

CHAPTER I

INTRODUCTION

1.1. Background

In the era of business development especially in Indonesia all of business person compete each other to develop or just only to maintaince their business with the competitive competition. Looking at the country Indonesia has many economic potential which can be explored, in Indonesia there are so many business opportunity that can be a good investment for the future and leads into the future benefits. One of Indonesia potential is the Agricultural sector which is one of the key sector Indonesia.

Agricultural sector in Indonesia provides income for the households majority, based on Indonesia Investment website Agricultural Sector in 2012 this sector employed around 49 million Indonesian individuals which represents 41 percent of the total Indonesian labour force. In 2012 around 30 percent of land in Indonesia is used for Agriculture purpose. However the condition of this sector is not performig a really good performance, the agriculture gross domestic product (GDP) has decline in last five decades, even in absolute numbers the agricultural workforce keeps growing yet its relative share of total Indonesian workforce has declined significantly from 55 percent in 1980 to 45 percent in 1990s and currently to 41 percent (“Agricultural Sector”, n.d)

Indonesia Agriculture forecast will continue growth based on the world bank forecast, albeit at a lower pace compare to other industry and service sector. The recently condition of Agricultural sector in Indonesia Stock Exchange compared to another sector is far behind the other sector.

Ningrum and Dewi (2016) examine the performance of stock sector in the first quartal of 2016, the artilce stated the consumer sector is at the first position, which average emiten

shows the enhancement performance. Based on the financial statement that publish by 81% of 16 emiten in consumer sector was increase it performance and only 19% of 16 emited that already publish the financial statement shows the down performance.

The condition of consumer sector inversely with the agricltural sector, compare with the other stock sector in Indonesia Stock Exchange Agricultural sector performace the most worst performace. Agriculture performace has only 33% of the 6 emiten that already publish the financial statement that performce the enchancement the rest of it shows down performance. The highest increase of profit in this sector reach 167 percent by PT Asra Agro Lestari Tbk (AALI) in the amount of Rp417 billion. Wherease PT PP London Sumatera Indonesia Tbk (LSIP) has the worst profit decline reach minus 67 percent from Rp153 billion in first quartal 2015 become Rp50.4 billion in first quartal in 2016. (Ningrum and Dewi,2016).

Looking for all condition above, writer conclude that the condition of agricultural sector is having a bad performance while the world bank still forecast that this sector will have any growth in the future but this sector is far behind the other sector. This condition can lead the companies in this sector into the financial distress which is this condition can cause bankruptcy. Corporate financial distress is the one of critical issues in corporate finance and it refers to the financial health of the companies. Financial distress means a condition where a company can not fulfil, or has difficulty in paying its financial obligations to creditors, if financial distress can not be relieved, it can lead to bankruptcy.

Ross, Hillier,et al (2008) define financial distress is a situation where a firm's operating cash flows are not sufficient to satisfy current obligations and the firm is force to take corrective actions. For a certain company bankruptcy is an absolute affirmation of its inability to ensure current operations given its current debt obligations. Bankruptcy is an alternative when a debt-laden business is failing, but it is not constantly the right one. Even

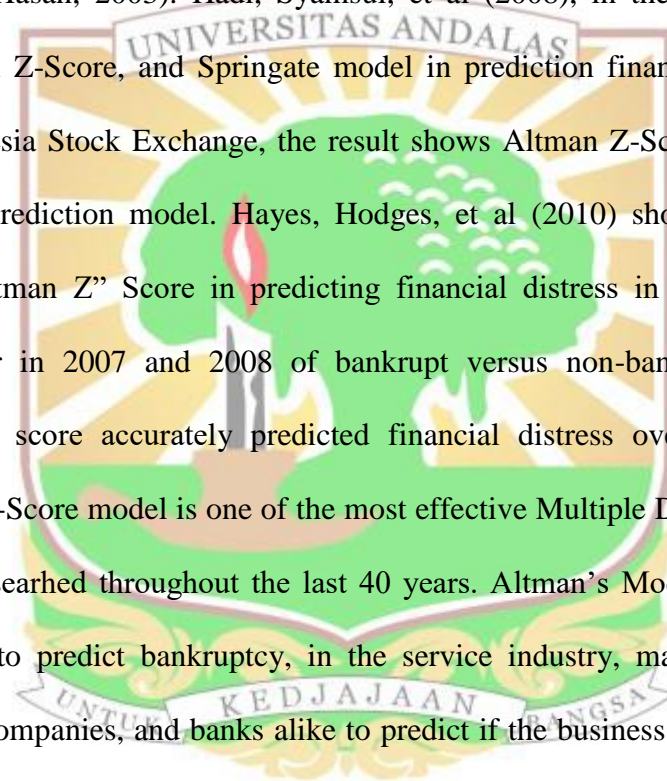
when it is the best choice, but bankruptcy is usually considered as remedy and it only make sense in certain conditions. Predicting bankruptcy subservient for management or even investor, it will be useful for management to take decision in order to prevent the company fall into financial distress, useful for investor to save their money from financial distress company and abuse it for other favorable investment.

By all of the conditions and explanations above, if the bankruptcy occur with any sign of warning before it, manager may take any actions to save the firms or the investor may take some decisions about the warning. Therefore writer want to analyze the financial performance of Agricultural sector in Indonesia Stock Exchange in year 2013 – 2015.

According to Tam and Kiang (1992), prediction of bankruptcy is probably one of the most important business decision making as it affects the entire life span of business. If the firms are financially unsound, then the risk of default will be very high. Investors invest in companies that are financially healthy as risk of default is minimized for them. If not so, investors' confidence in a firm will tend to decrease, ultimately resulting in corporate failure. Therefore, it is imperative for all organization to predict their financial health. By doing so, firms can remain in the industry and prevent themselves from being liquidated by taking necessary actions.

There are several model of bankruptcy prediction, such as Altman Z-Score model, Y-Score Olhson model, Zmijewski model, Springate model and Grover model, all of this model are used to predict bankruptcy in a company. In this thesis researcher will use Altman Z-Score model to analyze the financial performance of Agricultural sector company listed in Indonesia Stock Exchange year 2013 – 2015. Altman is multivariate discriminant analysis consist of five ratio analyzing bankruptcy prediction contain five ratios first is Liquidity by Working Capital to Total Assets, second is Profitability by Retained Earning to Total Assets, third is also Profitability by Earning Before Interest and Taxes to Total Assets, fourth is

Activity by Book Value of Equity to Total Liabilities and the last one is also Efficiency by Sales to Total Assets. Altman work's has shown that the Z-Score and its variants have a very high degree of accuracy in predicting corporate financial distress in the U.S. as well as in the emerging markey (Altman, Hartzell and Peck, 1995). Three version of Altman Z-score (Z, Z', Z'') of distressed prediction developed in th U.S to corporate emerging market of Srilangka also shown that these model have a remarkable degree of accuracy in predicting distress using financial ratios computed from financial statements in the year prior to distress (Samarakoon and Hasan, 2003). Hadi, Syamsul, et al (2008), in their research compared Zmijewski, Altman Z-Score, and Springate model in prediction financial distress of listed company in Indonesia Stock Exchange, the result shows Altman Z-Score model is the best financial distress prediction model. Hayes, Hodges, et al (2010) show in their study the efficacy of the Altman Z'' Score in predicting financial distress in retail firms, in eight comaparisons, four in 2007 and 2008 of bankrupt versus non-bankrupt firms in retail specialties, the Z'' score accurately predicted financial distress over 90% of the time. Altman's revised Z-Score model is one of the most effective Multiple Discriminant Analysis, which has been researched throughout the last 40 years. Altman's Model has being used in various industries to predict bankruptcy, in the service industry, manufacturing industry, punblically listed companies, and banks alike to predict if the business will have a downfall, all the revision of Altman equation has being used by different authors in their study, with constructive predictability. Altman Z-Score Model can be applied to modern economy to predict distress and bankruptcy one, two and three years in advance (Anjum, 2012). The use of Emerging Market Z- score model and the Z-score model had clearly shown that, they can completely predict the sign of a possible bankruptcy that may occur on listed company in Stock Exchange Thailand (Sasviomio et al, 2014). Comparing among the other bankruptcy prediction model, researcher choose Altman Z-Score model because this model is the most



popular bankruptcy prediction model among the other model. Altman Z-Score is the finest model that has a fair high degree of accuracy of another model and Altman Z Score model commonly known as the easy implemented and already tested in the financial distress study and it is suitable to apply in analyzing the financial condition of this industry use.

1.2 Problem Formulation

Based on the description that has been describe above in this study, researchers wanted to find empirical evidence using a model of the Altman Z-Score, so the formulation of this study are is :

What is the financial condition of listed Agriculture Sector company in IDX (2013 – 2015) based on Altman Z-Score ?

1.3 Research Objective

Based on the formulation of the problem above, the purpose of this study is : To examine financial condition of listed Agriculture Sector company in IDX (2013 – 2015) based on Altman Z-Score.

1.4 Research Benefits

This research is expected to be beneficial to :

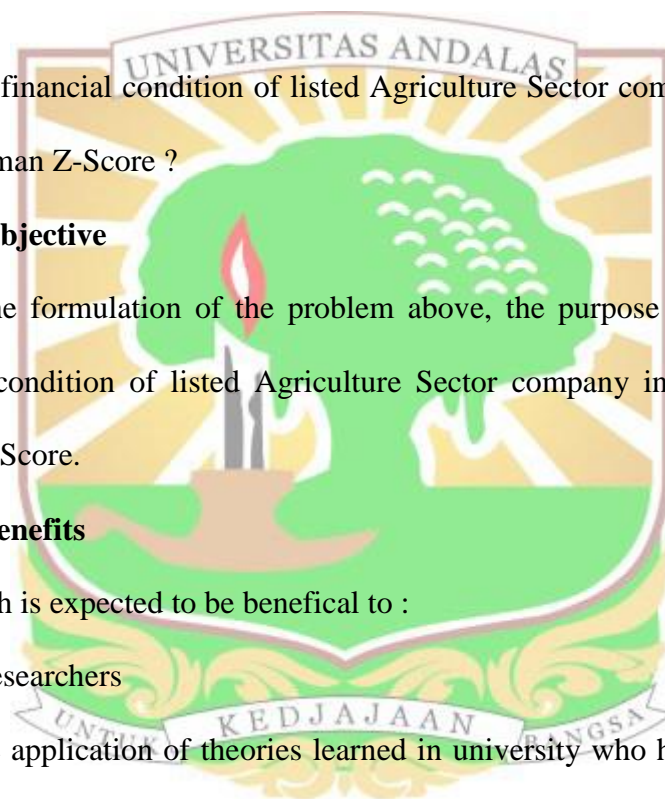
1. For Researchers

As the application of theories learned in university who had been given by the lecturers and as an intellectual exercise which is expected to gain the author's knowledge on ,especially on the theory analysis of bankruptcy of a company also as an additional knowledge for reasercher in the field of financial management.

2. For Banks

Bankruptcy information is useful to make decision for credit agreement and also useful for monitoring the existing loan policy.

3. For Company



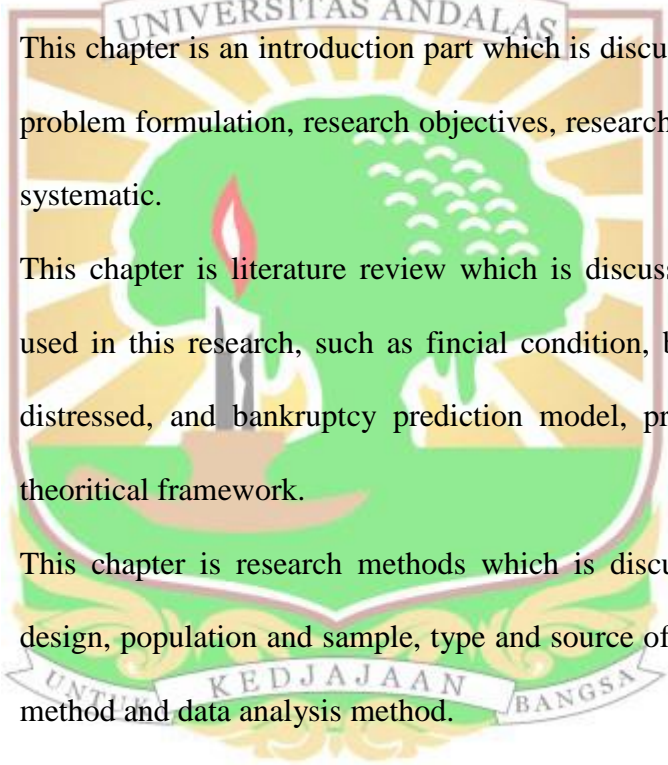
For managers this study about bankruptcy information can be useful to control financial condition and as early warning system in order managers can make decision.

4. For Investor

The information could be a consideration for investor to take any investment decision.

1.5 Writing Systematics

Writing systematics used in this research is :

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- Chapter I This chapter is an introduction part which is discussed the background, problem formulation, research objectives, research benefits and writing systematic.
- Chapter II This chapter is literature review which is discussed about the theory used in this research, such as financial condition, bankruptcy, financial distressed, and bankruptcy prediction model, previous research and theoretical framework.
- Chapter III This chapter is research methods which is discussed about research design, population and sample, type and source of data, data collection method and data analysis method.
- Chapter IV This chapter is data analysis which is discussed about Agricultural sector listed company in 2013 – 2015 financial analysis based on Altman z score model.
- Chapter V This chapter is closing which is provided the conclusion, limitation of research and suggestion.

