ali, 2010) [12].

3. HYPOTHESIS

The Effect of Financial Distress on Firm Value

According to Brahmana (2007) [4], a company is categorized as experiencing financial distress during a merger, negative profit (loss), and negative equity value. The negative equity value reflects the company's stock price is in a down condition. Stock price as one of the important points in seeing the value of the company. These indicators certainly greatly affect the assessment of investors or creditors on the value of the company. When the company is in a state of financial difficulty, public confidence in financial performance will decrease and the impact on the company's stock price will fall.

H_1: Financial distress has an effect on firm value.

4. RESEARCH METHODS

Research Approach

This study uses a quantitative approach that is based on the positivism paradigm because it explains related phenomena that can be classified, relatively fixed, observable, concrete, measurable and causal relationship (Sugiyono, 2013: 8) [2]. This type of research is explanatory research because it explains the causal relationship between variables through hypothesis testing (Hartono, 2016) [13]. This research is in the form of associative because it provides an explanation of the relationship between variables.

Population and Sample

The population of this study is all issuers of the property, real estate & building sectors listed on the IDX during 2020. The research sample totaled 38 issuers obtained through purposive sampling as a sampling technique.

Data Collection Techniques

The data used is the company's 2020 financial statements obtained through the IDX website at www.idx.co.id.

Indicators

Indicators for measuring each variable in this study are explained as follows:

1. Firm Value (Value)

   The value of the firm in this study uses the Tobin's q ratio which is the ratio of the market value of the company's assets as measured by the market value of the number of outstanding shares and debt (enterprise value) to the replacement cost of company assets (Fiakas, 2005) [14].

   In simple terms it can be formulated as follows.
   $$Q = (EMV + D) / (EBV + D) \ ....(1)$$

   Explanation:
   Q   = Firm value
   EMV = Market value of equity
   EBV = Book value of total assets
   D   = Book value of total debt

2. Financial Distress (FD)

   Financial distress is the stage of declining financial conditions that occurred before the occurrence of bankruptcy or liquidation. According to Damodaran (2014) [15], there are several factors that cause financial distress from within the company, including: cash flow difficulties (negative value); the amount of debt with a debt ratio and losses in the last 2 years. Companies that meet these 3 criteria are given a score of 1; if there are 2 criteria then the value is 0.67; value 0.33 if only 1 criterion; and 0 if none.

Analysis Techniques

This study uses simple linear regression as a data analysis technique. The regression equation in this study is.

$$Value = \alpha + \beta 1 \ FD + \varepsilon \ ....(2)$$

Explanation:
Value = Firm value
FD   = Financial distress
α = Constant
$\beta 1$ = Independent variable regression coefficient
ε = Errors/other variables not identified in the model

5. RESULT AND DISCUSSION

Descriptive Statistics

Descriptive analysis is used to provide an overview or description of the research variables. The measurements used in this study consisted of the minimum value, maximum value, mean and standard deviation, as follows.

Table 1 Descriptive Statistics

Variable	Minimum	Maximum	Average	Standard Deviation
Firm Value (Value)	0.12	3.61	0.738	0.552
Financial Distress (FD)	0.00	1.00	0.281	0.274

Classical Assumption Test

Classical assumption testing is carried out to provide certainty that the regression equation obtained has accuracy in estimation, is unbiased and consistent. The classical assumption test carried out is the normality and heteroscedasticity test which is processed using SPSS 25.0 for Windows software and shows the results that the research data is feasible to use.

The Results of Regression Analysis

The results of statistical tests on the previously described equations can be presented as follows.
Value $= \alpha + \beta1$ FD $+ \varepsilon$
Value $= 0.604 + 0.477$ FD $+ \varepsilon$

Table 2 The Results of Regression Analysis

Variable	Coefficient	Sig
Constant	0.604	0.000
FD	0.477	0.010
R^2	0.056	

Explanation:
Value = Firm Value
FD = Financial Distress
E = error

The constant value (α) of 0.604 indicates that the constant value is positive, which means that if the financial distress variable is constant (0), the firm value will increase by 0.604. The regression coefficient 1 on the financial distress variable is 0.477. The positive regression coefficient indicates that if financial distress increases, it can increase firm value. The significance level of 0.01 is less than 5% so that hypothesis 1 is accepted. These results are in line with research conducted by Damodaran (2014) [15] and (Brahmana, 2007) [4] which explain that there are several factors causing financial distress from within the company, including: cash flow difficulties; the amount of debt and losses experienced over the years. In general, these factors will affect investors' assessment of the company's condition and will further lower the company's stock price. Stock prices that tend to fall indicate the firm value is also not in its best performance.

6. CONCLUSIONS

This research is able to prove that the value of the company during the current pandemic is influenced by financial distress which is experienced by many companies in almost all lines.

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