PREDICTION OF FINANCIAL DISTRESS IN PROPERTY AND REAL ESTATE COMPANY IN INDONESIA STOCK EXCHANGE

THESIS

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Chapter I
INTRODUCTION

1.1 Background

Indonesia is 4th large population country in the world. *Badan Pusat Statistik Indonesia* (2007) mention that the world large population after China, India and United State of America, because of that Indonesia become one potential country which have large human resource with low cost. Before crisis started, Indonesia has stability in economic, politic, law and culture, so it became additional point for investor to invested their money in Indonesia especially in manufacture, meaning, and property (Kompas, June 6th,2003)

The economic crisis which it started in middle 1997, and it was made a worst impact in a world of business especially in property industries . In the same time, bank also got liquidity problems because the currency of Indonesia Rupiah to American Dollar had significant difference. The condition become worst because at that time, many businessman lent money in dollar to finance their business. Other condition many bankers tried to enter the property business in order to get high margin of profit (Kompas, June 6th 2003). A lots of problem on debt by property business. Property company get collapased, because bank stopped the credit to buy the house for people. This condition, makes the property company got liquidity problems. Property expert Tjahja Gunawan Diredja mentioned, the inflation rate achieved 40% in 1997- 1998 and interest rate achieved until 50 % per year. That condition made the property business owner could not continue run their business, because they must face two problems in same time, interest rate and inflation rate and Indonesia currency got decreased to American dollar. The worst thing, was the property company got collapsed and needed to fire the employee (Kompas ,2004).

This unstable condition made the investor felt unsafe to invest their money in property business. Investors needed some information to give them information about the company condition in financial distress. Before at 1966 first financial distress model called *Univariate Discriminant.* Altman had done the research about financial distress in 1968 and completed in 1984. Altman found the *Z score model* solved the question about financial distress by using financial ratio such as current liabilities, sales operating income, total liabilities, inventory turnover, asset turn over, return of investment and return of equity.

After that many researcher developed the research about financial distress such as Tam and Kiang (1990 and 1992), Wilson and Sharda (1994), Zhang Guo qiang (1999) and Parag C.Pendhakar (2005). Meanwhile previous research about financial distress in property done by Shen Chang-e (2004), to analyze the Cause and Salvation Ways of Financial Distress Company Listed in China. Chang- e did the research for helping the China company to solve their problem to face financial distress, and gave the information to prevent bankruptcy. Research about the causes and salvation ways of financial distress company which listed in property company stock exchange in Beijing ,Chang- e research by using assets and liability ratio and assets structure. So, it can explain two types of distress, one is technical insolvency because the failure of capital structure and other is

Chapter V
CONCLUSION

5.1 Conclusion

The purpose of research is to analyze the differences between company in financial distress condition and in good condition. Because facing the global crisis, the property investor need to analyze the financial condition in company before investing their money.

The financial distress condition in company show by the negative result of earning after tax. Financial distress can measure from five variable there are total asset turn over, operating profit margin, return on investment, return on equity ,return on investment and leverage.

From five variable above, four variable can give significant result if test partially. Four variable that can measure financial distress are total asset turn over, operating profit margin, return on investment and leverage financial distress in company Only return on equity cannot give significant result to financial distress. If all independent variables test together, it can give significant result to financial distress condition in company.

5.2 Areas for Further Research

This research tries to find the maximum result, but this research still has areas to analyze for future research:

1. From R square test we can find the result is 35, 8 %, less than 50 % . Its mean that for the future research need to add more variables to find more significant result about financial distress.

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