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Effect of Profitability, Liquidity and Leverage on Intrinsic Value of Shares with Probability of Financial Distress as Intervening in Property and Real Estate Sector Companies in 2010-2018

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ABSTRACT

Investors can perform stock analysis to estimate the intrinsic value of a stock and then compare it with the current market price. The intrinsic value shows the present value of the cash flows expected from the stock. This study aims to determine and analyze the effect of profitability, liquidity and leverage on intrinsic value of shares with probability of financial distress as intervening in property and real estate sector companies in 2010-2018. This population selected the target population with a total sample of 48 companies. Hypothesis testing uses data analysis techniques, structural equation modeling, or what is called structural equation modeling. The results of this study indicate that profitability has a negative and significant effect on financial distress, liquidity has a positive and significant effect on financial distress, leverage has a positive and significant effect on financial distress, profitability has a positive and significant effect on intrinsic value, liquidity has a negative and insignificant effect on intrinsic value, leverage has a negative and insignificant effect on intrinsic value, financial distress has a positive and insignificant effect on intrinsic value, financial distress is able to intervening profitability on intrinsic value, financial distress is unable to intervening liquidity on intrinsic value, financial distress is unable to intervening leverage on the intrinsic value.

Keywords: Profitability, Liquidity, Leverage, Financial Distress, Intrinsic Value

INTRODUCTION

The company was founded not only with the aim of producing goods/services that are useful for consumers in the financial sector, the company has one focus, namely maximizing the wealth of the shareholders or maximizing the value of the firm in the eyes of corporate investors, which is said to be able to achieve this is a place that has bright prospects in the future, so that investors have a higher possibility of obtaining greater share income in the future. Investors can perform stock analysis to estimate the intrinsic value of a stock and then compare it with the current market price. Share value can be classified as expensive (overvalued), with the condition that the market value of a share in the company is higher than its intrinsic value. In this condition, investors can make a decision to sell the shares. On the other hand, a stock is classified as undervalued, if the market value of a company's shares is lower than its intrinsic value, so investors are advised to buy the shares.

Dividend discounted models (DDM) are one of the calculations to obtain intrinsic prices. These Dividend Discounted Models determine the intrinsic price using the present value approach, which is determined by the cash flow component. While the cash flow that can be used in the calculation of shares is company income. Investors have a point of view in buying shares, the cash flow that will be received by investors is the company's income that is distributed in the form of dividends (Tandelilin, 2010).

Indonesia is one of the countries worst affected after the crisis that occurred in Asia in 1997. Many companies in Indonesia face many financial difficulties. The difficulties faced by these companies make each company must be aware of the potential for bankruptcy, therefore every company must anticipate the possibility bankruptcy by conducting proper analysis regarding the sustainability of the company, one of which is by analyzing financial statements.

According to Rayenda (2008), financial distress occurs because the company is unable to manage and maintain stable financial performance and can cause the company to experience operational losses and company net losses for the current year. As a result of the loss that occurs is a deficiency of capital, because when dividend payments are made it will result in a decrease in the value of the retained earnings, so that the total equity of the company as a whole is in deficiency. This condition is an indication that the company is experiencing financial difficulties, which in the end will result in the company going bankrupt if it is unable to get out of the aforementioned conditions.

Increasing profitability means that the company's prospects in the future are considered to be increasing as well, meaning that the company's value is also better in the eyes of investors. If the company's ability to generate profits increases, the share price will also increase. The increased share price reflects good corporate value for investors. Lifessy (2011) also states that the high level of profit generated means that the prospect of the company to carry out its operations in the future is also high, so that the company's value as reflected in the company's stock price will also increase.

Investors can perform stock analysis to estimate the intrinsic value of a stock and then compare it with the current market price. The intrinsic value shows the present value of the cash flows expected from the stock.

This research will raise property and real estate companies that are listed on the Indonesia Stock Exchange, which is increasing every year. With the increase in the number of companies, it will certainly increase the amount of competition in the sector itself. According to Wahyu (2009), company performance will be affected by the costs incurred by a company to compete, the tighter competition between companies causes the costs to be incurred by the company to be higher. When the company is no longer able to compete, it is likely that the company will experience losses, and in the end the company will experience financial distress.

Previous research has analyzed the relationship of bankruptcy to stock prices. In a study conducted by Ririanty *et al.* (2015) on the effect of financial distress and dividend payout ratio on changes in stock prices. The results of this study found that of the six variables, there are three variables that have a significant effect on stock price changes, namely the ratio of working capital to total assets (WC/TA), earnings before interest and tax to total assets (EBIT/TA), and dividend payout ratio (DPR), while the ratio of retained earnings to total assets (RE/TA), sales to total assets (S/TA), and market value of equity to book value to total liabilities (MVE/BTL) has no significant effect on stock prices. Ratio of working capital to total assets (WC/TA), retained earnings to total assets (RE/TA), sales to total assets (S/TA), earnings before interest and tax to total assets (EBIT/TA), market value of equity to book value to total liabilities (MVE/BTL) and dividend payout ratio (DPR) together have a significant effect on stock prices.

In a study conducted by Susilawati (2012), on the comparative analysis of the effect of liquidity, solvency, and profitability on stock prices in LQ 45 companies. The results of the study found that the most influential variable on LQ 45 stock prices is the ROA indicator with profitability, while solvency shows an effect, which is small on stock prices, but significant, while liquidity shows no effect on stock prices.

Meanwhile, other studies have obtained different results, namely in Gunarso's (2014) research, regarding accounting profit, leverage, and company size on stock prices on the Indonesia Stock Exchange. The results of this study state that accounting profit and firm size on stock prices have a positive and significant effect. Meanwhile, leverage has no effect on stock prices.

This study aims to determine and analyze the effect of profitability, liquidity and leverage on intrinsic value of shares with probability of financial distress as intervening in property and real estate sector companies in 2010-2018.

RESEARCH METHODS

This research is a quantitative research, namely the research data in the form of numbers or numbers. This research is purposive sampling is one of the non-random sampling techniques where the researcher determines the sampling by determining specific characteristics in accordance with the research objectives so that it is expected to be able to answer the research problem.

This research was conducted on property and real estate sector companies in Indonesia which are listed on the Indonesia Stock Exchange, which is located at the Jakarta Stock Exchange Building, Jalan Jenderal Sudirman Kav. 52-53, 12190.

This population selected the target population with a total sample of 48 companies.

Exogenous variables are variables that have a positive or negative effect on endogenous variables (dependent variables). Thus, independent variables are variables that affect or cause changes or the emergence of the dependent variable (Sugiyono, 2013). In this study, the exogenous variables are profitability, leverage, and liquidity. Endogenous variables are the main variables that will explain and describe all variables associated with exogenous variables (Sekaran, 2003). Endogenous variables in this study are financial distress as an intervening variable and stock intrinsic value as the main endogenous variable.

Hypothesis testing uses data analysis techniques, structural equation modeling, or what is called structural equation modeling.

RESULT

General Description

The results of the study used secondary data for property and real estate companies in Indonesia which are listed on the Indonesia Stock Exchange. The companies used as samples in this study were 20 companies from 48 property and real estate sector companies in Indonesia which were listed on the Indonesia Stock Exchange and met the research criteria in the observation period 2010-2018.

Descriptive Statistical Analysis

Descriptive statistical analysis is used to determine the description of a data seen from the minimum value, maximum value, average value (mean) and standard deviation values. In this study, the variables used in the descriptive statistical calculations are profitability (X_1), liquidity (X_2), leverage (X_3), financial distress (Y_1), and intrinsic value (Y_2). Based on data, the descriptive statistical analysis shows that the profitability variable (X_1) has a total sample size of 180, a minimum value of -0.06, a maximum value of 0.31, an average value of 0.0723, and a standard deviation or standard deviation. Amounting to 0.05492. The liquidity variable (X_2) has a total sample size of 180, a minimum value of 0.01, a maximum value of 6.43, an average value of

0.7091, and a standard deviation or standard deviation of 0.90452.

The leverage variable (X_3) has a total sample size of 180, a minimum value of 0.06, a maximum value of 3.06, an average value of 0.8524, and a standard deviation or standard deviation of 0.56614. The financial distress variable (Y_1) has a total sample size of 180, a minimum value of -18.79, a maximum value of 6.73, an average value of 2.7007, and a standard deviation or standard deviation of 2.17635. The intrinsic value variable (Y_2) has a total sample size of 180, a minimum value of 50.35, a maximum value of 43265.23, an average value of 2792.6572, and a standard deviation or standard deviation of 5949.49131.

Analysis of Direct Effect, Indirect Effect, and Total Effect

Table 1. Standardized Direct Effects (Group Number 1 - Default Model)

	X3	X2	X1	Y1
Y1	-.668	.497	7.770	.000
Y2	-1855.131	-913.734	-31136.178	464.693

Source: Processed Amos Output Data

Table 2. Standardized Indirect Effects (Group Number 1 - DefaultModel)

	X3	X2	X1	Y1
Y1	.000	.000	.000	.000
Y2	-310.248	231.003	3610.550	.000

Source: Processed Amos Output Data

Table 3. Standardized Total Effects (Group Number 1 - Default Model)

	X3	X2	X1	Y1
Y1	-.668	.497	7.770	.000
Y2	-2165.379	-682.732	-27525.628	464.693

Source: Processed Amos Output Data

The results of this study indicate that profitability has a negative and significant effect on financial distress, liquidity has a positive and significant effect on financial distress, leverage has a positive and significant effect on financial distress, profitability has a positive and significant effect on intrinsic value, liquidity has a negative and insignificant effect on intrinsic value, leverage has a negative and insignificant effect on intrinsic value, financial distress has a positive and insignificant effect on intrinsic value, financial distress is able to intervening profitability on intrinsic value, financial distress is unable to intervening liquidity on intrinsic value, financial distress is unable to intervening leverage on the intrinsic value.

CONCLUSION AND SUGGESTION

The results of this study indicate that profitability has a negative and significant effect on financial distress, liquidity has a positive and significant effect on financial distress, leverage has a positive and significant effect on financial distress, profitability has a positive and significant effect on intrinsic value, liquidity has a negative and insignificant effect on intrinsic value, leverage has a negative and insignificant effect on intrinsic value, financial distress has a positive and insignificant effect on intrinsic value, financial distress is able to intervening profitability on intrinsic value, financial distress is unable to intervening liquidity on intrinsic value, financial distress is unable to intervening leverage on the intrinsic value.

As for the suggestions from the results of the analysis in this study through descriptive statistics and structural equation modeling analysis, namely:

1. Business appraisers are advised to explore their ability to assess the intrinsic equity of a company using the income approach and the discounted cash flow (DCF) method in providing value opinions because theoretically this approach and method is considered to have the advantage of producing a more accurate value which has taken into account the value of time and money in the assessment process.
2. Corporate Finance Managers can determine policies to increase intrinsic value and handle financial distress to increase company profits and maintain financial stability for property and real estate companies in Indonesia which are listed on the Indonesian Stock Exchange.
3. As an investor or potential investor, he must be more careful and master what kind of company that will be used as an

investment destination fundamentally and seen from the macro factor (systematic risk) in Property and real estate sector companies in Indonesia which are listed on the Indonesia Stock Exchange.

4. For the next research, we can use other additional variables such as sales growth, dividend policy, and managerial ownership so that the research results are better able to predict intrinsic value more precisely and accurately.
5. The next researcher is expected to be able to conduct research on intrinsic value in other sectors of companies listed on the Indonesia Stock Exchange.

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