

THE EFFECT OF DEBT TO EQUITY RATIO, CURRENT RATIO, TOTAL ASSETS TURNOVER, SALES GROWTH, AND FIRM SIZE TOWARD PROFITABILITY OF PROPERTY COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

The purpose of this study was to determine the effect of Debt to Equity Ratio, Current ratio, Total Assets Turnover, Sales Growth, and Firm Size toward profitability. The population in this research is all property and real estate companies listed on the Indonesia Stock Exchange in the period 2019 - 2023. This research uses quantitative methods. The sample selection technique used in this research is the purposive sampling method and by using the specified criteria, 58 companies were obtained as research samples. The analysis technique in this research uses multiple linear regression analysis. The results showed that partially, debt to equity ratio, total assets turnover, and sales growth have positive and significant effects on profitability. Meanwhile, current ratio and firm size don't have a significant effect toward profitability. The simultaneous result showed that all independent variables have a significant effect toward profitability of property companies listed on the Indonesia Stock Exchange.

Keywords – Debt to Equity Ratio, Current Ratio, Total Assets Turnover, Sales Growth, Firm Size, Profitability

INTRODUCTION

Recently, global economic development has faced risks and uncertainties. Global inflation has shown a trend of moderation, but in many advanced countries, it hasn't reached the inflation target, which causes global interest rates to remain at high level with estimation that will occur for a longer period of time (Badan Kebijakan Fiskal, 2024). Bank Indonesia's interest rate began to rise in the middle of 2022 until it reached the peak at 6.25% in the middle of 2024, where it declined to 6% in September 2024 (BPS, 2024). The high interest rate level has created a negative sentiment for the property sector in 2024, as it may weaken the prospects of the property sector by reducing public demand for purchasing new property (Nityakanti, 2024). Public interest in purchasing property may decline as mortgage costs are likely to rise. By observing the dynamic in global and national economic conditions, it shows that companies must adapt to the changing economic conditions and maximize every opportunity to achieve the profit targets expected by the owner or investor.

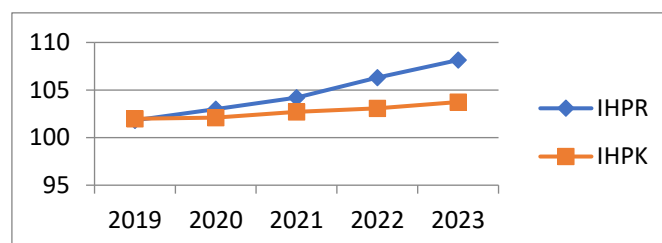


Figure 1 The Growth in National Residential and Commercial Property Price Index
Source: (Bank Indonesia, 2023, 2024)

Reflecting on the Bank Indonesia report on the Residential and Commercial Property Price Index, it shows the positive development of the property industry in Indonesia in the period 2019 to 2023.

Price of residential and commercial property consistently increased every year, despite various national and global economic disruptions during the period, such as COVID-19, high interest rates, etc. The increase in property prices is basically influenced by the economic law of supply and demand. However, in reality, there are many other factors that can affect the supply and demand of property in society, meaning that certain policies or sentiments can significantly impact property prices (Zamillaili & Qoyum, 2022).

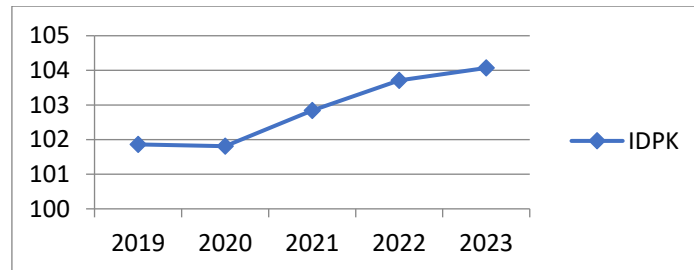


Figure 2 Commercial Property Demand Index
Source: (Bank Indonesia, 2023)

The Bank Indonesia report on the Commercial Property Demand Index shows that demand for commercial properties experienced a decline in 2020 but then increased annually until 2023. The slowdown in 2020 was caused by the drop in office and retail rental demand due to the implementation of working from home regulation and the limited operating hours of shopping centers as the result of large-scale social restrictions (PSBB) during that period. Additionally, demand on hotel rental for tourism and other uses were very limited at that period. Along with time, commercial property grew again, and by 2023, demand across various segments of commercial property had stabilized, including demand in the warehouse, industrial land, and office segments, among others.

Based on the Residential and Commercial Property Price Index and the Commercial Property Demand Index, there is a strong trend in the development of demand within the property industry over the past five years. This suggests that property companies between 2019 and 2023 had the potential to generate high profitability. However, when reviewing the financial statements of property companies during that period, many companies reported decreased in performance or loss. Therefore, despite the fairly consistent rise in property prices over the past five years, this has not significantly improved company profitability. As a result, there are still many other factors that need to be analyzed for companies to achieve optimal profitability.

Investor interest in investing in a company can be driven by fundamental analysis, which includes macroeconomic analysis, industry analysis, and company analysis (financial ratios) (Mulyani et al., 2019). Therefore, several variables are chosen to be analyzed regarding the effect on profitability of property companies. Debt to Equity Ratio as a ratio that describes the amount of debt compared to company equity, which (Ginting & Nasution, 2020) found out that Debt to Equity Ratio has significant effect toward profitability of property companies. Current Ratio as ratio that describe liquidity of company, (Sari & Dwirandra, 2019) found out that Current Ratio has significant effect toward profitability of property company with Intellectual Capital as the moderate variable. Total Assets Turnover is used to assess the company's effectiveness in managing their assets to generate sales, (Ramli & Yusnaini, 2022) found out that Total Assets Turnover has significant effect toward Return on Assets of property companies. Sales Growth as indicators to measure a company's ability to maintain or increase revenue while facing dynamic economic conditions and other challenges, (Anisa & Febyansyah, 2024) found out that Sales Growth has significant effect toward profitability of companies in the food and beverage subsector. Firm Size represents the scale of the company, where the size of the firm can be assessed through the company's total assets (Umam & Hartono, 2019),

(Setiawati & Hendrani, 2024) found out that Firm Size has significant effect toward profitability of companies in the food and beverage subsector.

Based on the above discussion, in order to gain a clear understanding of the issue, this study will be conducted under the title: The Effect of Debt to Equity Ratio, Current Ratio, Total Assets Turnover, Sales Growth, and Firm Size Toward Profitability of Property Companies Listed on the Indonesia Stock Exchange for the period of 2019 - 2023.

LITERATURE REVIEW AND HYPOTHESES

Trade-Off Theory

Based on research on taxes (Modigliani & Miller, 1963), bankruptcy costs and financial distress (Warner, 1977), and insights from agency literature (Jensen & Meckling, 1976) in (Sormin & Genesius, 2021), it is stated that companies have an optimal capital structure that balances the tax benefits of debt financing, financial distress costs, and agency costs associated with debt. Therefore, the trade-off theory serves to predict the optimal capital structure.

Resources Based View Theory

The Resource-Based View Theory (RBV) was first introduced by (Wernerfelt, 1984) and developed by (Barney, 1986). The RBV theory states if companies can rely on their internal resources then they will have a competitive advantage, which allows them to compete in the market and grow (Sari & Dwirandra, 2019). With the characteristics of company assets being valuable, rare, and inimitable, combined with the effective and optimal utilization from management, this will have a positive impact on company performance, such as profitability (Dasuki, 2021).

Profitability

Profitability is an indicator used to measure a company's performance in generating profits (Larasati & Purwanto, 2022). Profitability ratios consist of several ratios, this study is using Return on Assets (ROA). ROA is an indicator that assesses how effectively a company utilizes all its assets to generate profits. The higher the ratio, the higher the profit is generated (Ramli & Yumnaini, 2022).

Debt to Equity Ratio

Debt to Equity Ratio (DER) is an indicator to measure the amount of company debt compared to company equity and the company's ability to pay off its debt with the company's equity (Oktavira & Mudjijah, 2023). The higher the DER, the greater the interest expense that the company bears, and vice versa. For a company with good debt management, the company's debt will be productive and reduce the risk of default (financial distress). Furthermore, with productive debt management, the company will gain additional benefits, such as obtaining more working capital to expand its business and reducing tax payments.

H₁ : Debt to Equity Ratio has a significant effect toward profitability of property companies.

Current Ratio

Current Ratio (CR) is a ratio used to measure a company's liquidity (Larasati & Purwanto, 2022). Current Ratio is used to assess a company's ability to pay off its short-term liabilities using its current assets. The more current assets being used to maintain the company's liquidity, the more assets that are not being used optimally by the company to generate profit.

H₂ : Current Ratio has a significant effect toward profitability of property companies.

Total Assets Turnover

Total Assets Turnover is an indicator used to assess the turnover or utilization of a company assets to generate revenue (Irman et al., 2020). By having valuable assets combined with effective and optimal management, then it will have a positive impact on the company profitability (Alarussi, 2021).
H₃ : Total Assets Turnover has a significant effect toward profitability of property companies.

Sales Growth

Sales Growth is used to assess the growth of a company's sales over time (Sormin & Genesius, 2021). A good company is expected to experience regular sales increases to generate higher profits over time. Based on the Resource-Based View Theory, to achieve growth in sales, company management must enhance the value of company assets, therefore the assets can be sold with higher prices.

H₄ : Sales Growth has a significant effect toward profitability of property companies.

Firm Size

Firm Size refers to the size of a company, which is commonly used to assess whether a company is large or small. Firm size reflects the resources a company possesses, which can influence its performance (Nguyen & Nguyen, 2020). The size of a company can be measured by its balance sheet, sales volume, and share capital (Hakim & Aris, 2023). A large firm size used as an indicator of the company's stability and its strong potential for future growth (Hakim & Aris, 2023).

H₅ : Firm Size has a significant effect toward profitability of property companies.

Research Model

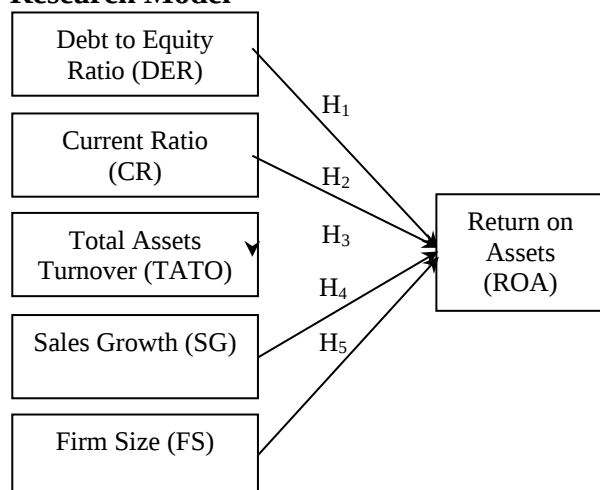


Figure 3 Research Model
Source: Prepared by Writer (2024)

METHODOLOGY

The population of this study consists of all property and real estate companies listed on the Indonesia Stock Exchange. In determining the sample, this study is using non-probability sampling technique and the method is purposive sampling. With a research period of 5 years, then the total sample in this study are 290 samples.

Dependent and Independent Variable

TABLE 1
DEFINITION AND MEASUREMENT OF VARIABLES

Variable	Definition	Formula	Scale
Debt to Equity Ratio (X_1)	It is ratio to assess level of a company's debt to its equity	Debt to Equity Ratio = $\frac{\text{Total Liability}}{\text{Total Equity}}$ (Sari & Dwirandra, 2019)	Ratio
Current Ratio (X_2)	It is ratio used to assess a company's ability to pay all of its short-term liabilities	Current Ratio = $\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$ (Nguyen & Nguyen, 2020)	Ratio
Total Assets Turnover (X_3)	It is activity ratio used to assess a company's asset productivity in generating revenue	Total Assets Turnover = $\frac{\text{Total Sales}}{\text{Total Assets}}$ (Oktavira & Mudjijah, 2023)	Ratio
Sales Growth (X_4)	It is indicator used to assess a company's ability to generate sales	Sales Growth = $\frac{\text{Sales}(t) - \text{Sales}(t-1)}{\text{Sales}(t-1)}$ (Ramli & Yusnaini, 2022)	Ratio
Firm Size (X_5)	It is indicator used to assess the size of a company	Firm Size = $\log(\text{Total Assets})$ (Tarihoran & Endri, 2021)	Nominal
Return on Assets (Y)	It is indicator used to assess the return on all of a company's assets	Return on Assets = $\frac{\text{Net Income}}{\text{Total Assets}}$ (Irman et al., 2020)	Ratio

Source: Prepared by Writer (2024)

Data Analysis Method

This research is using quantitative data and a descriptive approach to explain the effect of changes in all independent variables toward dependent variable. The source of data in this research is using secondary data that is gathered and collected from the website of the Indonesia Stock Exchange (IDX), S&P Capital IQ, and the website of the company. The relationship between the variables can be measured through a regression equation and panel pooled data. As this research is using panel pooled data, then it will use Classical assumption test, such as: Normality test, Multicollinearity test, Heteroscedasticity test, and Autocorrelation test to assure that the regression equation obtained is accurate in estimation, unbiased, and consistent. The regression model can be formulated as follows:

$$ROA = \alpha + \beta_1 \text{ DER} + \beta_2 \text{ CR} + \beta_3 \text{ TOTA} + \beta_4 \text{ SG} + \beta_5 \text{ FS} + \varepsilon$$

Notes:

ROA = Return on Assets

α = Constant

$\beta_1 - \beta_5$ = Regression Coefficients

DER = Debt To Equity ratio

CR = Current ratio

TOTA = Total Assets Turnover

SG = Sales Growth

FS = Firm Size

ε = Error term

RESULT AND DISCUSSION

TABLE 2
DESCRIPTIVE STATISTICS

Descriptive Statistics					
	N	Min.	Max.	Mean	Std.Dev
DER	290	-55,70	6,90	,3545	3,83118

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CR	290	,00	308,80	5,3328	21,80459
TATO	290	,00	,70	,1231	,09940
SG	290	-1,00	7,50	,1666	,92468
FS	290	4,70	7,80	6,5272	,67099
ROA	290	-,40	,40	,0059	,07156
Valid N (listwise)	290				

Source: Prepared by Writer (2024)

Table 2 shows the result of descriptive statistics, which this analysis serves as data in details of minimum, maximum, mean, and standard deviation of each variable used in this research.

Classical Assumption Test

TABEL 3
NORMALITY TEST RESULT – KOLMOGOROV-SMIRNOV TEST

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		290
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	,06796502
Most Extreme Differences	Absolute	,181
	Positive	,181
	Negative	-,171
Test Statistic		,181
Asymp. Sig. (2-tailed)		,000 ^c
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Source: Prepared by Writer (2024)

Table 3 above shows the result of normality test by using One-Sample Kolmogorov-Smirnov Test, which results in a significant level of 0,000 that means the data in this research is not normally distributed.

TABLE 4
MULTICOLLINEARITY TEST

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	DER	,989	1,011
	CR	,952	1,050
	TATO	,925	1,081
	SG	,949	1,053
	FS	,931	1,074
a. Dependent Variable: ROA			

Source: Prepared by Writer (2024)

The result of Table 4 above shows the test of correlation between the dependent and independent variables. From the Collinearity Statistics table, it shows the Tolerance values of 0.989, 0.952, 0.925,

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0.949, 0.931 > 0.1 and the VIF values of 1.011, 1.050, 1.081, 1.053, 1.074 < 10, where it can be concluded that there is no multicollinearity in the regression model.

TABLE 5
HETEROSCEDASTICITY TEST – GLEJSER METHOD

Coefficients ^a		
Model		Sig.
1	(Constant)	,520
	DER	,720
	CR	,824
	TATO	,000
	SG	,250
	FS	,936
a. Dependent Variable: ABS_RES		

Source: Prepared by Writer (2024)

Table 5 above shows that the significance level of each variable was 0.720, 0.824, 0.000, 0.250, and 0.936, although not all of the significance levels are greater than 0.05. So, it can be concluded that heteroscedasticity occurs in the regression model.

TABLE 6
AUTOCORRELATION TEST – DURBIN-WATSON TEST

Model Summary ^b	
Model	Durbin-Watson
1	1,563
a. Predictors: (Constant), FS, SG, DER, CR, TATO	
b. Dependent Variable: ROA	

Source: Prepared by Writer (2024)

From table 6 above, it can be seen that the Durbin-Watson value is 1.563. Based on the Durbin-Watson table with the N = 290 and K = 6, it shows that the value of dL = 1.77250 and dU = 1.84261. Therefore, the result is DW < DL, which indicates there is autocorrelation in the regression model.

Hypothesis Testing

TABLE 7
MULTIPLE REGRESSION ANALYSIS RESULT

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,088	,041		-2,166	,031
	DER	,002	,001	,116	2,039	,042
	CR	,000	,000	,070	1,210	,227
	TATO	,124	,042	,172	2,933	,004
	SG	,013	,004	,170	2,946	,003
	FS	,011	,006	,107	1,834	,068
a. Dependent Variable: ROA						

Source: Prepared by Writer (2024)

Based on the Table 7, the multiple linear regression can be formulated as follows:

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$$\text{ROA} = -0.088 + 0.002 \text{ Debt to Equity ratio} + 0.000 \text{ Current Ratio} + 0.124 \text{ Total Assets Turnover} + 0.013 \text{ Sales Growth} + 0.011 \text{ Firm Size} + \varepsilon$$

The research results shown in Table 7 above indicate that four hypotheses are accepted: Firm Size with a 10% significance level, and Debt to Equity Ratio, Total Assets Turnover, and Sales Growth at a 5% significance level. On the other hand, the hypotheses for the variables of Current Ratio are rejected.

The accepted hypotheses also show that the relationships are aligned with the supporting theory of each variable's effect on return on assets. First, the Debt to Equity ratio shows a positive and significant effect toward return on assets, which it is In line with the trade-off theory, where by increasing amount of company's debt, it will create a trade-off between the costs and benefits receive by the company, which company will be borne by interest expense while gaining the benefit of lower tax payment. So, by having an effective debt management, companies can avoid financial distress On the other hand, according to Resource Based View Theory, the research results on Debt to Equity Ratio means that as property companies improving their profitability ratio, they will also increase company debt as one of a way to get an additional working capital. It is also mentioned by Dwi Shara Soekarno as Director of The Indonesia Capital Market Institute (TICMI) in (Abrar, 2021), basically the property industry is a capital-intensive industry, which make it challenging for property companies to operate without relying on debt to support their business activities. Second, Total Assets Turnover shows a positive and significant effect toward return on assets, as mentioned on the Resources Based View Theory, by maximizing use of company assets which have a classification as a valuable, rare, and inimitable asset, then the company will achieve better performance (Dasuki, 2021). Third, Sales Growth has an in line explanation with the total asset turnover variable, where by having and maximizing the utilization of company assets that are valuable, rare, and inimitable, it will enable the company to achieve improved performance reflected in increased sales. Fourth, Firm Size shows a positive significant effect toward return on assets, as mentioned on the Resources Based View Theory, Firm size represents the number of total assets owned by a company; the larger the amount of the assets, the greater the chance for the company to utilize and develop their assets to generate profit. On the other hand, firm size also reflects the company's capacity for expansion, which enhances its potential to maximize profits for its owners or investors.

The rejected hypotheses of Current Ratio will be explained as follows: The Current Ratio in this study was not sacrificed by company management as the way to achieve maximum profits due to the numerous economic turmoil and crises experienced during the research period, such as Covid-19, war of Russia and Ukraine, high inflation, etc, which affected consumers purchasing power. As a result, property companies prioritized maintaining liquidity at a safe level to avoid financial distress. On the other hand, the Indonesian government has also frequently provided VAT incentives (PPN DTP) in recent years to stimulate the growth of the property industry (Badan Kebijakan Fiskal, 2023). The incentives have shown positive impacts on the sector, which according to Chief Marketing Officer of Pinhome, Fibriyani Elastria, the VAT incentive has boosted home purchases by 27% in 2023 (Brilian, 2024). Therefore, property companies can maintain their profitability levels without sacrificing their liquidity.

TABLE 8
F-TEST TABLE

ANOVA ^a			
Model		F	Sig.
1		6,173	,000 ^b
a. Dependent Variable: ROA			

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b. Predictors: (Constant), FS, SG, DER, CR, TATO

Source: Prepared by Writer (2024)

The result of Table 8 above shows the significant level of 0,000, which means that simultaneously Debt to Equity ratio, Current ratio, Total Assets Turnover, Sales growth, and Firm Size have significant effects toward profitability of property companies listed on the Indonesia Stock Exchange.

TABLE 9
COEFFICIENT OF DETERMINATION

Model Summary	
Model	Adjusted R Square
1	,082
a. Predictors: (Constant), FS, SG, DER, CR, TATO	

Source: Prepared by Writer (2024)

From the results of the calculations in table 9, the magnitude of the effect of the independent variable to the dependent variable in this equation model is obtained, which is equal to 0.082 or 8.2%, and the remaining 91.8% is affected by other factors which are not included in this regression model.

CONCLUSIONS

The research began with the classical assumption test; however, this study did not meet the requirements of Normality Test and Autocorrelation Test as the part of classical assumption test. Therefore, the research continued using the collected raw data, which found that, partially, the Debt to Equity Ratio, Total Assets Turnover, Sales Growth, and Firm Size have a positive and significant effect toward profitability of property companies listed on the Indonesia Stock Exchange for the period of 2019 - 2023. Meanwhile, the Current Ratio does not have a significant effect on the profitability of property companies listed on the Indonesia Stock Exchange for the period of 2019 - 2023. The respective property companies in Indonesia are also suggested to take a deep look and improve on other variable beside the variable in this research, such as: Debt to Equity Ratio, Current ratio, Total Assets Turnover, Sales Growth, and Firm Size as we found out other variables beside this research have 91.8% effect on the regression model.

For property companies that finance their operations using debt, whether in Rupiah or foreign currency, it is important to manage the debt effectively and efficiently. Although the research finds that Debt to Equity Ratio has a positive and significant effect on profitability of property companies, companies must still conduct a careful analysis when planning to take a debt. This is done to make sure that the debt can be managed productively and the goal of increasing the company's profitability can be achieved while avoiding conditions of default or financial distress, as it shows on the China property company Evergrande, which failed to meet its debt obligations.

This research has several limitations, including failing to fulfill classical assumption tests, the limited selection of variables, and the research period. Thus, future researchers are suggested to extend the research period and explore other variables that may have a stronger effect on the Return on Assets of property companies. Since this study was limited to five variables of fundamental analysis, the effect of the variables were only 8.2% toward the return on assets of property companies. Therefore, expanding the scope of the research by adding additional variables will provide clearer results regarding the factors that significantly affect the profitability of property companies listed on the Indonesia Stock Exchange.

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