

CHAPTER I

INTRODUCTION

1.1 Background of The Study

Every company is established with the expectation that it would generate profits so that it could survive or develop in the long term. In fact, these assumptions do not always run well as expected. According to Indonesia Stock Exchange (IDX), there was a total of eight companies being delisted from the stock exchange in 2017. PT Citra Maharlika Nusantara Corpora Tbk (CPGT) went bankrupt and in unsolvency condition. Two other companies, which were PT Berau Coal Energy Tbk (BRAU) and PT Permata Prima Sakti Tbk (TKGA), were forced to be expelled from the exchange because both companies experienced an event that made operations disrupted and negatively affected the business continuity or going concern.

There are some factors that influenced the business failure or bankruptcy such as internal or external factors to the firm. From internal factor such as: poor financial planning; incapability to find additional financing; too large debt burden; inability to collect debt; incapability to adjust to changed economic conditions; and more. As for the external factor could be seen from: growth in competition; market recession; changes in laws; bad climate conditions; bankruptcy of firm connected with member of board; and more (Lukason & Hoffman, 2014).

The potential factors need to be anticipated or predicted as early as possible to overcome or even avoid the risk of bankruptcy. In predicting the bankruptcy of the companies, many previous studies had widely used an Altman Z-Score Analysis that used five financial ratios.

The original Z-Score method introduced by Altman had become the dominant model and been used as a main or supporting tool for bankruptcy prediction or analysis, both in research and practice (Altman, Drozdowska, Laitinen, & Suvas, 2014).

Some of the previous studies, for example Tambunan, Dwiatmanto and Endang (2015), conducted research on cigarette sub sector listed in IDX period 2009-2013, showing that the delisted companies were always in negative performances, categorized as bankrupt category. Of the three companies that were delisted, only one company had ever been included in the category of vulnerability.

Furthermore, Aminah and Sanjaya (2013) who conducted research on banking sector that listed on BEI 2001-2012 showed that Altman Z-score method was able to predict three banks that were then delisted through having the lowest Z-score. In addition, Damayanti (2015) who conducted research on food and beverage sector that listed on IDX period 2010-2013 using Altman Z-score method showed that three companies were in high risk zone, whereas in reality some companies that had been predicted bankrupt were still there in 2014.

The above-reviewed studies showed that bankruptcy prediction only used Altman Z-Score method. Hence, another factor that would be included in this research is the distressed stock return. Companies that were predicted bankrupt usually had lower rates of stock return consecutively for a several periods compared to the condition of companies that were not predicted to go bankrupt and had higher stock return fluctuations. This would cause investor interest to decrease because they were not interested in the company with small profits (Hanafi & Halim, 2012). Occasionally or even frequently trading based on noise, investors would use such information that could be valuable in setting the market prices. As for that reason, in order to reduce loss on the process of decision making in stock investment, analysis of bankruptcy symptoms must be carried out, in anticipation of bankruptcy in the future.

Based on above explanation, the researcher I motivated to find out and further analyze how the financial condition of the company that listed on Indonesia stock exchange could indicate bankruptcy and made the distressed stock return company as a main focus. In this research, researcher would investigate the financially distressed stocks using an Altman Z-Score as a model predicting financial distress. Hence, this analysis would use Altman Z-Score method and stock price to predict the bankruptcy. The tests being carried out on companies that listed on the IDX are made with the title **“Analysis of Financial Distress Using Altman Z-Score Model and the Implication Toward Distressed Stock Return for the Company that Listed in Indonesia Stock Exchange”**.

1.2 Problem Limitation

Based on the background of the study mentioned above, this research would be focused on all companies that listed in IDX for period 2015 to 2017. This research only used Altman Z-score (which is five financial ratios) and distressed stock return to predict the bankruptcy.

1.3 Problem Formulation

Based on the above background, the problem in this study could be identified as a question: Did Altman Z-Score has influence toward distressed stock return on companies that listed in the Indonesia stock exchange for period 2015-2017?

1.4 Objective of The Research

The objectives of this research is to find out whether Altman Z-Score is able to predict the bankruptcy in companies listed on the Indonesia Stock Exchange period 2015-2017.

1.5 Benefit of The Research

This research is done as it could be used by several parties such as companies that are being researched, management of the companies, Indonesian stock exchange as a market and future researchers.

1.5.1 Theoretical Benefit

This research use the Altman Z-score model and distressed stock return. It expected that after finishing the research, there would be insight on the financial condition on the companies in Indonesia.

1.5.2 Practical Benefit

This research could be used by the writer to identify the financial condition in companies in Indonesia and to gain insight on prediction of bankruptcy using Altman Z-score toward distressed stock return. A distressed stock return company could use this research to assess the condition of the company to get a clearer picture. Furthermore, the result of this research could be used by parties such as investor and the management of the company.

1.6 Systems of Writing

Chapter I Introduction

This chapter would discuss about the background of the study and the problem limitation about how the current condition of companies that listed in Indonesia stock exchange is. It also discusses the prediction of the bankruptcy using Altman Z-score and its implication toward distressed stock return. In addition, problem formulation as well as objective of the research would be discussed to reach the goal of the research. Lastly, benefit of the research that is directed to the readers.

Chapter II Literature Review

This chapter would discuss about the grand theory of research and is that bankruptcy happened when company failed to assess the economic condition which caused a financial distress and threat of going bankrupt. Furthermore, theoretical background of this research consists of insight of signalling theory, definition of investor behavior, financial ratios type to predict bankruptcy, definition of financial distress, definition of bankruptcy, definition of stock return

and Altman Z-score method. This chapter would also discuss about the previous research, hypothesis development, research model, and framework of thinking.

Chapter III Research Methodology

This chapter would discuss about the research design which in this report is quantitative approach, population and sample, data collection method, operational variable definition and variable measurement, and data analysis method.

Chapter IV Data Analysis and Discussion

This chapter would discuss about the general view of Indonesia Stock Exchange for the period 2015 to 2017. In addition, it would include the data analysis that consists of descriptive statistic, result of data quality testing and result of hypothesis testing, and the discussion of the analysis.

Chapter V Conclusion

This chapter would discuss about the conclusion after research and discussion, the implication and the recommendation towards the company, management and IDX as the market and other researchers for the future research.