ANALYSIS OF INFLUENCE OF BANK SPECIFIC FACTORS ON THE INTRINSIC VALUE A CASE STUDY ON BANKING IN INDONESIA

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Abstract

This study aimed to determine the factors that affect the intrinsic value of banks in Indonesia. The intrinsic value in this study is determined using the discounted method of free cash flow to equity (FCFE). The population in this study were 39 banking companies listed on the Indonesia Stock Exchange during the research period 2015 - 2019. Panel data regression is conducted as a statistical testing tool. The test results in this study indicate that credit risk, profitability, and bank leverage insignificant effect on the intrinsic value of banks in Indonesia. However, cost-efficiency and bank stability negatively affect intrinsic value, while bank size positively affects intrinsic value. This study's findings confirm that banks' intrinsic value is strongly influenced by the managerial ability to perform cost-efficiently and preserve bank stability. The results of this study are valuable for banking practitioners and regulators to identify factors that influence the intrinsic value of banks.

Keywords: Credit Risk, Bank Stability, FCFE, Intrinsic Value, Fixed Effect.

JEL Classification: G32, G21

1. INTRODUCTION

The banking sector has a fundamental role in Indonesia's economic growth. The banking sector has several functions, scilicet as an intermediary institution, payment channel, and monetary policy transmission (Fauzi & Nurmatias, 2022). Banking conditions in Indonesia before the Covid-19 pandemic experienced positive and relatively good growth. Based on data (Otoritas Jasa Keuangan, 2018), the percentage of capital adequacy of commercial banks in Indonesia reached 23.24%. The percentage of this ratio is high enough to allow banks to operate their company and even distribute funds to the public.

The banking sector in Indonesia has a significant influence in supporting financial system stability. If the financial system is unstable and does not function efficiently, then the distribution of funds cannot be carried out properly, and it will interfere with economic growth. Assessment of the banking sector is an effort to see how much the company is growing. This assessment aims to see how much the company's value will be in the future. According to (Christiawan & Tarigan, 2007), there are five types of company value based on the valuation

method: Nominal Value, Market Value, Intrinsic Value, Book Value, and Liquidation Value. The intrinsic value of a business is the present value of all future net cash flows generated from a business (Kamaludin, Susena, & Usman, 2015). Intrinsic value measurement uses an income approach with the discounted free cash flow (DCF) method. In the DCF method, projected cash flows are discounted back to the valuation date, resulting in the asset's present value, SPI 106 - 6.4.

During the process of bank activities in collecting and distributing funds to the public, there are risks from these activities that will arise if not adequately supervised (Octavianus & Fachrudin, 2022). The emergence of these risks will undoubtedly have an impact on the intrinsic value of the bank. Therefore, efforts are needed to minimize these risks by monitoring company performance using financial ratios banks report yearly. In addition to these risks, several other factors can affect the bank's intrinsic value increase. Several studies have been conducted empirically to examine the factors that affect intrinsic value, including research proposed by (Agustina & Candra Bondan, 2017; Ananda, 2016; Junaidi et al.) found that credit risk through nonperforming loans has a negative effect on firm value. The research results (Ananda, 2016; Murwani & Taufiq, 2022; Pitasari & Baehaki, 2017; and Prakarsa et al., 2020) found that CAR positively and significantly affects firm value. The research results by (Halimah & Komariah, 2017; Junaidi et al., 2019; Maryadi & Susilowati, 2020) found that cost efficiency through BOPO negatively and significantly affects firm value. The results of research conducted by (Halimah & Komariah, 2017; Maryadi & Susilowati, 2020; Murwani & Taufiq, 2022; Repi et al., 2016) found that LDR has a negative and significant effect on firm value. The results of research conducted by (Agustina & Candra Bondan, 2017; Chasanah, 2018; Mangesti Rahayu et al., 2020; Prakarsa et al., 2020) found that profitability has a positive and significant effect on firm value. The research results conducted by (Farooq & Masood, 2016; Sutama & Lisa, 2018) found that leverage has a positive and significant effect on firm value. The research results by (Ali & Puah, 2019; Ananda, 2016; Yusra et al., 2019) state that company size positively and significantly affects firm value. The research results by (Ali & Puah, 2019; Ananda 2016) found that company size positively and significantly affects profitability.

This study uses data from 2015 to 2019, when the Indonesian economy was in good condition with positive growth. The occurrence of a non-natural disaster in the form of the Covid-19 pandemic at the end of 2019 in Indonesia caused layoffs, a decrease in the Manufacturing Purchasing Manager Index (PMI), a decrease in imports and exports, an increase in prices (inflation) and losses in the tourism sector which caused a decrease in occupancy (Zulkipli & Muharir, 2021). Social restrictions imposed by the government as one of the policies implemented to reduce the spread of COVID-19 also contributed to the decline in production due to restrictions on raw materials. Another impact is that the decline in investment is also one of the impacts of the Covid-19 pandemic. This situation globally affects the Indonesian economy, causing concern and uncertainty among investors so that investors cannot invest in Indonesia.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 The Influence of Credit Risk on Intrinsic Value

Risk is uncertainty that can lead to unexpected results. Every company activity, both on a large and small scale, will always be accompanied by risk, and banking is no exception. If the risk is managed correctly, it will undoubtedly create opportunities to generate greater profits, and otherwise, if it is not anticipated, it will cause the risk of loss. This ratio compares total non-performing loans with total loans, including substandard, doubtful, and bad loans. Credit risk in this study uses Non-Performing Loans (NPL). NPL reflects the amount of credit risk encountered by the bank.

The smaller the NPL, the smaller the credit risk borne by the bank. The higher the NPL level of a bank, it can affect profitability and impact company value. This study's results align with research conducted by (Agustina & Candra Bondan, 2017; Ananda, 2016; Repi et al., 2016), which states that NPL has a negative and significant effect on firm value.

2.2 The Influence of Cost Efficiency on Intrinsic Value

This ratio is also called the efficiency ratio, which is generally used to measure the ability of bank management to control operating costs against operating income. The smaller this ratio, the more efficient the operating costs incurred by the bank. The lack of efficient management of bank operating costs is reflected in the BOPO ratio, which is greater than 100%, so the size of the BOPO percentage generated by each bank will impact the bank's financial performance.

The lower the BOPO percentage, the more efficiently the bank manages its operating costs, resulting in better performance. This study's results align with research conducted by (Maryadi & Susilowati, 2020), which states that BOPO negatively and significantly affects firm value.

2.3 The Influence of Profitability on Intrinsic Value

Profitability is the company's ability to generate profits representing its performance using its assets effectively and efficiently. The profitability ratio refers to the company's ability to generate returns on invested funds (Widowati et al., 2021). This study uses ROA to see how much profit the company generates yearly.

According to Bank Indonesia Regulation No.13/1/PBI/2011, the best standard for the ROA ratio is more than 1.5%. A positive ROA indicates that the total assets used for operations can provide profits for the company. Conversely, a negative ROA indicates that the company is experiencing losses. This study's results align with research conducted by (Chasanah, 2018; Halimah & Komariah, 2017; Prakarsa et al., 2020; Repi et al., 2016), ROA has a positive and significant effect on firm value.

2.4 The Influence of Size on Intrinsic Value

Size or company size influences the company's ability to take the consequences of various situations that the company will encounter (Andreas et al., 2015). Company size is considered capable of influencing company value, where significant total assets are indicated to be experiencing good development and growth to increase a company's value.

The larger the company shows, the more assets it has to be used for operations and generating profits (Sukesti, E., & E., 2018). This study's results align with research conducted by (Ali & Puah, 2019; Hoang et al., 2020; Yusra et al., 2019) has a positive and significant effect on firm value.

2.5 The Influence of Bank Leverage on Intrinsic Value

Leverage is a funding policy related to the bank's decision to determine its investment funding. Leverage can also be interpreted as an estimate of the risk attached to the bank, where the more significant the leverage, the greater the investment risk. In addition, leverage can also be referred to as a ratio that explains the company's ability to manage its debt. The debt is used for the company's operational activities to obtain profits that can later increase intrinsic value. Using leverage is also expected to increase profitability, which will impact increasing intrinsic value. This study's results align with research conducted by (Farooq & Masood, 2016; Sutama & Lisa, 2018); leverage has a positive and significant effect on firm value.

2.6 The Influence of Bank Stability on Intrinsic Value

Banking institutions drive the country's economy (Hardiyanti, 2014); if the bank can carry out its functions properly, can keep and maintain public trust, can carry out intermediation functions, can help smooth payment traffic and can be used by the government to implement various policies, especially monetary policy, then the bank can be said to be in a healthy condition. In this case, financial ratios will be an indicator in seeing the condition of a bank. However, there are limitations in the ratio analysis carried out due to the testing of each ratio separately. The effect of the combination of several ratios is only based on the judgment of financial analysts. Accordingly, (Dangnga & Haeruddin, 2018), it is necessary to combine several ratios to become a meaningful prediction model through Z-Score to overcome the shortcomings of the ratio analysis. Z-score is an indicator in measuring the potential for indications of bankruptcy. The higher z-score value indicates that the company's performance will be better because it has better prospects in the future. The increase in z-score value will affect profitability and directly impact the company's value. This study's results align with research conducted by (Ananda, 2016) that bank stability has a positive and significant effect on ROA (Ali & Puah, 2019) and bank stability has a positive and significant effect on ROE.

Based on the discussion in the literature review above, the hypotheses of the relationship between credit risk, cost efficiency, profitability, size, bank leverage, and bank stability to intrinsic value can be described as follows,

H1: Credit risk have a negative and significant relationship on intrinsic value.

H2: Cost efficiency have a negative and significant relationship on intrinsic value.

H3: Profitability have a positif a significant relationship on intrinsic value.

H4: Size have a positif and significant relationship on intrinsic value.

H5: Bank leverage have a positif and significant relationship on intrinsic value.

H6: Bank stability have a positif and significant relationship on intrinsic value.

3. DATA AND METHODS

3.1 Data

This study used 26 sample banking companies, with an observation period of 2015-2019. This research uses secondary data from banking companies on the Indonesia Stock Exchange. There are limited assumptions used in this study, including banking sector companies that are not bankrupt and have positive net cash flow during the study period, the growth of banking sector companies that do not constantly change during the evaluation period and are not in conditions of economic uncertainty due to force majeure such as the Covid-19 pandemic. The sample collection method uses purposive sampling with the following sampling criteria (1) is a commercial bank, (2) has complete financial statements for 2015-2019, (3) is not delisted throughout the observation year, (4) has the financial parameters needed in the formation of research variables.

3.2 Definition of Operational and Measurement of Variables

Based on the phenomenon and research gap as described in the introduction and consideration of variable selection and last research literature, the independent variables in this study are credit risk (CR), cost efficiency (CE), profitability (PI), size, bank leverage (LEV), and bank stability (STAB). In comparison, the dependent variable in this study is intrinsic value (IV).

Table 3.1: Definition of operational and measurement of variables

Variable	Operational Definition	Measurement
Intrinsic value (IV)	Net operating cash flow available after the company has met the needs of all obligations (Widjaja, 2020).	$Firm\ Value = \sum_{n=i}^{t} \frac{CFE_n}{(1+ke)^n} + TV_t$ $TV_t = \frac{FCF_t\ (1+g)}{Ke-g}$
Credit risk (CR)	Credit risk uses NPL as a proxy in this study. This ratio is used to measure the bank's ability to cover the risk of failure to return credit by the debtor (Junaidi et al., 2019).	$NPL = \frac{Total\ non-performing\ loans}{Total\ loans} \times 100\%$
Cost efficiency (CE)	The ratio used to measure the ability of bank management to control operating costs against operating income (Maulana et al, 2015).	$BOPO = \frac{Operating\ expense}{Operating\ income} \times 100\%$
Profitability (PI)	The ratio used to measure the ability of bank management to obtain overall profit or profit (Ghenimi et al., 2017).	$ROA = \frac{Net\ profit}{Total\ asset} \times 100\%$
Size	Company size is a scale where the classification of the size of the company is obtained through the natural logarithm of total assets (Octavianus & Fachrudin, 2022).	The natural logarithm of Total Assets
Bank leverage (LEV)	Leverage can be measured by the ratio of debt owned by the company in using its assets (Ullah et al., 2021).	$Bank\ Leverage = \frac{Total\ debt}{Total\ asset}$
Bank stability (STAB)	One of the models used in seeing whether a company is stable or not is using the Z-Score Model (Ali & Puah, 2019).	$Z\text{-}SCORE = \frac{\left(ROA + \frac{Equity}{Total\ Asset}\right)}{SDROA}$

4. RESULTS AND DISCUSSION

4.1 Research Results

Results of Descriptive Statistical Analysis

Descriptive statistical analysis determines the data description of the minimum, maximum, and average values (mean) and standard deviation. Table 4.1 shows that the average intrinsic value generated was 55 trillion during the study period from 2015 to 2019. Meanwhile, cost efficiency has an average of 73%, which indicates that cost management has been carried out efficiently. The average use of leverage during this research period has reached 83%, while the rest is capital.

Table 4.1: Descriptive Statistics

Variable	Observations	Mean	Median	Std. Dev	Minimum	Maximum
IV	128	55343640	6860044	1.08E+08	11627.0	5.26E+08
CR	128	0.028369	0.025900	0.015307	0.000300	0.080000
CE	128	0.736100	0.781210	0.180428	0.171680	1.018690
PI	128	0.014397	0.013405	0.010069	0.000890	0.039650
Size	128	18.09858	18.02667	2.090301	14.49578	22.74740
LEV	128	0.833809	0.841050	0.057419	0.614457	0.932770
STAB	128	67.00167	45.55500	68.74204	2.426650	313.7119

Selection of Panel Data Regression Model

The stages of analysis used to determine the best estimation model in panel data are Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) estimation. The statistical test results obtained in estimating the model are as follows:

Table 4.2 Panel Data Regression Model Selection Result

Variable	CEM		FEM		REM	
	t-Stat	Prob	t-Stat	Prob	t-Stat	Prob
CR	2.415783	0.0172	0.629111	0.5308	1.569602	0.1191
CE	-4.167720	0.0001	-2.922292	0.0043	-3.852159	0.0002
PI	1.882865	0.0621	0.691255	0.4911	1.530547	0.1285
Size	5.131677	0.0000	3.9655126	0.0001	4.926723	0.0000
LEV	3.493999	0.0007	1.204858	0.2312	2.391262	0.0183
STAB	3.493999	0.9895	-2.880455	0.0049	-1.928096	0.0562
R-Squared	0.515077		0.785661		0.403785	

Table 4.2 shows the t-statistic, probability and R-Squared values for each model as a basis for choosing the best model in panel data regression. The estimation results explain that each model has a different significance value for each variable. However, judging from the R-Squared value, the estimation using the fixed effect model has a more dominant ability to explain the dependent variable. However, to find out which model is the best, further testing is done with the Chow test and Hausman test.

Table 4.3: Summary of Chow-test

Effect Test	Statistic	d.f.	Prob.
Cross-section F	4.847664	(25,96)	0.0000
Cross-section Chi-square	104.503257	25	0.0000

The Chow test determines which model is better to use between the Common Effect Model (CEM) and the Fix Effect Model (FEM). Table 4.3 shows that the probability on the Chi-square Cross-section is smaller than alpha (α) (0.0000 <0.05), then H0 is rejected. Then the better regression model to use is the Fixed Effect Model.

Table 4.4: Summary of Hausman-test

Test Summary	Chi-Sq.Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	18.395799	6	0.0053

The Hausman test aims to determine the better model, tar Fixed Effect Model, and Random Effect Model. Table 4.4 shows that the probability value on the random cross-section is smaller than alpha (α) (0.0053 <0.05), then H0 is accepted. Thus, the Fixed Effect Model is the suitable model used in panel data regression.

Statistical Test Results

The results of this statistical test are to see the effect of the independent variable on the dependent variable. This test uses panel data regression analysis to see whether the hypothesis that has been made will be accepted or rejected. The significance level used is 5%. The statistical model is the best and is free from classical assumption deviations. The results of hypothesis testing after model selection are as follows:

Table 4.5: Fixed Effect Model Estimation Results of Credit Risk, Cost Efficiency, Profitability, Size, Bank Leverage, and Bank Stability on Intrinsic Value

Dependent Variable = Intrinsic Value				
Independent Variables	Coefficient	Std. Error	t-Statistic	Prob.
CR	0.631678	0.212449	0.629111	0.5308
CE	0.133654	0.571035	-2.922292	0.0043
PI	-1.668730	0.173209	0.691255	0.4911
Size	5.957094	1.502372	3.965126	0.0001
LEV	2.277684	1.890417	1.204858	0.2312
STAB	-0.477213	0.165673	-2.880455	0.0049

From the results of model testing in Table 4.5, the following regression equation is obtained:
Y = 0.631678 + 0.133654CR - 1.668730CE + 0.119732PI + 5.957094Size + 2.277684LEV - 0.477213STAB

4.2 Discussion of Study Results

Credit risk insignificant effect on intrinsic value

The test results at a significance level of 5% with a prob. value of 0.5308 indicate that credit risk insignificant effect on intrinsic value. The higher the credit risk ratio, it shows the bank's

inability to manage loans given to the public. However, on the other hand, an increase in credit risk indicates an increase in lending as a source of profit creation for banks if it can be appropriately resolved (Maryadi & Susilowati, 2020). According to (Maryadi & Susilowati, 2020) in their research, credit risk occurs due to bad debts caused by failure to repay loans by customers. That can be handled through credit restructuring or the sale of bad debts. Credit restructuring is one of the efforts made by banks to improve credit activities against customers who have difficulty fulfilling their obligations.

Meanwhile, bad debts are sold with an agreement where payments are made in stages. From this description, it is concluded that the increase in NPLs will be handled quickly through restructuring and selling bad loans to minimize possible risks that may occur so that the increase does not significantly affect intrinsic value. This study's results align with research conducted by (Halimah & Komariah, 2017; Maryadi & Susilowati, 2020); (Pitasari & Baehaki, 2017). This research does not align with research conducted by (Agustina & Candra Bondan, 2017; Pitasari & Baehaki, 2017; Repi et al., 2016).

Cost efficiency has a negative and significant effect on intrinsic value

The test results were at a significance level of 5% with a prob value. 0.0043 shows that cost efficiency negatively and significantly affects intrinsic value. In this study, an increase in the cost-efficiency ratio will be accompanied by a decrease in intrinsic value, which is influenced by the costs incurred for operational activities.

The greater the costs incurred indicates that managing costs needs to be carried out efficiently so profits cannot be generated optimally. When the bank can manage costs very efficiently, the bank's opportunity to generate profits is more excellent. Higher profits will influence intrinsic value. These findings align with research conducted by (Junaidi et al., 2019; Maryadi & Susilowati, 2020) and not with research conducted by (Murwani & Taufiq, 2022).

Profitability insignificant effect on intrinsic value

The test results were at a significance level of 5% with a prob value. 0.4911 shows that profitability insignificant effect on intrinsic value. This ratio is used to see the extent to which the investment that has been invested can provide a return on profits as expected. In this study, increasing profitability will accompany an increase in intrinsic value.

According to information from Bank Indonesia, the provisions for banks are in a healthy state with a score of 100 if ROA> 1.5%. This study has no effect of profitability on intrinsic value because the average percentage of ROA generated during the study period only reached 1.03%. So that the percentage shows that the performance of bank management in managing assets to generate profits has not been carried out optimally, this is in line with research conducted by (Anggitasari & Mutmainah, 2012; Pitasari & Baehaki, 2017; Senol & Karaca, 2019).

The results of this study are not in line with research conducted by (Chasanah, 2018; Halimah & Komariah, 2017; Kurniati, 2019; Mangesti Rahayu et al., 2020; Prakarsa et al., 2020; Repi et al., 2016).

Size has a positive and significant effect on intrinsic value

The test results were at a significance level of 5% with a prob value. 0.0001 shows that size has a positive and significant effect on intrinsic value. The company's size shows the bank's total assets, where the total assets will affect the bank's operational activities.

Large bank size indicates that banks with high growth will find it easier to attract investors through the capital market. Through the capital market, banks get better prospects to increase intrinsic value. In addition, the size of the bank also tends to influence management decisions regarding the determination of the allocation of funds that will be used to maximize profits which will affect the intrinsic value.

The increase in the size ratio will align with the increase in the bank's intrinsic value. This study's results align with research conducted by (Ali & Puah, 2019; Ananda, 2016; Yusra et al., 2019). This research does not align with research conducted by (Sumarau et al., 2015; Senol & Karaca, 2017; Hoang et al., 2020; Hidayah & Asrin, 2021).

Bank leverage insignificant effect on intrinsic value

The test results at a significance level of 5% with a prob value. 0.2312 shows that bank leverage insignificant effect on intrinsic value. The test results conducted on banking sector data from 2015 to 2019 show that an increase or decrease in leverage does not affect intrinsic value. This is because debt from third parties (the public) does not fully accommodate the bank's operational activities.

However, there are internal funding factors such as paid-up capital and retained earnings or non-interest income at the bank. So that in this study, changes in leverage have no significant effect on intrinsic value. The results of this study are in line with research conducted by (Lamba & Atahau, 2022) and not in line with research conducted by (Farooq & Masood, 2016; Senol & Karaca, 2017).

Bank stability has a negative and significant effect on intrinsic value

The test results at a significance level of 5% with a prob. value of 0.0049 indicate that bank stability negatively and significantly affects intrinsic value. A reflection of bank stability is measured using Z-Score; any change in the Z-Score value generated by a bank will affect the bank's intrinsic value. The test results in this study indicate that the more stable a bank is, the more it will affect the intrinsic value of the bank. If a bank is stable in its business activities, the percentage increase in growth is relatively the same.

The relatively same percentage growth rate indicates that the company's performance has reached a condition where profit opportunities have been fulfilled, the capital owned is sufficient, and the amount of profit does not fluctuate. According to (Syardiana et al., 2015), company growth will result in a higher rate of return because growth has favourable aspects for investors. In this case, there is an opportunity to improve the company's performance so that it can be maximized has been achieved.

However, on the one hand, investors expect the company to provide a high rate of return coupled with high company growth. In the study of corporate finance (Djaja, 2018), growth is related to the company's interest in increasing company value by conducting investment policies. When investors make investments, the policies taken are not only based on the company's ability to generate current profits but also pay attention to the potential for cash flow in the future, which of course, depends on the expected growth. This study's results align with research conducted by (Ali & Puah, 2019; Ananda 2016) and not with research conducted by (Dahniar & Masditok 2022).

5. CONCLUSION AND SUGGESTIONS

Based on the results of research and discussion, the conclusions in this study are as follows: credit risk, profitability, and bank leverage insignificant effects on intrinsic value, cost efficiency and bank stability have a negative and significant effect on intrinsic value, and size has a positive and significant effect on intrinsic value.

Changes in the credit risk ratio in this study do not significantly affect intrinsic value, which indicates that lending provided by banks still needs to be pursued optimally. Of course, this is a concern for banks, considering that lending activities are one of the sources of income for banks.

The cost-efficiency ratio in this study has a significant effect on intrinsic value. These results indicate that the company's performance has been carried out optimally in cost efficiency. Therefore, this must be maintained and improved in the future so that banks can generate profits as expected. The results of this study indicate that during the study period from 2015 to 2019, the achievement of the rate of return on profits as measured by profitability has not yet achieved optimal results.

Therefore, it needs to be a concern for banks in the future to improve company performance so that the ROA percentage can be optimally greater than 1.5% (based on Bank Indonesia ROA standards). Of all the independent variables observed in this study, size shows an influential level of significance to intrinsic value with a Prob value of 0.0001. Public and investor assessments of company size greatly influence the investment decisions that will be made. Although size is not part of the financial ratios, the size must still be considered so that the bank still has a good assessment in the future. Bank leverage in this study has no significant effect on intrinsic value.

The results of this study indicate that banks need to manage leverage more optimally. With leverage, banks are expected to create profits through various services offered by banks so that the use of leverage can provide benefits for banks and affect the increase in intrinsic value. The more stable a bank is, it will significantly affect the intrinsic value. This condition can be caused by the perception of the public or investors who pay more attention to the expected high-profit growth. Therefore, banks are expected to show maximum performance to get the desired profit level in the future.

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