Turkish Online Journal of Qualitative Inquiry (TOJQI)
Volume 11, Issue 04, October 2020: 943-948

Research Article

Major Characteristics of Bonds and Implement in National Company in Indonesia

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Abstract

The purpose of this paper is to explain the characteristics of the bonds themselves and their application to companies in Indonesia. This study uses secondary data, namely data that contains several characteristics of bonds and their implementation in national companies in Indonesia. This research is generally carried out to take a generalization from observations that are not in-depth. In the world of portfolio investment, momentum alerts strangers. In short, it is a proof of debt securities. However, to distinguish it from short- or medium-lived debt securities, namely debt securities with maturities of under five years, bonds generally have a long term or maturity period, which is a minimum of five years. When viewed from the issuer, the types of bonds can be distinguished between corporate bonds and state bonds. Corporate bonds are bonds issued by companies or the private sector, while state bonds are bonds issued by the government. When viewed from the interest rate given, it can be distinguished between fixed rate bonds, floating rate bonds, and zero coupon bonds.

Keywords: characteristics of bonds, the application of bonds in companies in Indonesia.

1. Introduction

In carrying out its activities the company requires funds or capital which is usually obtained through the money market or capital market. According to the Indonesia Stock Exchange, basically the capital market is a market for various long-term financial instruments that can be traded, both debt securities, shares, derivative instruments and other instruments (Astawinetu et al., 2020). Investments are classified into two types, namely investments in ownership certificates (shares) and investments in debt securities (bonds). One of the instruments traded in the capital market is bonds. The bond market in its development has an important role as an alternative source of long-term financing

Bonds according to the Indonesia Stock Exchange are transferable medium-long term debt securities, containing a promise from the issuing party to pay interest in the form of interest for a certain period and repay the principal at a predetermined time to the buyer. Bonds are long-term debt contracts in which the borrower agrees to pay interest and principal to bondholders at a certain time (Erwindyah et al, 2020). Bonds are an attractive choice of financial instruments, because bonds provide benefits through interest rates (coupons), besides that the risk on bonds is relatively smaller compared to stocks which are relatively large and uncertain, this is because bonds are included in the fixed income investment group (fixed income). income securities), because the profits provided by investors are based on predetermined interest rates and according to certain calculations.

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The issuance of these bonds has several advantages and disadvantages. Some of the advantages with the issuance of bonds, namely, interest costs can be used to reduce profit before tax and the wheels of the company's economy cannot be regulated by bondholders (bondholders). Meanwhile, the disadvantage is that, with the existence of bonds, the company has a fixed burden per year from the coupon interest rate (Dina et al, 2020).

2. Literature Review

Bonds according to Dina, et al (2020) are long-term debt securities or a statement on the emergence of debt for the ability to pay the principal debt and the coupon interest rate, which has been determined the nominal and the time of payment. Bonds are issued by the borrower of funds, which is then handed over to the lender of the funds.

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According to Erwindyah & Sri (2020), bonds are long-term debt contracts in which the borrower agrees to pay interest and principal to bondholders at a certain time. Bonds are financial instruments that use an interest-based basis, so that investment returns from bonds are based on interest. If a bond is issued without interest, then there is a discount for the selling price in the primary market.

According to Made (2020), bonds are long-term (more than one year) promissory notes issued by a company or by the government. Bonds are proof that the company has long-term debt to the public. Bonds can also be defined as long-term debt instruments in which the borrower agrees to make payments of interest and principal on a certain date to the bondholders.

Based on this definition, bonds have a nominal value, a certain interest rate, and a validity period of a certain period of time. The party who buys the bonds is called the bondholder and is the company that gives the loan or the creditor or bondholder. Investors who buy bonds have the main goal of obtaining a return or yield that is expected to be received in the future. In this case, in addition to receiving regular coupons, at the time of redemption of the bonds by the bond issuer, the bondholders will also receive back the principal of the bonds.

3. Methods

This study uses secondary data, namely data that contains several characteristics of bonds and their implementation in national companies in Indonesia. This research is generally carried out to take a generalization from observations that are not in-depth. The research data used are documented data originating from the Indonesia Stock Exchange or the Indonesia Bond Market Directory, annual reports and bond ratings issued by PT Pemeringkat Efek Indonesia (PEFINDO). The data collection technique used in this research is the data collection technique with the documentary technique. Documentary data collection technique is a technique used to trace historical data. So that the data collection used in this study is by taking data that is already available and has been processed by other parties or known as secondary data.

4. Result and Discussion

4.1 Result

According to the conventions in force in Indonesia, debt securities with a tenor of more than 5 (five) years are called bonds, although some debt securities with a tenor of 3 (three) years issued by finance companies are marketed and recorded as bonds. Most bonds in Indonesia have a tenor of 5 (five) years and the longest is 30 (thirty) years. Bonds are an attractive alternative to financing through debt for companies or the government because in general bonds have long maturities and are relatively inexpensive because they are debts that are directly to the public (capital suppliers). Newly issued bonds usually sell for the same or close to face value. This is because the bond interest given is almost the same as the prevailing market interest rate.

Bonds are issued by companies that need funds, either for business expansion or to meet the company's financial needs in the short or long term. Bonds are basically debt securities offered to the public. If an investor is interested, he can buy through an underwriter or selling agent through sales in the primary market, or through a dealer broker if purchased through the secondary market. By purchasing the bonds, the buyer will receive a return on the interest rate income (coupon) previously offered as written in the bond prospectus.

Bond Characteristics

According to Hannyva (2020) some of the characteristics of bonds that are commonly heard are as follows:

1. Claims Against Company Assets and Income

Bonds also have a claim to future income on common stock and preferred stock. In general, if bond interest is not paid, the bond supervisory agency can classify the company as a company that is unable to pay its debts and is forced to go bankrupt. As such, bondholders' claims to earnings are more likely to be repaid than common stock and preferred stock for which dividends are paid is up to the management of the company.

2. Face Value

The face value of a bond is the value stated on the bond that will be returned to the bondholder at maturity.

3. Coupon Interest

The coupon interest rate on bonds shows the percentage of interest on the face value of the bonds that will be paid annually.

4. Deadline (Maturity)

The maturity of the bond indicates the length of time until the issuer of the bond returns the value of the bond to the bondholder and the bond expires or is redeemed.

5. Indenture

An indenture is a legal agreement between a bond issuing company and a bond trust representing the bondholders. The agreement letter provides specific terms on the loan agreement, which includes a description of the bond, the rights of the bondholder, the rights of the bond issuing company, and the responsibilities of the trustee.

6. Current Income Level

Bond's current income rate refers to the profit earned by the party who buys the bond from the interest that has been set against the bond's price in the market.

7. Bond Rating Bond rating includes an assessment of the potential future risk of a bond.

Types of Bonds

According to Made (2020) based on the coupons given, the types of bonds can be classified as follows:

a. Zero coupon bonds, namely bonds that do not pay interest, but sell at a large discount from their face value and compensate investors in the form of price appreciation.

b. Non-zero coupon bonds or coupon-paying bonds, namely bonds that provide a certain number of coupons that are paid regularly at a certain time. In this case, bond coupons can be issued annually (annual coupon bonds) or semiannually (semiannual coupon bonds).

Based on the type of issuer in general, bonds can be divided into two, namely government bonds and corporate bonds. Government bonds themselves are divided into two, namely the central government bonds (Treasury Bonds) and local government bonds (Municipal Bonds). On the other hand, based on their structure, bonds can be divided into:

- Fixed Rate Bonds (Straight Bonds)

This type of bond has an interest coupon with a fixed amount that is paid periodically to investors throughout the term of the bond.

- Floating Bonds (Floating Rate Notes)

A floating rate note (FRN) has a coupon whose interest rate calculation refers to a money market index such as LIBOR or Euribor. These floating rate notes are popularly used when inflation and future interest rates are difficult to predict. These bonds are usually sold close to par because of the automatic adjustment according to market conditions.

- Zero Coupon Bonds

Zero Coupon Bonds are bonds that do not pay interest. These bonds are traded at a discount of par value. Bondholders receive the full principal of the debt at maturity of the bonds.

- Convertible and Exchangeable Bonds

Bonds that can be exchanged for common stock of the bond issuing company are called convertible bonds. Meanwhile, exchangeable bonds can be exchanged for ordinary shares of other companies.

Bond Risk

In investing in bonds, there are risks that can arise, including:

- Credit Risk (Default Risk)

Credit risk is the risk that the issuer will not be able to pay the interest or principal of the debt. This risk measurement tool that is commonly used is the rating of bond issuers. In general, the rating is defined as an opinion on the company's ability to meet its financial obligations by taking into account the relevant risk factors.

- Market Risk

The risk of instrument price volatility and reinvestment risk from coupons received due to movement in interest rates. The measuring tools that are generally used to see price sensitivity to interest rate movements are duration and convexity.

- Liquidity Risk

Liquidity risk is the risk that the instrument holder will find it difficult to sell bonds at a fair price when forced to sell them.

- Foreign Exchange

Risk Forex risk is the risk that arises due to the movement of currency exchange rates when investing in a bond that has a different currency.

- Political (Country) Risk

Political risk can arise from government actions, such as regulatory changes, scheduling, and debt restructuring.

4.2. Discussion

Bonds are letters of proof of debt issued by the company to the holder in exchange for a certain amount of interest. Companies that issue bonds are usually caused by the need for large amounts of funds that cannot be met from accumulated retained earnings or bank debt. Bonds have a maturity period of more than one year (usually between 5 to 20 years), therefore, if the company issues bonds, it will cause bond debt. This debt is classified as long-term debt. (Kieso et al., 2019) According to Zhu (2021) stated that the important objectives behind the company in issuing bonds include the amount of funds needed to be more flexible in value in accordance with the market's ability to absorb the needs of the bonds, as well as the ability of the underwriters. in providing commitments in the amount of bond issuance. Bonds payable will be paid at a predetermined time. For these loans, investors are rewarded in the form of interest as one of the instruments known in the capital market. As one of the capital market instruments, bond issuance is more profitable than bank loans, because the interest expense borne by the issuer is smaller and can be paid regularly, but this bond instrument will be detrimental if investors do not understand and do not pay attention to information about the bonds they invest.

According to Jian et al (2021), the issuance of bonds has benefits or advantages, including being able to obtain larger funding and received at the same time or all at once (not in stages or through terms), the cost of issuing bonds is cheaper compared to the issuance of new shares, the process of issuing bonds is cheaper. issuance of bonds is cheaper and faster than the issuance of new shares and is able to increase productivity and professionalism of company management, due to the demand to provide accountable information disclosure. In addition to having benefits or advantages, bonds also have weaknesses and will be a risk in bonds that will be borne by investors (bond buyers) themselves. According to Lestari (2019), the following are some of the weaknesses of bonds, including the possibility of default (default) because the company has problems related to the ability to pay its obligations or liquidity. or the issuer of the bond (issuer) goes bankrupt, the company will not be able to keep its promise.

5. Conclusion

1. The factors that affect the market price of corporate bonds in Indonesia are:
   a) Rating variable is an internal variable for corporate bonds in Indonesia which statistically affects bond market price movements. Meanwhile, for other internal variables, namely the time period, it is not statistically proven to affect market price movements. The variable period of bond movement does not have a significant impact on bond market prices, this shows that investors do not consider the period of time, especially for bonds that have an average remaining term of 2.72 years.
   b) Macroeconomic variables in the form of inflation rate and rate of return in the capital market directly affect the movement of bond market prices. Macroeconomic variables in the form of interest rates, growth rates, and returns from the movement of the Rupiah exchange rate against the US Dollar do not have a direct effect on bond market prices, but these three variables become triggers for 2 other variables, namely the inflation rate and the rate of return in the capital market.
2. The effect of changes in each factor as referred to in point 1. is as follows:
   a) The better the rating of a corporate bond, the higher the market price of the bond will be by 0.5283 for every 1 level increase in rating.

b) The higher the inflation rate, the lower the market price of corporate bonds by 0.155719 for every 1% increase in inflation on average in 1 year.
c) The higher return in the capital market can have a positive impact on increasing the market price of corporate bonds by 0.857736 for each increase in return on the capital market by an average of 1% in 1 year.
d) The ability of the model to explain the market price of bonds is 56.65% while the remaining 43.35% is explained by other variables.

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