SUMMARY

FITRI WAHYUNI. Financial Distress Analysis and Its Impact on Stock Prices of Mining Sector Firms in Indonesia Stock Exchange. Supervised by LUKYTAWATI ANGGRAENI and TONY IRAWAN.

Stock index is one of the things taken notice by external parties including investors and potential investors. This happens because information from the stock price fluctuation is significantly affect the company upon its ability in financing new investment (Leitner 2007). If the decline in stock prices was ignored and continues to be an impact on the decline on investor interest in investing their shares to the firm. Besides that, according to Brigham and Houston (2010), the stock price change from time to time as conditions change and new information obtained by investors about the firm’s prospects. Therefore, a firm should be able to maintain its stock prices at the level which attracts investors’ interest, which means that the firm’s prospect in generating future profits for the potential investors is promising wealth for shareholders.

Based on the previous research, there are many factors that could affect stock prices from both internal and external firms aspect. On the internal side, one of the causes of the declined stock prices is the corporate performance that is continually to decline. Firm’s performance can be assessed from both financial and non financial aspects. The decline of financial performance or commonly referred to financial distress is one of the aspects that affect the stock prices. Platt and Platt in Fahmi (2012) define financial distress as a stage of declined financial conditions that occurs prior to the onset of bankruptcy or liquidation.

Previous research on stock prices has been widely applied with varying results, but the studies that focus on z score value as a financial distress indicator upon its influence towards shares/stock price in Indonesia is relatively rare to be found. Research conducted by Apergis et al. (2011), Zhao (2014), and Poklepović et al. (2011) found that the financial distress prediction would positive effect on stock prices. On the contrary, the research conducted in Indonesia are likely to produce different result as research conducted by Aradian and Khoiruddin (2014), Manik (2011) in analyzing financial distress are seen with z score Altman and stock prices found that z-score Altman used as predictors of financial distress does not affect the stock price.

Therefore, this study was conducted to reexamine how the influence of financial distress on the stock price on the mining sector in Indonesia. The reasons for selecting the mining sector as the research object is considering the importance of role of the Indonesian mining sector both in the Indonesian capital market and economic growth in Indonesia. Besides that, based on the preliminary review of research shows that the sector which likely to experience decline on stock prices in recent years is the mining sector.

The research is conducted to analyze financial characteristics, identify the occurrence of financial distress condition and empirically test the impact of financial distress condition, financial characteristics and macroeconomic on the stock prices of mining sector firms listed in Indonesian Stock Exchange. This research using descriptive analysis and panel data regression analysis. Companies being studied were some companies that run its business in mining sector as listed
in Indonesian Stock Exchange since period 2005-2015, published the full financial statement, never to be delisted during period 2005-2015 and did not move among any other sector over period 2005-2015. This kind of selection was taken to maintain data stability used, therefore number of companies to be studied were 7 issuers, such as ANTM, BUMI, ENRG, INCO, MEDC, PTBA and TINS. The dependent variable used in the study was the share price (closing price) of each issuer of each quarter. The independent variables representing Z score consists of working capital to total assets (WCTA), retained earnings to total assets (RETA), earnings before interest and taxes to total assets (EBITTA) and the market value of capital to total liabilities (MVETL). Meanwhile other independent variables from the side of financial characteristics, which is the profitability ratios consist of return on assets (ROA) and earnings per share (EPS), the ratio of liquidity, such as current ratio (CR), the leverage ratio in the form of debt ratio (DR). Other independent variables from the side of macroeconomics is inflation (INF) and economic growth (GDPgrowth).

The results showed the firms that indicated a relatively less good performance if seen the financial characteristics (current ratio, debt ratio, return on asset, and earnings per share) are BUMI and ENRG. In accordance with that, the analysis revealed that firms were never experiencing financial distress condition during the research were TINS and INCO. The firms that were often experiencing financial distress condition during the research were BUMI and ENRG. Empirical test results revealed that z score, return on assets, and earnings per share have a positive significant impact towards the stock prices. Meanwhile, the current ratio, debt ratio, and inflation have a negative significant impact towards the stock price.

Keywords: financial characteristics, financial distress, macroeconomic, panel data regression, stock price