

ABSTRACT

The property and real estate sector in Indonesia faces significant liquidity challenges, particularly in maintaining financial health stability throughout the observation period from 2020 – 2024. This study aims to empirically analyze the influence of free cash flow (FCF) and working capital management (WCM) that proxied by the cash conversion cycle (CCC), on financial distress conditions measured by the Altman Z-Score model. The phenomena of liquidity imbalance and defaults on financial obligations across several issuers in the property and real estate sector, such as PT Cowell Development Tbk (COWL), PT Agung Podomoro Land Tbk (APLN), and PT Alam Sutera Realty Tbk (ASRI), serve as the primary background for this research to demonstrate the urgency of the effectiveness of internal cash flow availability and the efficiency of working capital management.

The object of this research includes all property and real estate sub-sector companies that listed on the Indonesia Stock Exchange (IDX). Based on the purposive sampling technique, a total sample of 39 companies was obtained with an accumulation of 195 panel data observations. The analytical method applied in this study is panel data regression analysis, utilizing the Random Effect Model (REM) as the best-selected specification. To minimize model specification bias and improve estimation accuracy, this study integrates six fundamental financial control variables, consisting of Cash Holding, Leverage, Profitability, Firm Size, Firm Age, and Quick Ratio.

The partial regression results prove that Free Cash Flow has a highly significant negative effect on financial distress, indicating that abundant internal liquidity capacity acts as an effective protective instrument (buffer) in mitigating or reducing the risk of financial distress, in line with the premises of Pecking Order Theory. Conversely, Working Capital Management measured by the cash conversion cycle (CCC) is proven to have a highly significant positive effect on the financial distress, confirming that a longer or prolonged cash conversion cycle increases the emiten's vulnerability to bankruptcy threats due to the stagnation of daily operational funds. Simultaneously, the combination of the primary independent variables along with the six financial control variables exhibits a superior capacity, explaining 61.09% of the variance in the emiten's financial distress, while the remaining proportion of 38.91% is explained by other fundamental or macroeconomic factors outside the research model.

Keywords: free cash flow, working capital management, cash conversion cycle, financial distress, altman z-score.