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ABSTRACT

The Impact of Capital Structure on Corporate Financial Performance: Case Study of Mining Companies Listed in The Indonesia Stock Exchange, 2005-2009

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The purpose of this study was to analyze the impact of capital structure on financial performance of mining sector companies listed in the Indonesia Stock Exchange (BEI). This study employed the descriptive analysis and a regression analysis of panel data. This study covered annual data of 23 mining sector companies listed in the BEI in a 5-year time horizon (2005-2009). The descriptive analysis showed that most of companies applied a low-leverage policy in their capital structure. In average, the companies generate higher financial performance compared to other industries, in terms of profitability ratios and market based ratios. There are higher income tax rates for mining companies than the rates applied generally, so a few companies prefer debt capital than equity capital. This study also found that lack of support of domestic banks to the mining sector encourages some companies to obtain financing through international financial institutions, including Credit Suisse, Merrill Lynch, Standard Chartered Bank, and China Investment Corporation (CIC). The regression analysis of panel data showed that capital structure has a significant impact on the company's financial performance based on ROA, ROE, and PER, but have insignificant effect on the company's financial performance based on market-to-book value ratio. These results suggested that firm's management should increase their leverage so that financial performance can be improved. For investors, increased leverage of the company would give a positive signal that shows the company's bright prospects in the future. While for the government as regulator, it is important to encourage domestic banks especially the state-owned banks to increase support for the mining sector.

Keywords : *Capital Structure, Financial Performance, Indonesia Stock Exchange, Mining Sector, Descriptive Analysis, Regression Analysis of Panel Data.*

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