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Is a Conservative Company More Wanted?

(Comparative Analysis of the Stock Performance of Low-Debt Firms and High-Debt Firms in Indonesia)

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ABSTRACT
Debt can increase firms value in the view of investor, but it can also decrease firms value in their view. This study aims to test whether there are performance differences of low debt firms with the high debt firms. The population in this study is all of manufacturing company listed on the Indonesia Stock Exchange in 2009-2016. This study uses independent sample t-test to analys performance differences of 355 low-debt firm and 277 high-debt firm. The results showed a significant difference between PER and PBV of low-debt firms with PER and PBV of high-debt firms. Based on the value of Mean Rank, the low-debt firm higher than the high-debt firm, so otherwise, the stock of the low-debt firm is more wanted than high-debt firms.

Keywords: *Stock performance, low-debt firm, high-debt firm*

1. INTRODUCTION

Debt is an important company policy in order to increase the value of the firm and the company's advantage from its competitors (Yazdanfar and Öhman, 2015). Debt is considered by some managers as a positive policy because it can reduce the tax burden on companies. Debts not only benefit the company but can also harm the company. Debt that is too high can cause difficulties in payment of stock returns because the company's revenue is used to meet its obligations. In addition, the amount of debt held by the company will increase the risk of bankruptcy for the company.

There are various theories that arise about the problem of determining the amount of debt used by companies. The discussion begins with the theory of Modigliani and Miller (1958) who argue that, in a perfect capital market, the use of debt in a company's capital structure cannot affect stock performance. This opinion applies with the assumption that there is no tax or transaction fee, all investors have the same opportunity to borrow and lend money, and there is no asymmetry information and agency fees. However, in Modigliani and Miller (1963), the presence of more leverage can benefit the company because it reduces taxes and thus increases profits.

Based on Trade Off theory, a company cannot take out as much debt as possible. The use of optimum debt is found by balancing the tax benefits with the cost of financial distress from the addition of debt, so that the costs and benefits of adding debt are trade-offs with one another. In the perspective of investors, signaling theory states that debt can act as an introduction to information about the company's prospects in the future. Investors will pay attention to the level of profit of the company and will pay more attention to the income statement of the company in analyzing returns. However, there are also investors who believe that the balance sheet is an important tool that can measure the financial health and risks inherent in the company. One key item in the balance sheet is the level of debt (Zaher, 2010).

Bhandari (1988) proves that ordinary stock returns increase with leverage. He uses the

methodology of Fama and MacBeth (1981) by conducting a cross section test on all companies without assuming different risk classes to estimate beta and book value of debt to market value as a measure of leverage.

Other studies have found evidence that there is a negative relationship between leverage and stock return. Fama & French (1992) found that leverage based on book value is associated with lower average returns, while market-based leverage is associated with higher returns. Variations in the results of this study are explained and absorbed by the book to market effect.

Korteweg (2004) also reported a negative relationship between stock returns and leverage. Penman, et al (2007) examined the effect of book to price on stock returns by calculating leverage. They break the book to price component into a book to price entrepreneur that reflects operating risk and a leverage component that reflects financing risk. They find that leverage is negatively related to returns and find this evidence in companies with high or low book to prices.

Zaher's research (2010) on the performance of debt free firms concluded that investing in a debt free company portfolio tended to be more profitable than investing in debt companies both for long periods and short periods. In the case of Indonesia, the research of Solikahan et al. (2013) regarding the effect of leverage on firm value using Partial Least Square (PLS) analysis concluded that leverage has a positive and significant effect on firm value.

Whereas research conducted by Dewi & Wirajaya (2013) which examined the effect of capital structure, profitability, and company size using multiple regression analysis concluded that capital structure had a negative and significant effect on firm value. In addition, research conducted by Nainggolan & Listiadi (2014) regarding the effect of debt policy on firm value with dividend policy as a moderating variable using Moderated Regression Analysis (MRA) states that debt policy has a negative effect on firm value.

Based on the description above, it is certainly not surprising that there will be companies that are more careful in funding sources of funds through debt. This kind of company is commonly referred to by some people as conservative companies. However, can a company that takes funding paths from little or no debt be able to increase its stock return, which in turn improves the stock's performance?

Company stock performance appraisal can be seen by analyzing Price Earning Ratio (PER) and Price to Book Value (PBV) ratios (Fama & French, (1992); Antara (2012); Mheyti & Mathilda (2012), and Aletheari & Jati (2016) This study aims to determine the company's stock performance with low of debt and high of debt as measured by Price Earning Ratio (PER) and Price to Book Value (PBV), and analyze differences in the performance of its shares in the 2009-2016 period. The research problem proposed in this study is that there are a diferences in PER and PBV of companies with lower debt and higher debt with manufacturing companies in 2009-2016.

2. METHODS

This type of research is a comparative descriptive study with a quantitative approach. In this study, researchers collect data, present, determine statistical values, make diagrams and pictures about debt policy and stock values (Subagyo, 2012: 2). In this study, researchers also compared one sample with another sample. This research was conducted to determine the differences in the performance of the company's shares with a low debt and high debt companies on manufacturing companies listed on the Indonesia Stock Exchange (BEI) in 2009-2016. This study uses Price Earning Ratio (PER) and Price to Book Value (PBV) variables as a measure of stock performance.

The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange in 2009-2016. The sample is selected with the following criteria: a) a company with a low debt (debt-low firm) that has a debt to total assets ratio smaller than 10%, 20%, and 30%, because the company is declared

normal debt if the company's DAR ratio is above 30% (Zaher, 2010); b) debt-high firm, which has a debt to total assets ratio greater than the average debt ratio to total assets of manufacturing companies in 2009-2016, which is more than 61%, because if the company's debt exceeds the average debt the entire population of the company is used so the company can have a large debt; c) publish financial statements in the study period; d) buy and sell shares in the study period.

Secondary data collected in the form of company financial reports that have been provided by companies listed on the IDX, obtained from the Indonesian Stock Exchange website (www.idx.co.id) and www.yahoo.finance.com. The stock price used is the closing price at the end of the period. Hypothesis testing uses the non-parametric Maan-Whitney U Test.

3. RESULT AND DISCUSSION

Stock performance measurement through PER is used to find out about how investors assess the company's growth prospects in the future, and is reflected in the price of shares that investors are willing to pay for each rupiah of profit earned by the company. The higher this ratio shows that investors have good expectations about the company's prospects in the future, so that for certain earnings per share, investors are willing to pay a high price.

Table 1 PER value of low debt firm and high debt firm

	Low Debt Firm (10%)	Low Debt Firm (20%)	Low Debt Firm (30%)	High-Debt Firm
The highest score	2.447	2.447	2447	10.410
The Lowest Score	-228	-228	-228	-16.965
Mean	101	38	32	-151

(Source: Secondary Data Processed)

Table 1 shows that investors are more likely to give a high PER value to companies with lower debt. Evidenced by the company a lower debt that is no more than 10%, the company gives a high value of 101, which means that for every share of profit generated by investors dare to pay shares as much as 101 times larger. In companies with lower debt no more than 20%, investors dare to pay their shares 38 times of each profit generated and at companies with lower debt, no more than 30% investors dare to pay their shares 32 times of each profit generated. While in many companies PER PER company debt is negative which can be interpreted that the company suffered losses.

Table 2 PBV value of low debt firm and high debt firm

	Low-Debt Firm (10%)	Low-Debt Firm (20%)	Low-Debt Firm (30%)	High-Debt Firm
The highest score	3,39	13,04	14,06	82,26
The Lowest Score	0,02	0,02	0,02	-2.695,20
Mean	0,90	1,36	1,44	-7,57

(Source: Secondary Data Processed)

Table 2 shows that investors are more likely to give a high PBV value to companies with lower debt. Evidenced by the company a lower debt that no more than 10% of companies give a value of 0.90, which means that for every rupiah of the book value of the company

investors dare to pay their shares as much as 0.90 times. In companies with lower debt no more than 20%, investors dare to pay their shares as much as 1.36 times the book value and in companies with lower debt, no more than 30% investors dare to pay their shares as much as 1.44 times the book value of the company. While in higher debt companies, PBV is also a negative which can be interpreted that the company suffered losses.

Table 3 Result of *Maan-Whitney U Test*

Variabel	Mean Rank		*Asymp. Sig.*	Conclusion
	Low Debt	High Debt		
PER (10%)	179.04	149.46	0.100	Accept H_0
PER (20%)	228.71	179.08	0.000	Reject H_0
PER (30%)	294.76	219.39	0.000	Reject H_0
PBV (20%)	216.23	183.94	0.011	Reject H_0
PBV (30%)	279.36	232.12	0.000	Reject H_0

*(*Source: Secondary Data Processed*)*

The Maan-Whitney U Test results in Table 3 show that the PER variable of the company with an average debt value below 20% and 30% has an *Asymp. Sig* value is smaller than 0.05 so it can be concluded that H_0 is rejected and H_1 is accepted. While the PER variable for companies with debt value below 10% has an *Asymp. Sig* value greater than 0.05 so H0 is accepted and H1 is rejected. These results can be interpreted that there is a significant difference in the average PER of the company with lower debt and the average PER of the company with higher debt.

The firm PBV variable with little debt (DAR <20% and 30%) has an Asymp. Sig. value smaller than 0.05 so H0 is rejected and H1 is accepted. These results indicate that there are significant differences in the average PBV of a company with a lttle debt and a company with a lot of debt.

Price Earning Ratio (PER) shows the investor's assessment of the company's future growth prospects, which are reflected in the stock price that investors are willing to pay for each dollar of profit the company earns. The higher PER shows that investors have good expectations about the company's future performance. PER measured by comparing the market price of shares with earnings per share of the firm (Sudana, 2015: 26). Price to Book Value (PBV) shows the market value of management and corporate organizations as going concern calculated by dividing the market price per share by the book value per share. The higher PBV shows the higher market value of the company, so investors are willing to buy company shares above the book value (Sudana, 2015: 26).

The results of statistical analysis states that the average PER of companies with lower debt has a greater value compared to companies with higher debts. In other words, the company's stock performance with lower debt is relatively better than a company with higher debts. This is because investors consider that companies with lower debt to have better growth prospects than companies with higher debt. The results of statistical analysis also stated that the average value of PBV companies with relatively little debt is greater than that of companies with many debts. This shows that companies with less debt are considered to have better market value by investors. Although the average PBV value of a company with less debt is getting smaller if the debt ratio used by the company is getting smaller, however, in general it can be stated that the performance of the company's shares of less debt is better from PBV's perspective.

From the signaling theory perspective it can be concluded that the level of the company's debt will give a signal to investors about the company's prospects in the future. Many debt companies give negative signals to investors about the high risk of financial distress due to the debt burden that must be borne by the company. Conversely, companies with a small amount of debt give a positive signal to investors that the company is free from financial distress due to the interest expense borne by the debt. But further, the amount of debt that is too small,

also gives a negative signal to investors about the prospects of the company in the future. Too little debt that a company has to fund its operations will give the impression that the company is unsure of its future prospects.

From the perspective of the trade-off theory, the overall analysis of both PER and PBV shows that the optimum use of debt is found by balancing the tax benefits with the cost of financial distress from the addition of debt, so that the costs and benefits of adding debt in the trade-off with one another (Modigliani and Miller, 1963). This conclusion is supported by the results of this study that there is no significant difference between companies with many debts and little debts at the level of DAR <10%, but there is a significant difference between companies with many debts and companies with little debt at the level of DAR <20% and <30%. Therefore, the optimum debt ratio becomes important in order to give a positive signal to investors about the company's prospects in the future.

The results of the study as a whole showed a significant difference in the performance of the company's shares with lower debt and companies with higher debt. This result is in consistence with Fama & Franch (1992), Korteweg (2004), Penman, et al (2007), and Zaher (2010) who concluded that investing in a portfolio of companies with low debt tends to be more profitable than investing in companies with high debts, both long term and short term investments. The results of this study also support the research of Dewi & Wirajaya (2013) and Nainggolan & Listiadi (2014) which states that capital structure has a negative and significant effect on firm value.

4. CONCLUSIONS

The conclusions of this study are: 1) the average PER and PBV of companies with little debt of >10%, >20%, and >30%, are higher than the average PER and PBV of high-debt companies; 2) there is a significant difference between PER and PBV of a low-debt company and a high-debt company.

Management of the companies should always control the amount of debt they have so that they are not too high and not too low, because investors will punish the companies that have too much debt and companies that have too little debt. Future studies should divide the high and low debt levels by a more definite measure associated with the type of industry. In addition, the next researcher should use the stock price a maximum of 3 days after the financial statements are published.

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