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Profitability of property industries in Indonesia by using firm specific factors and macroeconomic factor

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Abstract

Property companies are a growing industry in Indonesia. This trend makes the property industry an economically attractive industry for the investor. Due to that development, this study examines the factors that affect the profitability of property companies. This study's profitability is represented by the Return On Equity ratio chosen because this variable will provide returns to equity investors. The independent variables in this study consist of company-specific variables and macroeconomic variables. The research method used is the multiple linear regression method using secondary data taken from the company's financial statements from 2015 to 2019. The findings of this study are that both company-specific and macroeconomic factors significantly influence the profitability of property companies. Specifically, company-specific factors that have a significant effect on profitability are also affected by macroeconomic factors, such as companies' ability to owe as represented by the ratio of Debt to Equity Ratio. Investors can use the findings from this study to determine which companies are suitable for investment. Meanwhile, from the company side, management can focus on this study's findings to increase the company's profitability.

Keywords: *property; profitability, firm-specific factors, macroeconomic factor*

Abstrak

Perusahaan properti merupakan industri yang berkembang di Indonesia. Hal ini membuat industri properti menjadi industri yang secara ekonomis menarik untuk dijadikan tempat berinvestasi. Penelitian ini meneliti faktor-faktor yang mempengaruhi profitabitlitas pada perusahaan properti. Profitabilitas yang dalam penelitian ini diwakili oleh rasio Return On Equity dipilih karena variabel ini yang akan meberikan imbal balik kepada investor ekuitas. Variabel independen dalam penelitian ini terdiri dari variabel spesifik perusahaan dan variabel makroekonomi. Metode penelitian yang digunakan adalah metode regresi linear berganda dengan menggunakan data sekunder yang diambil dari laporan keuangan perusahaan periode 2015 hingga 2019. Temuan dari penelitian ini adalah baik faktor spesifik perusahaan dan faktor makroekonomi memiliki pengaruh yang signifikan terhadap profitabilita perusahaan properti. Secara khusus faktor spesifik perusahaan yang berpengaruh signifikan terhadap profitabilitas adalah faktor yang terpengaruh juga oleh faktor makroekonomi yaitu seperti kemampuan perusahaan berutang yang diwakili oleh rasio Debt to Equity Ratio. Investor dapat menggunakan temuan dari penelitian ini untuk menentukan perusahaan yang sesuai untuk investasi. Sementara itu dari sisi perusahaan, manajemen dapat fokus pada temuan dari penelitian ini untuk meningkatkan profitabilitas perusahaan.

***Kata kunci**: properti; profitabilitas, faktor spesifik perusahaan; faktor makroekonomi*

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INTRODUCTION

Indonesia's property and real estate industry is an industry proliferating from year to year (Meilyani et al., 2020). There are at least two main things that drive the growth of property demand. First, Indonesia has positive population growth from year to year. Also, the Indonesian population's demographics are young people who need property both for residence and place of business. Second, the unequal distribution of the economy, which causes economic centres to be in the capital and Java and several big cities outside Java, causes housing demand in the capital and big cities to increase (Gunawan, 2020).

From the supply side, several large companies in Indonesia are engaged in the integrated property. Integrated property is defined as the development of the property as a whole and not partially, for example, only commercial or residential property. This increasing supply is driven by several things, such as the increasingly limited land in big cities. Therefore property entrepreneurs need to open new areas outside the city. To make these new areas attractive, supporting infrastructure is needed, such as shopping centres, education and health facilities. This customer preference causes developers to build an integrated manner to attract consumers to buy property outside the city.

This study examines the factors that affect the profitability of these integrated property developers. The novelty in this study is a combination of variables used to examine the profitability and the study period. The period of this research is 2015 to 2019. This period was chosen to avoid the effects of the property recession in the United States in 2008. The hope is that with the 2015 election, the crisis's effects will not be felt so that property companies return to their regular business cycle.

The factors that affect property companies' profitability in this study are divided into two, namely company-specific factors and macroeconomic factors. Company-specific factors are represented by ratios derived from balance, ratios derived from income statements, and mixed ratios (Triana et al., 2020). Meanwhile, the macroeconomic variable is represented by the interest rate. There is one control variable, namely company size. So in total, there are eight variables used in this study.

LITERATURE REVIEW

As a growing sector in Indonesia, property companies are one of the industries that are interesting to research. Damodaran (2016) states that there are at least three ways to assess a company, namely by using comparisons, by using the cash flow generated and by using the value of the assets it owns. Property appraisals generally use the costing method to value an asset, although an appraisal still makes comparisons with other approaches to make the final opinion. Meanwhile, equity analysts use the present value of future cash flows to determine the company's equity value. One other approach that can be used is a statistical approach to find the factors that affect the company's profitability. This approach's results are twofold, namely, what factors affect profitability and the magnitude of the influence of these factors (Lie, 2017).

Several researchers examine what factors affect the profitability of property companies. Pangestu (2019) examines the company's capital structure and property companies' ability to manage assets on profitability. Previously, Tailab (2014) has divided property funding sources into short-term funding and long-term funding. However, in his research, no significant influence was found between short-term and long-term capital, so what is more important is the actual amount of debt that can be managed. In terms of assets, Coal (2018)

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examined short-term variables such as the management of working capital on profitability and found that the management of working capital significantly affected profitability.

Meanwhile, Zaky et al. (2019) examined various macroeconomic factors such as Gross Domestic Product, inflation, interest rates, and world oil prices for external factors. The finding of his research is that interest rates have a negative relationship with property companies' profitability. This negative relationship is because the property industry depends on long-term debt in its operations. Long-term debt will have a higher sensitivity to changes in interest rates.

The value of a property company comes from the number of land banks it owns and the value per square meter of the land (Herawati et al, 2021). Research from Irhamna & Masdupi (2021) shows that short-term investment in working capital is also an important element that affects profitability. Katharina et al (2021) use financial indicators that can be used to measure the performance of property companies. These indicators include firm size, net profit margin and operating cash flows. Lin et al (2021) examined the effect of interest rates on the firm value of property. This effect occurs mainly because property is generally purchased using loans whose amount depends on the interest rate.

H_1: Current ratio has effect on the return on equity.
H_2: Debt to equity ratio has effect on return on equity.
H_3: Total assets turnover ratio has effect on return on equity.
H_4: Sales growth has effect on the return on equity.
H_5: Firm size has effect on the return on equity.
H_6: Net profit margin has effect on the return on equity.
H_7: Operating cash flow has effect on the return on equity.
H_8: Interest rate has effect on the return on equity.

Based on the previous literatures, this study combines the specific factors of property companies with macroeconomic factors that affect property companies. These factors can be seen in the research framework illustrated in Figure 1.

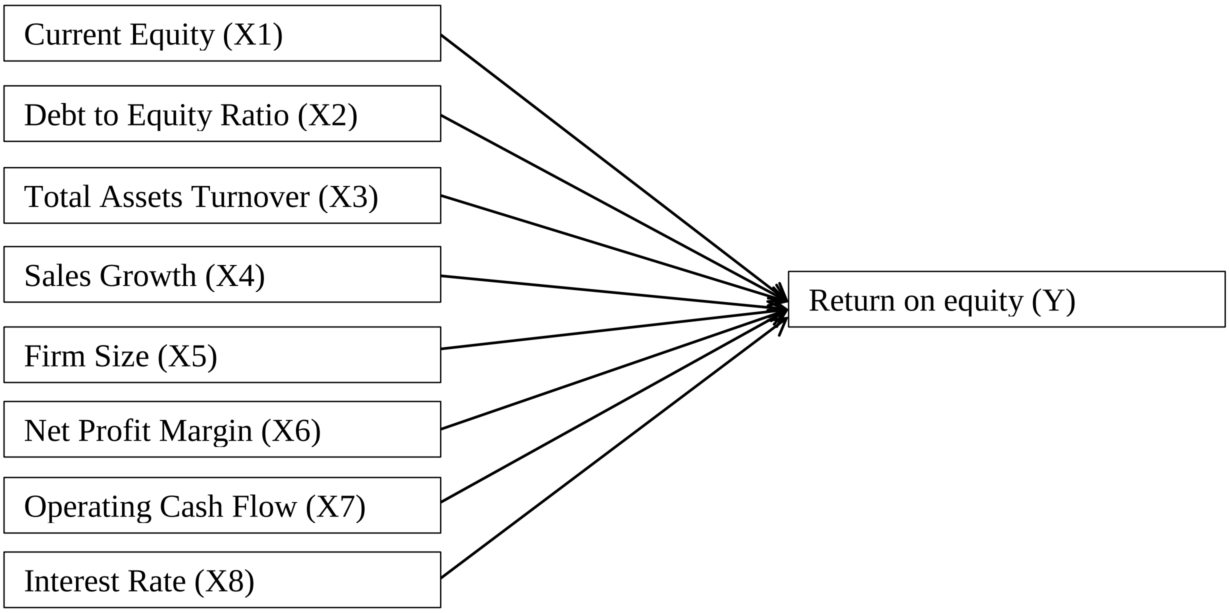

Figure 1. Research Framework
Source: Author, 2021

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This study differs from previous research in several ways. First, this study deliberately combines the factors that are significant in previous studies. This combination is done so that these factors can be compared so that it is known which factors have a significant effect and how much influence they have on profitability. This study also combines macroeconomic factors, which are represented by the interest rate with the proxy of the Bank Indonesia benchmark interest rate.

The choice of the interest rate as representative of macroeconomic factors is based on the property industry's specific characteristics. The property industry's first particular characteristic is that the property company depends on long-term debt in operation. This long-term debt is necessary because property company income is earned in the long term. After all, it takes more than one year to complete a property project. As a result, a property project can make money after more than one year. From the property's demand side, property buyers rely on loans from banks to finance property purchases. Therefore, changes in interest rates will affect the company's property supply side and from the property demand side by consumers.

RESEARCH METHOD

This research is quantitative using a multiple linear regression method. There are one dependent variable and eight independent variables. The independent variable will be regressed against the dependent variable to find a model fit. After that, a t-test will be carried out to examine each variable's effect on the dependent variable. The model built will be seen in equation (1).

$$Y_{i,} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon_{1i,t}$$
(1)

Where

Y : Profitability (ROE)
X_1 : Current Ratio
X_2 : Debt to Equity Ratio
X_3 : Total Assets Turnover
X_4 : Sales Growth
X_5 : Firm Size
X_6 : Net Profit Margin
X_7 : Operating Cash Flow
X_8 : Interest Rate

The data used is secondary data from the company's financial statements. The data taken comes from the company's financial statements from 2012 to 2019. The sample used is purposive sampling, a sampling system that determines the criteria or characteristics of the data to be taken first. The data collection criteria consisted of several criteria:

1. Data comes from publicly listed companies on the Indonesia Stock Exchange.
2. The company is a company that is included in the integrated property developer category.
3. The company has the complete data needed for this research.
4. The company report has been audited and has an unqualified audit opinion.

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The data used is panel data because it consists of data from several companies for several years. Because the data is a panel, the Hausman test and Chow test are conducted to determine the appropriate type of linear regression model between the Pooled Least Square model, the Random Effect Model or the Fixed Effect Model (Sekaran, 2016).

RESULTS AND DISCUSSION

From the data collected, 18 property companies meet the requirements. The multiple linear regression model chosen is the Fixed Effect Model, according to the Chow test results. The results of the multiple regression are shown in Table 1.

Table 1. Result

	Coefficient	t-value	p-value
Constant	-0,069	-0,942	0,349
CAR	-0,001	-1,213	0,228
DER	0,028	3,678	0,000***
TAT	0,038	6,536	0,000***
SGR	0,008	0,742	0,460
SIZE	0,001	-0,173	0,863
NPM	0,226	8,416	0,000***
OCF	0,001	2,524	0,014**
INT	0,002	4,233	0,000***

Source: Author, 2021
*** significance for 1%
** significance for 5%

Based on the test results, the coefficient of determination the model meets the requirements with an Adjusted R Square value of 0.88. This figure shows that this model can explain at a high level. This number means that the independent variable can explain 88 per cent of the dependent variable variation. Individually, there are five significant variables: Debt Equity Ratio, Total Asset Turnover, Net Profit Margin, Operating Cash Flow and Interest Rates. The regression equation is shown in equation (2) below.

$$Y_{i,} = \beta_0 + 0{,}028DER + 0{,}038TAT + 0{,}226NPM + 0{,}001OCF + 0{,}002INT + \varepsilon_{1i,t}$$
(2)

Data processing results indicate that there are company-specific factors and external factors such as macroeconomic factors that affect the company's profitability. The company-specific factors consist of four variables, namely Debt to Equity Ratio, Total Asset Turnover, Non-Profit Margin and Operating Cash Flow.

Debt to Equity Ratio is a variable that is an indicator to determine the company's capital structure composition. Property companies are companies that have a high level of leverage (Wibowo et al., 2020). Property companies have a long business cycle. This long cycle is because producing properties for sale requires an extended period, which is more than one year and sometimes takes several years (Trojanek, 2021). This long cycle causes property

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companies to have extensive funding. Therefore, to create matching principles, the funding used should be long-term funding because the company's income is long-term. The findings of this study are that if the company can further increase the use of long-term debt, its profitability will increase.

Total Asset Turnover ratio has a significant effect on profitability. Asset turnover in a property company is how a property company can build property and then sell it (Handoko, 2020). The turnover rate is also related to the first variable, namely funding. The faster the assets can be produced and sold. The more efficient the funds are used for company operations. Property companies have unique characteristics, namely the more prolonged the company builds a property, the more funds will be absorbed, or an increase in funds. Therefore, companies need to increase asset turnover by completing property projects on time and selling them as soon as possible.

The third company-specific variable that has a significant effect is Net Profit Margin. The Net Profit ratio shows how a company can have a high-profit level from both the production process and its operational processes (Wati, 2020). When applied in a property company's context, the more the company can produce property economically and operate the company efficiently, the higher the profit generated.

The fourth company-specific variable that has a significant effect is Operating Cash Flow. Operating Cash Flow shows the company's net cash flow, especially in terms of company operations (Kalista, 2020). In the context of a property company, this operating cash flow comes from the difference between property sales and operating expenses, both operating expenses for property development and sales. Property buyers generally buy using debt, especially debt from banks. Therefore, unlike in other industries where companies directly sell consumers, there are third parties who play a role, namely banks, in the property industry. The number of property buyers depends on the amount of credit the bank provides to potential property buyers. Because this is an external factor beyond the entrepreneur's control, property entrepreneurs need to focus on operating cash disbursements. The more property entrepreneurs can control property cash flow expenditures, the higher the company's profitability.

The macroeconomic variable that affects the profitability of property companies is the interest rate. In this study, the specific proxy for the interest rate is the BI Rate, the reference interest rate. Based on the regression results, the interest rate has a significant effect on company profitability. This study's findings are not under the results of previous studies where interest rates negatively affect company profitability. In theory, the higher the interest rate, the higher the company's burden if it decides to increase debt so that this burden will reduce profitability. From the consumer side, the burden on consumers who buy property on credit will be even higher (Rohman, 2020). A possible explanation for this phenomenon relates to the amount of credit. The higher the interest rate, the more liquidity will be available on the credit market. The consequence of this is that banks will find it easier to provide credit to consumers and companies. Thus the company will find it easier to get a loan for working capital. Meanwhile, it will be easier for consumers to get credit from the consumer side to buy a property. These two things will have a positive effect on property companies.

CONCLUSION

This study found that several factors specifically drive the profitability of property companies. The finding of this study is that property companies have a dependence on

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macroeconomic factors. This relationship can be seen from the significantly influential variables related to the interest rate factor. Company-specific variables such as the Debt to Equity ratio associated with funding will be affected by high-interest rates. Property companies that have a longer business cycle than other industries need to pay attention to interest rates.

Asset turnover and operating cash flow at property companies result from the company's operations for several years. Therefore, in general, property companies have projects completed in a particular sequence to ensure both the company's income and cash flow. The findings of this study are that companies can increase profitability by focusing on managing company boarding houses. The way to manage the cost of this company is to complete projects on time so that no additional burdens arise or by managing operational expenses.

This study focuses on property companies with two main characteristics: integrated developers and relatively the same size. Even though they have the same size, each property company's portfolio of assets will be different. Property companies whose assets are partially embedded in commercial assets will certainly have different characteristics from property companies whose assets are mostly residential properties. In the future, researchers can use these additional characteristics to see whether the asset portfolio factor influences profitability.

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