FINANCIAL DISTRESS, GROWTH OPPORTUNITY AND FINANCIAL RATIO IMPACT ON STOCK RETURN FOR MINING COMPANY LISTED IN IDX PERIOD OF 2018- 2022

THESIS

In order to Fulfill the Requirements to Obtain a Bachelor of Accounting

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ABSTRACT

This study examines the influence of financial distress, financial ratios, and growth opportunities on the stock returns of mining companies listed on the Indonesia Stock Exchange (IDX) during the 2018–2022 period. Using a quantitative approach, the research analyzes financial data from 41 mining companies over five years, employing multiple linear regression to test the hypotheses. Financial distress, measured by the Altman Z-Score, is found to have a significant negative impact on stock returns, indicating that higher levels of distress reduce investor confidence. Growth opportunities, as represented by the investment opportunity set, positively and significantly affect stock returns, suggesting their potential to attract investors. The impact of financial ratios varies, with return on assets showing a positive correlation with stock returns, while other ratios, such as the current ratio and debt-to-equity ratio, demonstrate no significant effects. This study offers insights for investors, businesses, and policymakers to make informed decisions, optimize investment strategies, and address the challenges of financial distress in the mining sector.

Keywords: financial distress, financial ratios, growth opportunities, stock returns, mining sector, Indonesia Stock Exchange

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I hereby verify that this Undergraduate thesis is as my own work,and all the sources quoted or reffered to have been stated correctly according to faculty's Guide of thesis

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TABLE OF CONTENT

COVER ..... **i**
ABSTRACT ..... **ii**
PERNYATAAN BEBAS PLAGIAT ..... **iii**
PERTANGGUNGJAWABAN SKRIPSI ..... **v**
STATEMENT OF ORIGINALITY ..... **vi**
ACKNOWLEDGMENT ..... **vii**
TABLE OF CONTENT ..... **x**
LIST OF TABLES ..... **xiii**
LIST OF FIGURES ..... **xiv**
CHAPTER I INTRODUCTION **1**
1.1. Research Background 1
1.2. Research Problems 4
1.3. Research Objectives 4
1.4. Research Contribution 4
1.4.1. For Company 4
1.4.2. For Investor 4
1.4.3. For Researcher 4
1.5. Theoretical Contributions 5
1.6. Practical Contribution 6
1.7. Contextual Overview of Research 6
CHAPTER II LITERATURE REVIEW **7**
2.1. Agency Theory 7
2.2. Signalling Theory 8
2.3. Financial Distress 10
2.4. Financial Ratio 13
2.5. Growth Opportunity 15
2.6. Stock Return 16

2.7. Empirical Studies 18
2.8. Conceptual Framework and Hypothesis 38
2.8.1. Conceptual Framework 38
2.8.2. Hypothesis 39
2.8.2.1. The Impact of Financial Distress on Stock Return 39
2.8.2.2. The Impact of Growth Opportunity on Stock Return 39
2.8.2.3. The Impact of Financial Ratio on Stock Return 40
CHAPTER III RESEARCH METHOD 41
3.1. Type of Research 41
3.2. Location and Time of Research 41
3.2.1. Location of Research 41
3.2.2. Time of Research 42
3.3. Data 42
3.3.1. Type of Data 42
3.3.2. Data Sources 42
3.3.3. Data Collection 42
3.4. Population and Sample 43
3.4.1. Population 43
3.4.2. Sample 44
3.5. Research Variable 45
3.5.1. Dependent Variable 45
3.5.2. Independent Variable 45
3.5.2.1. Financial Distress 46
3.5.2.2. Financial Ratio 46
3.5.2.3. Growth Opportunity 48
3.6. Data Analysis and Method 49
3.6.1. Descriptive Statistical Analysis 49
3.6.2. Classic Assumption Test 49
3.6.2.1. Normality Test 49
3.6.2.2. Multicollinearity Test 50

3.6.2.3. Heteroscedasticity Test 50
3.6.2.4. Autocorrelation Test 51
3.7. Hypothesis Analysis Method 52
3.7.1. Multiple Regression Analysis 52
3.7.1.1. Coefficient of Determination Test (R^2) 52
3.7.1.2. Statistical F test 53
3.7.1.3. Statistical T test 54
CHAPTER IV RESULT AND DISUCSSION 56
4.1. Descriptive Statistical Analysis 56
4.2. Classic Assumption Test 57
4.2.1. Normality Test 57
4.2.2. Multicollinearity Test 58
4.2.3. Heteroscedasticity Test 59
4.2.4. Autocorrelation Test 62
4.3. Multiple Linear Regression Analysis 62
4.4. Hypothesis Testing 64
4.4.1. Coefficient of Determination (Adjusted R2) 64
4.4.2. Statistical F-Test 64
4.4.3. Statistical T-Test 65
4.5. Research Discussion 66
4.5.1. The Impact of Financial Distress on the Stock Return 66
4.5.2. The Impact of Growth Opportunity on the Stock Return 67
4.5.3. The Impact of Financial Ratio on the Stock Return 68
CHAPTER V CONCLUSION AND RECOMMENDATION 70
5.1. Conclusion 70
5.2. Limitation 70
5.3. Recommendation 71
LIST OF REFERENCE 72

LIST OF TABLES

Table 2.1 Empirical Studies 18

Table 4.1 Descriptive Statistical Based on Variable of Financial Ratio, Growth Opportunity and Financial Distress Descriptive Statistics 56

Table 4.2 Normality Test with Kolmogorov Smirnov 58

Table 4.3 Multicollinearity Test 59

Table 4.4 Heteroscedasticity Test with Spearman Rho 59

Table 4.5 Autocorrelation test with Durbin-Watson Test 62

Table 4.6 The result of Multiple Linear Regression Analysis 62

Table 4.7 The Result of Coefficient of Determination Test (Adjusted R^2) 64

Table 4.8 Statistical F-Test Anova 64

Table 4.9 The Result of Statistical T-Test 66

LIST OF FIGURES

Figure 2.1 Conceptual Framework 38

CHAPTER I
INTRODUCTION

1.1. Research Background

A significant amount of Indonesia's GDP comes from the mining industry, which is vital to the nation's economy. Understanding the elements that affect the stock returns of mining companies listed on the Indonesia Stock Exchange (IDX) is therefore crucial. This research investigates the impact of financial distress, growth opportunities, and financial ratios to stock returns of mining companies listed on the IDX from 2018 to 2022. The liquidity, profitability, and solvency ratios are among the financial ratios that were examined. Knowing how financial ratios and stock returns relate to one another can help investors make better investment choices and increase profits in the mining industry.

In addition to contributing significantly to the nation's foreign exchange, Indonesian mining companies engage in a wide range of production activities, such as general investigations, exploration, feasibility studies, construction, mining, management and refining, transportation, sales, and post-mining activities. The country's mining industry is divided into five categories: coal mining, oil and gas mining, metal and mineral mining, and rock mining.

Factors such as financial distress, growth opportunity, and financial ratios impact stock returns. However, they are susceptible to a variety of external phenomena. To guarantee sensitivity to government policy, a sample from the mining industry was utilized. The mining sector is significantly impacted by governmental policies. Such a policy is the Job Creation Law, the effects of which can be both positive and negative. It is anticipated that the licensing process for mining companies will be streamlined as a result of the Job Creation Law's licensing simplification, allowing them to commence operations and increase output more rapidly. While this does not directly impact share prices, it is a significant breakthrough in the law. SINDO (2020) reports that there has been a consistent pattern in coal share prices over the past ten years. The Job Creation Law may contribute to this trend by offering opportunities for entrepreneurs and regulatory updates. The Job Creation Law also governs labor management practices in

the mining industry, including wage and contract flexibility. It is anticipated that this will draw investment and improve the operational efficiency of the business.

The Job Creation Law has both positive and negative impacts. However, some parties are concerned about the negative impacts of reducing environmental protection obligations under the law, particularly in the mining sector. Decreasing the obligation to mitigate environmental impacts increases the risk of environmental and natural resource damage. Furthermore, regulating natural resource management is also a controversial issue in the Job Creation Law, with concerns about the potential harm to local communities and the environment in accessing and managing abundant natural resources in mining areas.Workers lose many rights in their lives. Indigenous communities lose many rights to control their own traditional spaces. Almost all communities in many ecosystems, whether forest, coastal, or karst areas, have lost the right to control and participate in determining their spatial planning (VOA, 2022). The mining industry in Indonesia is facing several concerns, primarily related to the social and labour impacts on workers' rights and the welfare of local communities who rely on this industry for their livelihood.

The mining sector is highly susceptible to global commodity price fluctuations, especially for coal, nickel, gold, and other minerals. During the research period, the mining industry in Indonesia witnessed significant changes in commodity prices, with a decline in coal prices in 2012 and 2015, along with fluctuations in nickel and gold prices. Furthermore, the COVID-19 pandemic, which started in early 2020, has adversely affected various economic sectors, including the mining industry. Additionally, mining companies face complex financial challenges due to significant capital investments required to build and operate mining infrastructure.

On the other hand, the mining industry presents significant growth opportunities due to high commodity prices, changing government policies, and global demand fluctuations. These opportunities may come in the form of expanding production, diversifying commodities, or expanding geographically.By taking several previous studies as references that align with the research framework, namely to determine the effect of financial distress on stock returns. Came to the conclusion in Mulyanto (2021)

that stock returns are greatly impacted by financial suffering during periods of economic unrest, particularly during a COVID-19 pandemic. This is supported by the fact that the financial distress variable and the company's systematic risk have a positive link. In order to preserve the company's financial stability in the face of both domestic and international economic shocks, both are therefore required. Dita (2014) asserts that the price-to-book ratio, net profit margin, and debt-to-equity ratio all have a major influence on stock returns. Stock returns are significantly positively impacted by the debt-to-equity ratio and the net profit margin. Conversely, there is a substantial inverse relationship between price-to-book value and stock returns.

According to Dewi's (2021) research, a company's profits are positively correlated with its return on assets (ROA), a finding that encourages investors to invest in manufacturing companies. Additionally, NPM significantly boosts stock returns to some extent. This demonstrates that a higher NPM corresponds to a higher profit margin on sales for the company, which raises stock returns and piques investors' interest in investing in manufacturing firms. Stock returns are positively and marginally impacted by ROE. suggests more often that the business is performing better and that stock returns may rise as a result. Nevertheless, ROE had no appreciable effect on stock returns during the study period since investors gave it less consideration when choosing investments.While Price to Book Value (PBV), Debt to Equity Ratio, and Partial Profit Margin (NPM) were discussed, Dedi (2018) revealed different outcomes. While net profit margin (NPM), price to book value (PBV), and debt to equity ratio (DER) have no discernible effect on returns for companies listed on the Indonesia Stock Exchange, (DER) has a negative and insignificant effect on stock returns for companies listed on the Indonesia Stock Exchange..In Support of this background, the present study aims to investigate the effects of three variables on the stock returns of mining companies listed on the IDX between 2018 and 2022 : financial distress, growth opportunity, and financial ratios. Because there had been no previous research in this particular industry using the same variables, mining companies were selected as research subjects.

1.2. Research Problems

Based on Background,there are several problems addressed in this research:

1. Does financial distress affect stock return?
2. Does financial ratio affect stock return?
3. Does growth opportunity affect stock return?

1.3. Research Objectives

According to the research problem,therefore the objectives of this research are as follows:

1. To Examine the impact of financial distress on stock return
2. To Examine the impact of financial ratio on stock return
3. To Examine the impact of growth opportunity on stock return

1.4. Research Contribution

1.4.1. For Company

This study is expected to be a consideration in making decisions that will be taken on the factors that affect the stock return in mining company so that it can be a benchmark in its business activities.

1.4.2. For Investor

It is hoped that the results of this study can be a knowledge for investors that there are factors that can affect the stock return in mining company on the Indonesia Stock Exchange and can help investors to make the right fundamental and technical analysis before making a decision.

1.4.3. For Researcher

This study will help investors in the Indonesian market expand their understanding of the variables that can impact the stock return in mining companies.

1.5. Theoretical Contributions

The goal of this study is to support further empirical research and studies on financial ratios, financial distress, growth opportunities, and stock return in Indonesia. A strong theoretical framework for comprehending the dynamics of these variables is provided by the study's integration of Agency Theory and Signaling Theory.

Conflicts between principals (shareholders) and agents (management) can occur as a result of disparities in interests and information asymmetry, according to Agency Theory (Jensen & Meckling, 1976). This approach emphasizes how crucial it is to match both parties' interests in order to prevent financial hardship and increase the profitability of the business. This study attempts to determine how agency issues may affect stock returns and growth prospects in the Indonesian market by using financial ratios and distress indicators.

Meanwhile, Signalling Theory (Spence, 1973) highlights the significance of information asymmetry and the role of signals in reducing uncertainty for external parties such as investors. This research leverages the theory by examining how companies use financial disclosures to signal their performance and prospects. The study explores how these signals influence investor perceptions, ultimately affecting stock returns.

By synthesizing these theoretical perspectives, this research seeks to deepen the understanding of financial distress and stock performance in emerging markets like Indonesia, providing valuable insights for academics, practitioners, and policymakers.

1.6.Practical Contribution

1. **Concerning Companies**

   This research is aimed to provide the company with information on the impact of their financial distress,financial ratio,and growth opportunity on the stock return

2. **Concerning Stakeholder**

   This research is aimed to provide investors with information and factors to consider when making investment decision.

1.7. Contextual Overview of Research

The research that is being conducted will rely on the comprehensive analysis of financial and annual reports of various companies operating in the mining sector and listed on the Indonesia Stock Exchange (IDX). The scope of the study will cover the time period between 2018 to 2023. The data required for this study will be obtained from the official website of IDX, which is www.idx.co.id, and the respective company's official website.