

**ANALYSIS OF CAPITAL STRUCTURE, FINANCIAL PERFORMANCE,
AND FIRM VALUE: EVIDENCE FROM MINING COMPANIES LISTED IN
INDONESIA STOCK EXCHANGE**

By

Diga Cendekia Budianto

13410127

A thesis submitted to the Faculty of
BUSINESS ADMINISTRATION AND HUMANITIES

in partial fulfillment of the requirements
for the
BACHELOR'S DEGREE
in
ACCOUNTING



SWISS GERMAN UNIVERSITY

Edu Town BSD City

Tangerang 15339

Indonesia

July 2014

Revision after the Thesis Defense on 18 July 2014

STATEMENT BY THE AUTHOR

I hereby declare that this submission is my own work and to the best of my knowledge, it contains no material previously published or written by another person, nor material which to a substantial extent has been accepted for the award of any other degree or diploma at any educational institution, except where due acknowledgement is made in the thesis.

Diga Cendekia Budianto

Student

Date

Approved by:

Ir. Yosman Bustaman, MBA

Thesis Advisor

Date

Prof. Eric Jos Nasution, MBA, MA, PhD

Dean

Date

Diga Cendekia Budianto

ABSTRACT

ANALYSIS OF CAPITAL STRUCTURE, FINANCIAL PERFORMANCE, AND FIRM VALUE: EVIDENCE FROM MINING COMPANIES LISTED IN INDONESIA STOCK EXCHANGE

By

Diga Cendekia Budianto

Ir. Yosman Bustaman, MBA

SWISS GERMAN UNIVERISTY

This thesis explores the impact of capital structure towards the financial performance and firm value of the Mining companies listed in Indonesia Stock Exchange from the year 2009 to 2013. The samples are 28 mining companies listed in Indonesia Stock Exchange. The main variable are capital structure, measured by TD/TA and TE/TA, as an independent variable; financial performance, measured by ROA and ROE, and firm value, measured by stock price, as the dependent variables; and there are two controlled variable which are external factor such as GDP rate and inflation rate, and internal factor such as revenue growth and firm size (total asset).

This research found that the capital structure has no effect on financial performance. The indicators that significantly affect financial performance come from the control variable, which is revenue growth. This also finds that the capital structure has a significant effect towards firm value. The firm size and GDP rate is more impactful towards firm value. This contradicts with the MM's capital structure irrelevance proposition, but supports other theories.

Keywords: Capital Structure, Financial Performance, Firm Value, Indonesia Mining Industry

© Copyright 2014
by Diga Cendekia Budianto
All rights reserved

DEDICATION

I dedicate this work for my beloved family, especially my Mother for always support and trust me during my university life. This work is also dedicated for people around me who love and give me strength for all the difficulties and problems I have faced. This represents other accomplishment that I have achieved to start a new life in the future.

ACKNOWLEDGEMENTS

First of all I want to thank God, Allah SWT, for His blessing that finally this final project can be completed. This final project has given me many knowledge and experiences that teach more about the lesson that I have learned during my study in Swiss German University. As a human being, I realize that this project is still not completely perfect. The limitation of my capability makes this final project need more revisions and suggestions from the readers.

This final project will not be succeeded if there is no helps and supports from people around me. I would like to express my gratitude for:

- (1) Ir. Yosman Bustaman, thanks for the counseling, advices, and guidance during the working process of this thesis, so that this could be completed on time.
- (2) My beloved parents: Ridha Julvia Emza, Ir. Bregas Budianto and Ir. Teddy Septiawan for supporting me in every step of my study in SGU and give me so much love. I promise to make you proud.
- (3) My sisters and brother: Dara Adilla, Azhyra Firsty, and Dermawan Bakti. Thank you for always being ready to share my problems and support me to overtake all problems.
- (4) My whole big family; Emza and Soewito family. Thanks for the prayer and support.
- (5) Ms. Neneng Djueriaah, Mr. Samuel Anantadjaya, Mr. Indra Pratama, Mr. Bobby Wiryawan, Ms. Imelda Suardi, Mr. Parhimpunan Simatupang, Ms. Margaretha Lingga, Ms. Ingge Handojo, Ms. Intje and unmentioned lecturers. Thanks for teaching me academics and morals.

- (6) Joddy Guswan, Putri Santoso, Tiara Sandifa, Dinda Fajria, Fitriani Ramadhina, Audy Devina, Shabrina Zatalini, Hanastasia Gunawan, Nastiti Prawitasari, Andi Natassa, Dian Amartani, Imtisal Ali, Febby Namira, Tafito Tikoalu, Arief Ghani, James Jonathan, Reyhan Praja, and unmentioned friends. Thanks for giving me so many fun moments and experiences, and taught me what friendship is.
- (7) SGU Accounting students batch 2007-2013 for sharing the university life that taught me how to survive and be a great friend, junior, and senior.
- (8) Total E&P Indonesia colleagues especially in Finance Department for supporting me during my thesis and working period.

For those who cannot be mentioned one by one, my gratefulness and thankfulness for you all is not less. I hope this paper will be useful for those who need it. Thank You.

TABLE OF CONTENTS

STATEMENT BY THE AUTHOR.....	2
ABSTRACT.....	3
DEDICATION.....	5
ACKNOWLEDGEMENTS	6
LIST OF TABLES	11
LIST OF FIGURES	12
CHAPTER 1 - INTRODUCTION.....	13
1.1 BACKGROUND	13
1.2 RESEARCH PROBLEM	15
1.3 RESEARCH QUESTIONS	15
1.4 RESEARCH PURPOSES	16
1.5 RESEARCH ADVANTAGES	16
1.6 RESEARCH LIMITATIONS	16
1.7 WRITING SCHEME.....	17
CHAPTER 2 - LITERATURE REVIEW	18
2.1 CAPITAL STRUCTURE.....	18
2.1.1 <i>Debt</i>	20
2.1.2 <i>Equity</i>	21
2.1.3 <i>Optimal Capital Structure</i>	22
2.1.4 <i>Modigliani and Miller's Capital Structure Irrelevance Proposition</i>	23
2.1.5 <i>Trade off Theory</i>	24
2.1.6 <i>Pecking Order Theory</i>	25
2.1.7 <i>Signaling Theory</i>	25
2.2 FINANCIAL PERFORMANCE	26
2.2.1 <i>Return on Equity</i>	26
2.2.2 <i>Return on Asset</i>	27

2.3	FIRM VALUE	27
2.3.1	<i>Stock Price</i>	27
2.4	MACROECONOMICS	28
2.4.1	<i>Gross Domestic Product</i>	28
2.4.2	<i>Inflation Rate</i>	28
2.5	FIRM SIZE	29
2.6	REVENUE GROWTH.....	30
2.7	PREVIOUS STUDIES	31
2.8	DIFFERENTIATION FROM PREVIOUS STUDIES	36
2.9	THEORETICAL FRAMEWORK	36
2.10	HYPOTHESIS	36
CHAPTER 3 - METHODOLOGY.....		37
3.1	RESEARCH DESIGN	37
3.2	UNIT ANALYSIS	38
3.3	TYPES OF DATA AND COLLECTION PROCESS	39
3.4	RESEARCH MODEL AND VARIABLES.....	39
3.5	POPULATION AND SAMPLE	40
	SOURCE: WWW.SAHAMOK.COM	41
3.6	DATA ANALYSIS	42
3.7	METHOD OF ANALYSIS	43
CHAPTER 4- RESULT AND DISCUSSION.....		46
4.1	INDUSTRY PROFILE.....	46
4.2	RESULT.....	48
4.2.1	<i>Descriptive Statistics</i>	48
4.2.2	<i>Statistical Test</i>	51
4.2.2.1	<i>Normality Test</i>	51
4.2.2.2	<i>Multicollinearity</i>	53
4.2.2.3	<i>Auto-Correlation</i>	53
4.2.2.4	<i>Heteroskedasticity</i>	55
4.2.2.5	<i>Chow Test Regression Panel Data Using GLS Method</i>	56

4.2.2.6 <i>Hausman Test</i>	57
4.2.3 <i>Hypothesis Analysis</i>	58
4.2.3.1 <i>Panel Data Regression</i>	59
4.2.3.2 <i>T-Test</i>	62
4.2.3.3 <i>F-Test</i>	66
4.2.3.4 <i>Adjusted R-square</i>	67
CHAPTER 5 – CONCLUSIONS AND RECOMMENDATIONS	69
5.1 CONCLUSION	69
5.2 RECOMMENDATIONS	70
GLOSARY	71
BIBLIOGRAPHY	75
APPENDICES	82
1 LIST OF POPULATION AND SAMPLES (SAMPLES ARE IN ITALICS).....	82
2 RAW DATA PER INDICATOR	84
3 EXCHANGE RATE	92
4 ROA PROCESSED DATA USING EViews	92
5 ROE PROCESSED DATA USING EViews	106
6 STOCK PRICE PROCESSED DATA USING EViews.....	117
CURRICULUM VITAE	133

LIST OF TABLES

Table 1- 2014 Inflation Indonesia (CPI)	29
Table 2 - Listed Companies in Mining Industry	41
Table 3 – 2010 Mineral Resources and Reserves of the Top 14 Mineral Commodities in Indonesia	47
Table 4- Descriptive Statistics results.....	49
Table 5 - Multicollinearity Test of ROA, ROE and Stock Price	53
Table 6 - Auto-Correlation of ROA.....	54
Table 7 - Auto-Correlation of ROE	54
Table 8- Auto-Correlation of Stock Price.....	54
Table 9 - Heteroscedasticity of ROA.....	55
Table 10–Heteroscedasticity of ROE.....	55
Table 11 - Heteroscedasticity of Stock Price	55
Table 12 - Chow Test of ROA Using GLS Method	56
Table 13- Chow Test of ROE Using GLS Method.....	56
Table 14- Chow Test of Stock Price Using GLS Method	56
Table 15 - Hausman Test of ROA	57
Table 16- Hausman Test of ROE.....	57
Table 17- Hausman Test of Stock Price	58
Table 18 - Regression Panel Data Estimation of ROA Result Using GLS Method	60
Table 19 - Regression Panel Data Estimation of ROE Result Using GLS Method	61
Table 20- Regression Panel Data Estimation of Stock Price Result Using GLS Method	62
Table 21 - Random Effect Model Result of ROA	63
Table 22- Random Effect Model Result of ROE.....	64
Table 23- Random Effect Model Result of Stock Price	65
Table 24 - F-Test Result (Random Effect Model).....	67
Table 25 - R ² Test Result.....	67
Table 26 - Summary Findings.....	69

LIST OF FIGURES

Figure 1 – The Static Tradeoff Theory of Capital Structure.....	24
Figure 2 - Research Process – Author’s modification	38
Figure 3 - Normality Test for ROA	51
Figure 4 - Normality Test for ROE.....	52
Figure 5- Normality Test for Stock Price	52