

# CHAPTER I

## INTRODUCTION

### 1.1 Research Overview

Property and real estate industry generally is a different industry. Real estate is a land and all permanent improvements built on top of it, including buildings, roads, open land, and every of its permanent improvements. According to regulations in Indonesia, the definition of real estate industry is stated in PDMN No. 5, 1974, which is an industry that has activities of provisioning, creating, and developing lands for the needs of other industries, including tourism industry. On the other hand, property is a land rights and or buildings which becomes an object of ownership. In short, property industry is a real estate industry with an additional laws and regulations, such as rents and ownership.

Property and real estate industry has been here in Indonesia and growing ever since after the first crisis in 1998-1999. The first company ever listed is PT Pakuwon Jati Tbk in October 9, 1989, and the latest company listed is PT Sitara Propertindo Tbk in July 11, 2014. Property and real estate industry in Indonesia, listed in IDX, is categorized into two sub-sectors. The first one is property and real estate, and the second one is construction and buildings. The property and real estate industry in Indonesia consists of 45 companies listed in IDX, with IPOs ranging from 1989 to 2014, while the constructions and buildings sub-sector has 9 companies listed in IDX (<http://www.pusatris.com>, accessed on September 19, 2015). The study will only cover the sub-sector of property and real estate companies. The 45 companies listed in IDX are the following;

Table 1.1 – List of Property and Real Estate Companies Listed in IDX

<b>Number</b>	<b>Code</b>	<b>Name of Companies</b>
1	APLN	PT Agung Podomoro Land Tbk
2	ASRI	PT Alam Sutera Realty Tbk
3	BAPA	PT Bekasi Asri Pemula Tbk
4	BCIP	PT Bumi Citra Permai Tbk
5	BEST	PT Bekasi Fajar Industrial Estate Tbk
6	BIPP	PT Bhuwanatala Indah Permaui Tbk
7	BKSL	PT Sentul City Tbk
8	BSDE	PT Bumi Serpong Damai Tbk
9	COWL	PT Cowell Development Tbk
10	CTRA	PT Ciputra Development Tbk
11	CTRP	PT Ciputra Property Tbk
12	CTRS	PT Ciputra Surya Tbk
13	DART	PT Duta Anggada Realty Tbk
14	DILD	PT Intiland Development
15	DUTI	PT Duta Pertiwi Tbk
16	ELTY	PT Bakrieland Development Tbk
17	EMDE	PT Megapolitan Development Tbk
18	FMII	PT Fortune Maate Indonesia
19	GAMA	PT Gading Development Tbk
20	GMTD	PT Goa Makassar Tourism Development
21	GPRA	PT Perdana Gapura Prima Tbk
22	GWSA	PT Greenwood Sejahtera Tbk
23	JRPT	PT Jaya Real Property Tbk
24	KIJA	PT Kawasan Industri Jababeka Tbk
25	KPIG	PT Global Land and Development Tbk
26	LAMI	PT Lamicitra Nusantara Tbk
27	LCGP	PT Eureka Prima Jakarta Tbk
28	LPCK	PT Lippo Cikarang Tbk

29	LPKR	PT Lippo Karawaci Tbk
30	MDLN	PT Modernland Realty Tbk
31	MKPI	PT Metropolitan Kentjana Tbk
32	MTLA	PT Metropolitan Land Tbk
33	MTSM	PT Metro Realty Tbk
34	NIRO	PT Nirvana Development Tbk
35	OMRE	PT Indonesia Prima Property
36	PLIN	PT Plaza Indonesia Realty Tbk
37	PUDP	PT Pudjiati Prestige Tbk
38	PWON	PT Pakuwon Jati Tbk
39	RBMS	PT Rista Bintang Mahkota Sejati Tbk
40	RDTX	PT Roda Vivatex Tbk
41	RODA	PT Pikko Land Development
42	SCBD	PT Danayasa Arthatama Tbk
43	SMDM	PT Suryamas Dutamakmur Tbk
44	SMRA	PT Summarecon Agung Tbk
45	TARA	PT Sutara Propertindo Tbk

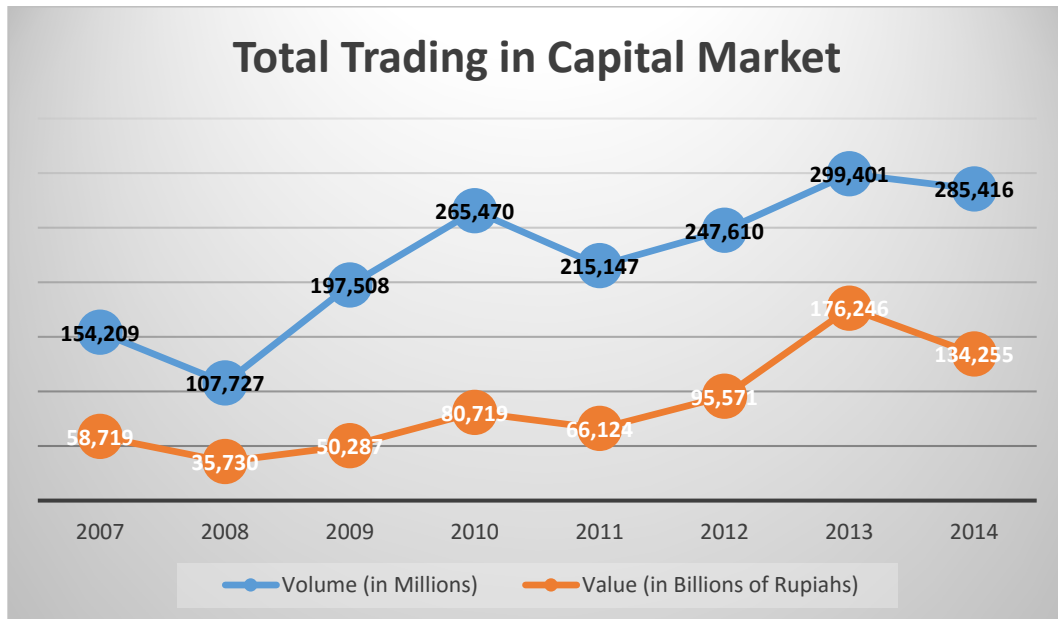
Source: <http://www.pusatis.com>

## 1.2 Research Background

Property and real estate are one of those primary human needs, therefore this industry will most likely grow with the time since the population of the world will only keep growing and this happens in every country in the world. Indonesia, world's fourth populous country, is no exception to the prior statement. However, the increasing demand of property and real estate, because of increasing population, is not matched well by its supply by property and real estate developers. In Indonesia, according to Real Estate Developers Association (REI), there is a demand of 800,000 houses each year, yet the developers can only supply 200,000 houses each year (<http://www.establishmentpost.com>, accessed on September 17, 2015). On the

other hand, the trade of shares in the sub-sector shows the opposite; it is very active and tends to move upwards rather than downwards.

Figure 1.1 – Total Trading (Volume and Value) of Property and Real Estate Companies in Capital Market 2007-2014



Source: *IDX Annual Reports*

From the figures above, there is an indication that the market for property and real estate is still exciting despite the sub-sector being unable to meet the demands of the market in the respective years, and the new government’s plan to execute further development on infrastructures gives the sub-sector a positive prospect for at least the next 4 years. Other than the government’s plan, a property consultant, Cushman & Wakefield, also stated a positive prospect for Indonesia’s property and real estate companies, saying Indonesia, alongside Vietnam and Philippines, has a strong foundation in its economic growth and demographics to support the sub-sector (<http://bisnis.liputan6.com>, accessed on September 17, 2015).

The facts above show that, on the business side, the sub-sector is very promising. It has a positive prospect and many aspects may still be improved in upcoming years. However, on the internal side, the sub-sector is underperformed, as the sub-sector unable to meet the demands of the market. It is still unknown whether the

sub-sector is following the movement of the market or not, and this information can be obtained from analyzing financial ratios, which can be found inside financial statements.

The use of financial ratios is to compare risk and return. According to White, Sondi, & Fried (2003), *ratios can also provide a profile of a firm, its economic characteristics and competitive strategies, and its unique operating, financial, and investment characteristics*. There are four categories in measuring risk and return using financial ratios, they are activity ratios, liquidity ratios, long-term debt and solvency ratios, and profitability ratios. All of them are interrelated rather than independent, and can also be analyzed to find out the risk and return relationships between firms; hence it is useful for analyzing an entire industry by comparing the financial ratios. There will be several companies above, on, and below the industry average, and according to Acaravci (2007), firms tend to adjust its financial ratios toward an industry target. The existence of a convergence in financial industry indicates that an industry or a sector is moving towards a positive direction, and the inexistence of convergence leads to the adjustments made by firms in order to meet the industry target (Keliat, 2014).

The convergence of financial ratios also gives benefits to several parties, including investors as the result indicates the movement of the industry as a whole. The act of investments in finance term means buying of assets, which may increase in value and provide future income (Hiriyappa, B., 2009).

According to the research background above, the author is interested in conducting a research with a title of **“Convergence of Financial Ratios in Property and Real Estate Companies Listed in Indonesia Stock Exchange (IDX) During the Period of 2007-2014.”**

### **1.3 Problem Formulation**

The main problem of this research is to examine and find out whether the companies, individually, is adjusting to the industry from the viewpoint of financial performance. The financial performance used comes from the financial ratios, which are; liquidity ratios (current ratio and quick ratio), debt ratio (debt-to-equity

ratio) and activity ratio (inventory turnover and total assets turnover). The result can be used as aspects to be considered when investing in capital market.

#### **1.4 Research Questions**

The research background above stated that there is a difference in the real world supply-demand of property and real estate companies to the excitement of trade of shares in capital market. The companies are only able to supply one fourth of the market demand, while the activity in the capital market for the companies is exciting in respective years. On the business side, the companies are doing well and it shows that prospect of the sub-sector is promising for the upcoming years. However, on the internal side, the sub-sector shows a sign of underperforming, as the sub-sector unable to meet the demands of market. Therefore, based on the statement, the research will raise the questions as follows;

1. Is the convergence of financial ratios exist in the property and real estate companies listed in IDX during the period of 2007-2014?
2. How are the direction and speed of the adjustment of financial ratios in the property and real estate companies listed in IDX during the period of 2007-2014 to the industry average?

#### **1.5 Research Objectives**

The research objectives of the research are as follows;

1. To find out about the existence of convergence of financial ratios in the property and real estate companies listed in IDX during the period of 2007-2014
2. To find out about the direction and speed of the adjustment of the financial ratios in the property and real estate companies listed in IDX during the period of 2007-2014 to the industry average.

## **1.6 Benefit**

### **1.6.1 Practical**

1. For the firms

The result of this research is hopefully become considerations for firms to find out the convergence of financial ratios, including its direction and speed of adjustments.

2. For investors

The result of this research is hopefully become considerations for investors in making investments decisions in the future.

### **1.6.2 Theoretical**

1. For future research

This research is hopefully become an additional knowledge about the convergence of financial ratios, and hopefully become a reference for future studies and researches.

2. For the researcher

This research is hopefully broadening the knowledge of the researcher for the topic of convergence of financial ratios.

## **1.7 Writing systematic**

For the overview of the research, the systematic for writing is arranged including the contents that will be discussed in all chapters. The writing systematic is as follows:

### Chapter 2: Literature review

This chapter discusses about the theories related to, and supporting the research, including previous studies as references.

### Chapter 3: Research methodology

This chapter discusses about the methodology used for this research, the variables, data collection techniques, and data analysis techniques.

### Chapter 4: Results

This chapter discusses about the result of the research

### Chapter 5: Conclusion and suggestions

This chapter discusses about the conclusion of the research and suggestions related to the research to the firms.

## **1.8 Scope of Research**

### **1.8.1 Variables**

Variables being used in the study are financial ratios to determine whether there is a convergence, which are: liquidity ratios (quick and current ratio), solvency ratio (debt to equity ratio), capital turnover ratios (sales to inventory and sales to total assets).



### 1.8.2 Object of Research

Table 1.2 – List of Objects of Research (Samples)

Number	Code	Name of Companies	Number	Code	Name of Companies
1	ASRI	PT Alam Sutera Realty Tbk	16	KIJA	PT Kawasan Industri Jababeka Tbk
2	BAPA	PT Bekasi Asri Pemula Tbk	17	LAMI	PT Lamicitra Nusantara Tbk
3	BKSL	PT Sentul City Tbk	18	LCGP	PT Eureka Prima Jakarta Tbk
4	BSDE	PT Bumi Serpong Damai Tbk	19	LPCK	PT Lippo Cikarang Tbk
5	COWL	PT Cowell Development Tbk	20	LPKR	PT Lippo Karawaci Tbk
6	CTRA	PT Ciputra Development Tbk	21	MDLN	PT Modernland Realty Tbk
7	CTRP	PT Ciputra Property Tbk	22	OMRE	PT Indonesia Prima Property
8	CTRS	PT Ciputra Surya Tbk	23	PLIN	PT Plaza Indonesia Realty Tbk
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10	DILD	PT Intiland Development	25	PWON	PT Pakuwon Jati Tbk
11	DUTI	PT Duta Pertiwi Tbk	26	RBMS	PT Rista Bintang Mahkota Sejati Tbk
12	ELTY	PT Bakrieland Development Tbk	27	SCBD	PT Danayasa Arthatama Tbk
13	GMTD	PT Goa Makassar Tourism Development	28	SMDM	PT Suryamas Dutamakmur Tbk
14	GPRA	PT Perdana Gapura Prima Tbk	29	SMRA	PT Summarecon Agung Tbk
15	JRPT	PT Jaya Real Property Tbk			

### 1.8.3 Period of Research

The period of the research used in the study is during 2007-2014.