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Financial Distress Analysis Of Hotel Companies Listed On The Indonesia Stock Exchange During The Covid-19 Pandemic

Rudy Syafariansyah Dachlan

Management Studies Program, Faculty of Economics, Widya Gama Mahakam Samarinda University, Jl. K.H. Wahid Hasyim No. 128, Samarinda, 75124, Kalimantan Timur, Indonesia

E-mail: rudi@uwgm.ac.id

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ABSTRACT

Financial Distress is a situation that portrays the organization's financial condition, whether the organization is in a tough situation, emergency or undesirable that happened before the organization failed. This study aims to analyze Financial Distress in hotel companies registered on The Stock Exchange of Indonesia during the Covid-19 pandemic for the 2020-2021 utilizing the Altman's Z-Score modified model. The sampling of this research is 19 financial statements of hospitality companies in the period 2020-2021. The Outcomes showed that during the Covid-19 Pandemic from 2020 to 2021, of the 19 companies that were the sample of this study, 10 companies (53%) were in the Distress Area and the Gray Area. The remaining 9 companies (47%) are in the Non Distress Area. This study concludes that the COVID-19 pandemic for the 2020-2021 period has had quite an impact on financial distress for hotel companies filed on the Indonesia Stock Exchange.

1. Introduction

Covid-19 has become a worldwide pandemic. The stock market, which initially seemed unaffected, finally reacted negatively after the number of confirmed victims increased [1]. Major stock markets lost more than 15% of their market capitalization, in just a few days after WHO declared the coronavirus as a pandemic [2]. It's also resulted in investors being pessimistic about the potential future returns of investments due to increasing uncertainty [3] and affecting major stock exchanges around the world [4].

The lockdown policies and restrictions on activities that have been imposed and the corona virus which has spread widely to various parts of the world have an impact on the economy in various countries, including Indonesia.

A survey conducted by BPS on 10-17 July 2020 stated that out of every 100 hotel and restaurant businesses, 92 of them experienced a decrease in income. Likewise with BPS data, from January to April 2020, which shows that foreign tourists coming to Indonesia fell 45.01% compared with a similar period in the earlier year. Furthermore, in view of BPS statistics, the occupancy rate of star hotels during 2020-2021 did not see a significant spike.

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Figure 1. Occupancy Rate of Star Hotel Rooms 2020-2021

This is also reflected in the average net profit/loss of hotel companies listed on the Indonesia Stock Exchange for the 2019-2021 period.

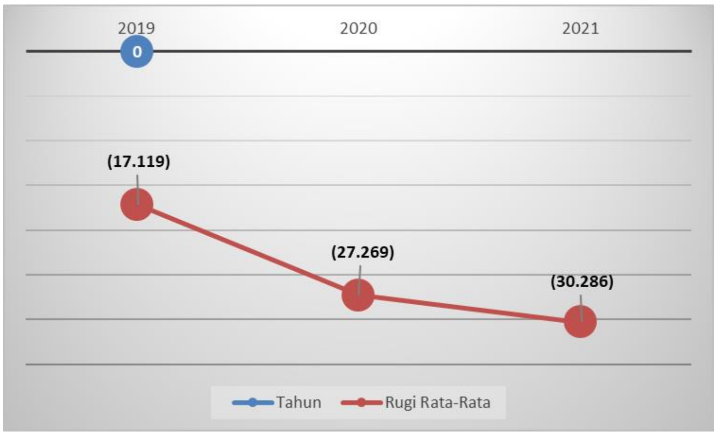

Figure 2. Average Net Profit/Loss of Hotel Companies Listed on the IDX for the period 2019-2021

Stock price movements are influenced by macroeconomic variables and internal company variables that reflect the company's performance [5]. The company's performance can also be seen from the companies value which is formed through the securities exchange. The value is affected by investment projection. In fact, returns from the capital market are not always in line with expectations of macroeconomic conditions. This is the impact of market efficiency where stock returns are motivated by previous expectations [6].

Many industries had been stricken by Covid-19. Since March 2020 the Composite Stock Price Index (IHSG) of the Indonesia Stock Exchange has reduced due to the fact many traders have offered their shares [7]. Financial Distress analysis is an important thing to do because it will describe the effect of the Covid-19 pandemic at the company's sustainability going forward. For investors, this may be beneficial as a attention in making funding policies.

When a company is experiencing liquidity problems, it is quite possible that the company will enter a period of financial difficulty and if these difficult conditions are not addressed quickly, it can lead to the company's insolvency. A company will not suddenly go bankrupt, but in a process that lasts a long time, and during that process it can be seen from the company's signs in carrying out the operational company's activities. The company's bankruptcy was preceded by financial difficulties [8]. Bankruptcy is a problem that a company often faces. The bankruptcy of the company harms both the internal and external parties of the company [9].

Financial Distress is a situation that portrays the organization's financial condition which cash flow of operation is insufficient to meet current commitments, for example, creditor liabilities or interest cost [10]. Shown by the failure of the company in carrying out operations to achieve its goals. Economic failure means

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that the income is unable to cover its own costs while financial failure means that the company cannot fulfill its obligations when they must be met, even though the total value of assets exceeds its liabilities.

If the company has a negative net income for several years, it can experience financial difficulties [11]. Bankruptcy occurs when all of a company's debt exceeds the total asset's fair values. That is, the company has a negative value or is in a state of actual insolvency or technical insolvency. If a company continues to have financial difficulties, the company can file for bankruptcy if a solution is not found immediately [12]. Financial difficulties can occur repeatedly in a company before it goes bankrupt [13].

More companies get into financial difficulties from mismanagement than from economic difficulties [11]. The entry of the company into a situation of financial difficulty begins with weak management of the company (poor management). One form of weak management is the company's cash flow that is not well managed [14]. Financial difficulties are also due to insufficient cash flow, and cash flow indicators will affect earnings management [15]. Meanwhile, according to Yili Lian, customer-supplier relationships can also cause financial distress. When the main customer experiences financial difficulties, it will have an impact on the supplier. [16].

Poor debt management is also a cause of financial distress. The combination of privately guaranteed debt and various debt problems to creditors is the cause of financial distress [17]. Companies with high leverage and/or companies that have larger short-term debt on the balance sheet will be vulnerable to financial distress if financial problems occur [18]. The condition of Financial Distress also causes creditors to be more conservative and implement stricter debt contract monitoring in channeling credit [19]. If viewed from the financial aspect, financial distress is caused by insufficient capital or reduced capital, large debt and interest burdens, and suffer losses [20].

Financial Distress is caused by various factors that are intertwined with one another. The company's internal and external conditions are the factors that cause bankruptcy [21]. Internal factors, namely the inability of management to manage financial and non-financial factors and external factors, namely various things from outside and beyond the control of management. [22].

Weak economic and financial fundamentals in various sectors have been exacerbated by the Covid-19 pandemic [23]. Crisis often doesn't go away on its own. Banking, state debt, the collapse of the exchange rate, the cessation of economic activity and inflation. This condition has also resulted in increased financial constraints faced by the company [24].

Financial distress has a double effect on stock prices, namely it affects the returns expected by investors and the efficiency of stock prices [25]. Even so, the effect of financial distress on the desire to invest is different depending on the prospects of the company. Companies that are experiencing financial distress but have good business prospects are still a concern for investors to invest like a healthy company [26] [27].

Various research have been carried out to observe the benefits that can be drawn from financial ratio analysis. Edward I Altman at New York University, used to be one of the early researchers to study the use of financial ratio evaluation as a tool to predict company bankruptcy. The results of research performed by Altman produce a system called Z Score. The Z-Score evaluation model is a technique for predicting the survival of the company through combining numerous common financial ratios and weighting each other differently. Therefore, the Z-Score method can be used to predict the possibility of a company going bankrupt. [22].

The first Model of Altman Z-Score was introduced by Altman in 1968. This model is used to predict the business continuity of publicly traded manufacturing companies. [28]. Next in 1983, Altman presented the Revised Altman Z-Score analysis model used for manufacturing companies that did not go public [29]. The Modified Altman Z Score is the last formula presented. This is a very flexible formula because it can be used for various types of company business fields, both those that go public and those that do not. In this last model, The X_5 variable (sales/total assets) eliminated. The component for The Modified Altman Z-Score is as follows [30] :

$$Z = 6{,}56\, X_1 + 3{,}26\, \mathrm{X}_2 + 6{,}72\, \mathrm{X}_3 + 1{,}05\, \mathrm{X}_4 \qquad (1)$$

Description :
Z" = Financial Distress index
X_1 = Working capital/total assets
X_2 = Retained earnings / total assets
X_3 = Earning before interest and taxes/total assets
X_4 = Book value of equity/total liabilities

with the following classification:

a. If the value of Z” < 1.1 = Distress
b. If the value of 1.1 < Z” <2,6 = Grey Area
c. If the value of Z” > 2,6 = Non Distress

2. Methods

This study aims to determine whether the Covid-19 Pandemic has an impact on Financial Distress on hotel corporations listed on the Indonesia Stock Exchange for the 2020-2021 period. Quantitative descriptive is the method in this research. The data source is the financial statements of hotel companies for the period 2020 to 2021. The possibility for financial distress will be analyzed using the Modified Altman Z-Score Method. The variable of financial ratios based totally on the Modified Altman Z-Score Model system, namely net working capital to total assets, retained earnings to total assets, earnings before interest and tax to total assets, and book value of equity to total liabilities. The company's financial distress will be analyzed and explained through these ratios. The total population of hotel companies in the Hotel, Resort and Cruise Ship Sub-Industry on the Indonesia Stock Exchange is 24 companies. The research sample selected according to the following criteria:

a. Hotel companies in the Hotel, Resort and Cruise Ship Sub-Industry on the Indonesia Stock Exchange and have submitted their financial reports for the 2020-2021 financial year
b. The Research Period is 2020 to 2021.

TABLE 1.
Research Sample

No	Kode Saham	Nama Perusahaan
1	ARTA	Arthavest Tbk
2	CLAY	Citra Putra Realty Tbk.
3	DFAM	Dafam Property Indonesia Tbk.
4	EAST	Eastparc Hotel Tbk.
5	ESTA	Esta Multi Usaha Tbk.
6	FITT	PT. Hotel Fitra Internasional
7	JIHD	Jakarta International Hotels & Development Tbk.
8	JSPT	Jakarta Setiabudi Internasiona
9	MINA	Sanurhasta Mitra Tbk.
10	NASA	Andalan Perkasa Abadi Tbk.
11	NATO	Surya Permata Andalan Tbk.
12	PLAN	Planet Properindo Jaya Tbk.
13	PNSE	Pudjiadi & Sons Tbk.
14	PSKT	Red Planet Indonesia Tbk.
15	RISE	Jaya Sukses Makmur Sentosa Tbk
16	SHID	Hotel Sahid Jaya International
17	SNLK	Sunter Lakeside Hotel Tbk.
18	SOTS	Satria Mega Kencana Tbk.
19	UANG	Pakuan Tbk.

The stages of the research are as follows:

a. Collection of financial report data from hotel companies that were the research sample for the period 2019 to 2021 which was officially released through the website. (https://www.idx.co.id/data-pasar/laporan-statistik/statistik/).
b. Perform analysis and calculation of Altman Z Score Modification using sample company financial data as a means of analyzing financial distress.
c. Discuss the results of the research, interpret and draw conclusions.

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3. Result and Discussion

There were 19 companies that were sampled for research and analyzed 9 (nine) companies located in the Non Distress Area, namely ARTA, EAST, ESTA, JIHD, MINA, NASA, NATO, RISE, and SNLK. There are 6 (six) companies in the Distress Area, namely CLAY, DFAM, FITT, PLAN, SOTS, and UANG. Furthermore, there are 4 (four) companies in the Grey Area, namely JSPT, PNSE, PSKT, SHID. The results of the analysis are as follows :

3.1. Non Distress Area

TABLE 2.
Non Distress Area

No	Kode	Tahun	REKAP DATA					Kesimpulan
	Saham		X1	X2	X3	X4	Z	
1	ARTA	2020	0,21	0,25	-0,02	6,64	9,05	Non Distress
		2021	0,22	0,25	-0,03	6,36	8,74	Non Distress
2	EAST	2020	0,002	0,03	0,02	13,61	14,50	Non Distress
		2021	0,02	0,02	0,06	17,36	18,82	Non Distress
3	ESTA	2020	0,29	-0,08	0,02	3,77	5,73	Non Distress
		2021	0,22	-0,07	0,01	2,53	3,91	Non Distress
4	JIHD	2020	-0,05	0,21	-0,01	2,65	3,07	Non Distress
		2021	-0,04	0,20	-0,02	2,60	2,99	Non Distress
5	MINA	2020	0,21	-0,09	-0,09	22,42	24,00	Non Distress
		2021	0,19	-0,14	-0,05	15,16	16,39	Non Distress
6	NASA	2020	0,11	-0,02	-0,06	18,35	19,57	Non Distress
		2021	0,17	-0,02	-0,04	17,30	18,93	Non Distress
7	NATO	2020	0,18	0,01	0,001	687,24	722,83	Non Distress
		2021	0,18	0,002	-0,006	292,13	307,85	Non Distress
8	RISE	2020	0,32	0,12	-0,02	3,50	6,08	Non Distress
		2021	0,43	0,12	0,02	5,95	9,60	Non Distress
9	SNLK	2020	0,09	0,09	0,13	3,55	5,50	Non Distress
		2021	0,11	0,06	-0,05	4,04	4,85	Non Distress

Except for EAST, JIHD and SNLK, the companies analyzed in the Non Distress Area have a Net Working Capital to Total Asset (X_1) Ratio > 15%. This ratio shows that the company uses more than 15% of its total assets as net working capital to ensure the continuity of the company's operations during the COVID-19 pandemic.

Current assets are often referred to as working capital and rotate during the current period/year, namely when current assets are used and then replenished. We will get net working capital after we subtract current liabilities from current assets [31]. The working capital position is the size of the company to be able to operate from day to day. This adequacy of working capital will provide assurance to all parties that the company has no problems in the company's finances [14]

The ratio of Retained Earning to Total Assets / RETA (X_2) on ARTA, JIHD, and RISE is greater than 10% indicating that 4 companies retain their profits more than 10% of total assets that can be used for future company needs. Meanwhile, EAST, ESTA, MINA, NASA, NATO and SNLK recorded RETA of less than 10% or even minus. Indicates that these four companies have maximized the use of their total assets for company purposes. In the future these companies will be very dependent on the company's profits. If a loss occurs, it will directly affect the company's equity.

The impact of the pandemic is clearly seen in The Earning Before Interest and Tax to Total Assets (X_3) ratio. EAST and ESTA still recorded positive ratios in 2020 and 2021. Meanwhile, other companies had negative ratios in both research years or one of the research years. The highest ratio of 6% was achieved by EAST in 2021, the rest were below that even minus. Of course, this will affect the company's ability to retain part of the profit as retained earnings.

What all companies in the non-distress area have in common in this study is the ability of net equity to bear the company's liabilities. The ratio of Book Value of Equity to Total Liabilities (X_4) of all sample companies has equity 2 times greater than debt, even more. All obligations of the company to external parties will be fulfilled. Altman Z'Score Modification is formed from a formula which is a combination of variables X1 to X4. The combination of these four variables forms the Z value of the Altman Z "Score. A total of 9 (nine) companies in the Non Distress Area, namely ARTA, EAST, ESTA, JIHD, MINA, NASA, NATO, RISE, and SNLK with a Z'Score above 2.6.

3.2. Distress Area

TABLE 3.
Distress Area

No	Kode Saham	Tahun	REKAP DATA X1	X2	X3	X4	Z	Kesimpulan
1	CLAY	2020	-0,11	-0,52	-0,17	0,23	-3,28	Distress
		2021	-0,23	-0,65	-0,14	0,07	-4,55	Distress
2	DFAM	2020	0,09	-0,03	-0,05	0,36	0,52	Distress
		2021	0,14	-0,08	-0,06	0,35	0,62	Distress
3	FITT	2020	-0,09	-0,32	-0,14	0,90	-1,65	Distress
		2021	0,08	-0,38	-0,08	1,34	0,15	Distress
4	PLAN	2020	-0,27	-0,16	0,005	2,65	0,52	Distress
		2021	-0,28	-0,17	-0,01	2,49	0,14	Distress
5	SOTS	2020	-0,07	-0,11	-0,07	2,05	0,91	Distress
		2021	-0,12	-0,17	-0,06	1,67	0,03	Distress
6	UANG	2020	0,19	-0,04	-0,09	0,56	1,11	Grey Area
		2021	-0,07	-0,09	-0,08	0,04	-1,19	Distress

Six companies are in the Financial Distress Area, namely CLAY, DFAM, FITT, PLAN, SOTS, and UANG. Except for PLAN and SOTS, what companies in the Financial Distress Area have in common is the low ability of net equity to cover the company's liabilities. Companies in the Distress Area have equity below 1 (one) time of debt. The problem is that the company has high liabilities or debt where its net equity is not able to cover its debt (X_4). However, the amount of debt is not able to leverage profits for the company (X_3). The company reported a loss in the period 2020 and 2021 even though retained earnings were in a negative balance (X_2). This high liability certainly has an impact on the amount of interest costs that must be borne by the company. This also has an impact on the company's ability to provide the company's net working capital (X_1). Low Z Score below 1.11 indicates that the company is experiencing financial distress (Z).

3.3. Grey Area

TABLE 4.
Grey Area

No	Kode Saham	Tahun	REKAP DATA X1	X2	X3	X4	Z	Kesimpulan
1	JSPT	2020	0,09	0,25	-0,04	1,10	2,27	Grey Area
		2021	0,09	0,21	-0,06	0,91	1,84	Grey Area
2	PNSE	2020	-0,04	0,11	-0,115	2,65	2,08	Grey Area
		2021	-0,04	0,07	-0,10	2,49	1,87	Grey Area
3	PSKT	2020	-0,03	-0,72	-0,057	5,49	2,85	Non Distress
		2021	-0,08	-0,79	-0,03	5,33	2,27	Grey Area
4	SHID	2020	0,09	-0,01	-0,04	1,61	1,97	Grey Area
		2021	0,13	-0,06	-0,03	1,53	2,05	Grey Area

Four companies in the Gray Area have the same record of losses in the period 2020 to 2021 (X_3). This is also followed by a decrease in the ratio of retained earnings to assets (X_2) and a decrease in the company's net equity ability to guarantee its debts (X_4). JSPT and SHID use 9% to 13% of their Total Assets as Net Working Capital (X_1). However, for PNSE and PSKT, the Net Working Capital to Total Asset (X_1) ratio was recorded as minus because the current debt was greater than the company's current assets. The declining Z Score indicates that management needs to immediately improve the management of financial distress (Z).

4. Conclusion

This study was conducted to analyze the company's financial distress using the modified Altman z-score model. Based on the results of the analysis carried out, several conclusions can be drawn as follows : During the Covid-19 Pandemic from 2020 to 2021, there are 6 (six) companies in the Distress area, namely CLAY, DFAM, FITT, PLAN, SOTS, and MONEY. Also analyzed 9 (nine) companies in the Non Distress area, namely ARTA, EAST, ESTA, JIHD, MINA, NASA, NATO, RISE, and SNLK. Four companies in the Gray Area were also analyzed, namely JSPT, PNSE, PSKT, SHID. On Net Working Capital to Total Assets (X_1). Companies that are categorized as Non Distress generally have good net working capital liquidity which is able to finance the company's operations. Meanwhile, for companies categorized as Gray Area and Distress, working capital liquidity is quite low and even negative. Retained Earning to Total Assets / RETA (X_2) on companies in the Distress Area shows a negative ratio. In the future, these companies will depend on the company's profit. If a loss occurs, it will have a direct impact on the company's equity. Meanwhile, companies in the Non Distress Area and the Gray Area have a positive or negative RETA. However, if this negative RETA is balanced with the Company's Return (X_3) and Equity Value above the company's debt (X_4), the company can remain in the Non Distress category. Except for EAST and ESTA, the EBIT to Total Assets (X_3) ratio of the companies sampled in the study suffered losses in the 2020-2021 period, either consecutively or not. However, the management of equity against debt and sufficient net working capital can prevent the company from experiencing financial distress. It is very clear that the company's net equity ability to bear the company's debt (X_4) plays a major role in preventing the company from experiencing financial distress. Debt reduction made by the company during the covid-19 pandemic also helps companies avoid financial distress. There are 19 companies as the sample of this study, 10 companies (53%) are in the Distress Area and the Gray Area. The remaining 9 companies (47%) are in the Non Distress Area. . This study concludes that the COVID-19 pandemic for the 2020-2021 period has had quite an impact on financial distress for hotel companies filed on the Indonesia Stock Exchange

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