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Analysis of the Effect of Company Size, Asset Growth, and Capital Structure on the Intrinsic Value of Property and Real Estate Companies in Indonesia

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ABSTRACT

The intrinsic value of a company refers to the real value of a company. Company value in the concept of intrinsic value is not just the price of a set of assets, but the value of the company as a business entity that has the ability to generate profits at a later date. In the company appraisal process, that how the capital structure can affect the value of the company or not, the presence of various risks, taxes, and other costs, as well as changes in leverage can increase the value of the company and reduce it. This study aims to analyze the effect of company size and asset growth through capital structure on the intrinsic value of companies in the property and real estate industry listed on the Indonesia Stock Exchange in 2018 with a total sample of 37 companies. The results of the analysis in this study indicate that company size has a positive and significant effect on capital structure, asset growth has no effect on capital structure, company size and asset growth have a positive and significant effect on intrinsic value, while capital structure has no effect on intrinsic value, and firm size and asset growth there are no direct effect on intrinsic value through capital structure. This study also obtained the result that firm size is more dominant in supporting intrinsic values of Property and Real Estate Companies in Indonesia.

Keywords: Company Size, Asset Growth, Capital Structure, Intrinsic Value

INTRODUCTION

The intrinsic value of a company refers to the real value of a company. Company value in the concept of intrinsic value is not just the price of a set of assets, but the value of the company as a business entity that has the ability to generate profits at a later date. In the company appraisal process, that how the capital structure can affect the value of the company or not, the presence of various risks, taxes, and other costs, as well as changes in leverage can increase the value of the company and reduce it.

In the corporate appraisal process, it can be seen that how the capital structure can affect the value of the company or not, with the presence of various risks, taxes, and agency costs, changes in leverage can increase the value of the company and reduce it (Damodaran, 2012).

Generally, large companies tend to find it easier to get creditor trust to get funding sources so that they can increase the value of the company (Praman and Mustanda, 2016). Rai and Sudiartha (2016) states that the size of the total assets and capital used by the company is a reflection of the size of the company. Go public companies can be categorized as large companies or companies that have better growth, so that the company's growth can affect the value of the company. Investors will be more interested in large companies than small companies. Company growth can reflect that a company will develop or not. Company growth is a ratio that shows a company's ability to maintain its economic position amidst economic growth and its business sector (Suwardika and Mustanda, 2017).

The relationship between capital structure and firm value is still widely debated, both empirically and theoretically. This debate arises from differences in views regarding the optimal capital structure, and the relevance of the relationship between capital structure and corporate value based on the fact that the factor determining the value of the company is tax savings because debt can reduce tax payments (tax deductable). Tax savings will be received continuously. It is the tax savings that are an advantage in the value of a company that uses debt compared to a company that does not use debt. The capital structure will affect the market value of the company by minimizing the average cost of capital.

The optimal capital structure, namely the capital structure that can minimize the average cost of capital and maximize firm value, is the optimal capital structure (Haryanto, 2014).

According to Epstein and Jermakowicz (2010) fair value is considered as the most appropriate and relevant concept for the preparation of the financial statements of a company or business entity because it can describe the actual market value that occurs. Fair value is used to measure: an asset, a group of assets, one liability, a group of liabilities, the net consideration of one or more assets less an associated liability, a segment or division of an entity, a single location or territory of an entity, a whole entity.

Intrinsic value or true value is the real value of a company based on the company's financial condition by measuring the present value of a series of cash flows that enter in the future (Handono, 2009:181), On the other hand, Jogiyanto (2013:121) also states that intrinsic value is the true value of the company. The intrinsic value will later be compared with the stock price in the market to determine whether the company's stock price is overvalued, undervalued, or fairvalued.

This study aims to analyze the effect of company size and asset growth through capital structure on the intrinsic value of companies in the property and real estate industry listed on the Indonesia Stock Exchange.

RESEARCH METHODS

This research is a causal effect research, from the data and facts obtained, it will be proven empirically the effect of a variable on other variables (Ferdinand, 2013:272).

The population of this study is all property and real estate companies listed on the Indonesia Stock Exchange in 2018 and routinely report their financial position to the Indonesian Stock Exchange. The total population of real estate and property companies listed on the Indonesia Stock Exchange in 2018 is 59 companies. While the research sample used 37 companies.

In this study, the sampling technique used a non-probability sampling approach, namely purposive sampling with certain criteria. The criteria for the target population to be used are as follows:

1. Property and real estate companies listed on the IDX in 2018.
2. Issue a complete annual financial report.
3. Companies that do not have negative net income.
4. Having complete data relating to the variables used in the study.

Sources of data in this study are secondary data published by companies in the form of company annual financial reports published on the Indonesia Stock Exchange through the website www.idx.co.id.

To test the effect of the intervening variables, the path analysis method is used. Path analysis is an extension of multiple linear regression, or path analysis is the use of regression analysis to estimate the causal relationship between variables (casual models) that has been previously determined based on theory (Ghozali, 2016:237).

RESULT

Descriptive Statistical Analysis

In this section, each variable that is processed using tools in the form of SPSS software will be described or described, while the results of data processing in the form of descriptive statistics will display the characteristics of the sample used in this study, including: number of observations, average value, the minimum and maximum values for each variable. The description in this study includes 4 (four) variables, namely company size, asset growth, capital structure and company intrinsic value.

The data shows the characteristics of each variable used in this study. Company size as an independent variable has a minimum value of 25.87, a maximum value of 31.58, and a mean value of 29.43, with a total of 37 data observations. This shows that many property and real estate sector companies in the 2018 period had relatively large amounts of assets. Asset growth as an independent variable has a minimum value of -0.31, a maximum value of 0.20, and a mean value of 0.03, with a total of 37 data observations. This shows that many property and real estate sector companies in 2018 experienced small asset growth.

The capital structure as an intervening variable has a minimum value of 0.04, a maximum value of 3.09, and a mean value of 0.85, with total observations of 37 data. Meanwhile, the Intrinsic Value as the dependent variable has a minimum value of 1.09, a maximum value of 2.64, and a mean value of 5.08, with a total observation value of 37 data.

The results of this study indicate that in 2018 Bumi Serpong Damai Company has the largest size of the company. Bumi Serpong Damai has various kinds of businesses such as Superblok, Hospitals, Malls, and Middle and Upper Housing Houses and there are still many more. The more total assets that the company has, the greater the size of the company.

Asset growth in this study was measured using the percentage change in the total activity of companies in the sector and realestated in the Indonesian Stock Exchange from 2017 to 2018.

The capital structure in this study is measured by comparing total debt with total equity in the companies in the property and real-estate sectors in the Indonesia Stock Exchange in the 2018 period.

The intrinsic value of the company in this study was measured by drawing out the present value of the future projection of net cash flow for the company (free cash flow to firm) from each company being the object of research using the discounted cash flow (DCF) method. The projections carried out in this study are based on the analysis of each company's financial statements which are the object of research, with the aim of projections carried out in accordance with the characteristics and business history of each company. Projections are made for several financial components for the next 10 (ten) years to generate net cash flow each year based on historical data contained in the financial statements.

Partial Test (t test) First Substructure

Table 1. Partial Test (t test) First Substructure

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1(Constant)	-4.609	1.615		-2.855	.007
ln_ Company Size	.119	.040	.441	2.995	.005
ln_ Asset Growth	2.599	1.606	.238	1.619	.114

a. Dependent Variable: ln_Capital Structure

Partial Test (t test) Second Substructure

Table 2. Partial Test (t test) Second Substructure

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.175	9.476		1.179	.247
	ln_Company Size	.708	.238	.516	2.979	.005
	ln_ Asset Growth	-3.988	8.791	.073	.454	.032
	ln_ Capital Structure	-.733	.905	-.145	-.810	.424

Dependent Variable: ln_Intrinsic Value

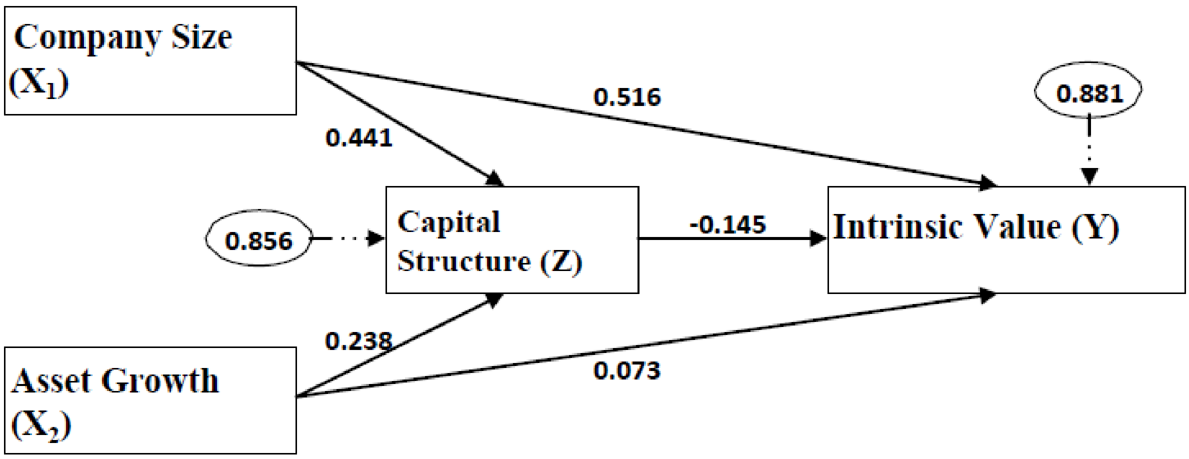

Figure 1. Path Analysis

The results of Table 1, 2, and Figure 1 the analysis in this study indicate that company size has a positive and significant effect on capital structure, asset growth has no effect on capital structure, company size and asset growth have a positive and significant effect on intrinsic value, while capital structure has no effect on intrinsic value, and firm size and asset growth there are no direct effect on intrinsic value through capital structure. This study also obtained the result that firm size is more dominant in supporting intrinsic values of Property and Real Estate Companies in Indonesia.

CONCLUSION AND SUGGESTION

The results of the analysis in this study indicate that company size has a positive and significant effect on capital structure, asset growth has no effect on capital structure, company size and asset growth have a positive and significant effect on intrinsic value, while capital structure has no effect on intrinsic value, and firm size and asset growth there are no direct effect on intrinsic value through capital structure. This study also obtained the result that firm size is more dominant in supporting intrinsic values of Property and Real Estate Companies in Indonesia.

Based on the research that has been done, the following suggestions can be made:

1. Company

a. This research can be used as material for consideration and evaluation before the company establishes a new policy in order to increase firm value because the value of the company is considered good by potential investors.
b. Companies to be even more productive in managing their assets in order to generate better business prospects, because the company's ability to maintain its business position in economic and industrial development in which the company operates can be seen from the growth of its company.
c. The larger the size of the company, the greater the responsibility of the company to investors to be better able to

manage and take advantage of assets and wealth they have in order to maintain investor confidence in the company.

2. Investors

a. Before investing, investors should first consider the fundamental factors that can affect the value of the company, including capital structure, company size, company growth and company profitability, so that investors will receive good returns as expected.
b. Investors should pay more attention to the company's prospects in terms of several aspects. It is feared that companies that have a high debt value will have the potential not to pay dividends to investors because of the small profits so that investors' prosperity is deemed less secure.
c. Investors who are going to take investment actions should prior to making a decision to invest, do a business assessment of the companies that are the target for investing, so that the decision is more accurate and rational.

3. Academics

a. For further researchers, research should use a longer and most recent observation year period so that it can describe the actual conditions, research uses non-financial independent variables such as corporate governance, disclosure, and sustainability reporting to provide a wider range of observations, and research uses a wider population that includes companies in several major sectors listed on the Indonesia Stock Exchange.
b. The business appraisal that is carried out is expected to increase understanding of market activities during the assessment, and knowledge of relevant economic and trend developments to achieve a competent business assessment.
c. We recommend that in estimating the value of a company, general adjustments to the financial statements are made so that they are closer to economic reality, both for comprehensive reports and financial statements.
d. Under the income approach, the historical financial statements of a business entity are often used as a guide for estimating revenue or cash flow from a business. Determining historical trends from time to time through ratio analysis can help provide the information needed to assess the risks inherent in operating the business in the context of the industry and its prospects for future performance.

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