Challenges in Distressed Asset Valuation: How Capital Structure Dynamics Shape Firm Value

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Abstract

The transportation and logistics sector in Indonesia faces intense capital requirements and vulnerability to economic shocks, making the valuation of distressed assets particularly challenging. This study investigates how capital structure dynamics and financial distress shape firm value within this volatile sector. Using panel data from 18 transportation and logistics companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024, yielding 90 observations, the study employs multiple linear regression (OLS) to analyze the impact of Debt-to-Equity Ratio (DER), Financial Distress (FD), and Firm Size (SIZE) on Price-to-Book Value (PBV). The findings reveal a highly significant positive relationship between leverage (DER) and firm value ($\beta = 0.4697$, $p < 0.001$), indicating that investors perceive debt as a growth-financing tool rather than an immediate bankruptcy risk, aligning with the Trade-Off Theory's tax shield benefits. Counterintuitively, the financial distress metric does not significantly discount firm value ($p = 0.978$), suggesting that the market may rely on implicit state support or broader macroeconomic recovery expectations. Furthermore, firm size negatively impacts firm value ($\beta = -0.2949$, $p = 0.032$), highlighting potential inefficiencies or agency costs in larger, mature logistics firms compared to their agile counterparts. These results provide critical insights for investors and policymakers navigating distressed asset valuations in emerging markets.

Keywords

Capital Structure, Firm Value, Financial Distress, Distressed Assets, Transportation.