Impact of Liquidity, Profitability, and Debt Policy Against The Value Of The Company

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Abstract..The value of the company is an indicator that reflects the level of interest and the investor's assessment of the company's shares or a description of the level of welfare that investors will get when investing in the shares of a company that can be seen through the stock price. The company's stock price is influenced by the company's financial performance which can be described by liquidity, profitability and debt policy. One of the main goals of investors in investing is to earn profits in the form of dividends, where each company has a different dividend distribution policy. The purpose of this research is to analyze the effect of liquidity, profitability, and debt policy on firm value of LQ45 index companies listed on the Indonesia Stock Exchange.

Keywords:Liquidity, Profitability, Debt Policy, Firm Value

1 Introduction

In the second quarter of 2021, there were several LQ45 issuer stocks originating from the banking sector and the construction support sector which began to recover and experienced rapid profit growth. In the first position there is PT. Indocement Tunggal Prakasa Tbk (INTP) with a 238% increase in net profit from last year and a PBV valuation of 1.62 times. In the second position is PT. Bank Mandiri Tbk (BMRI) with an increase in net profit of 177% from last year and a PBV valuation of 1.44 times. Then followed by PT Bank Central Asia Tbk (BBCA) with a net profit growth of 31% and a PBV valuation of 4.03 times. The company in the last position is PT United Tractors Tbk (UNTR) with a net profit growth of 18% from the second quarter of last year and a PBV valuation of 1.09 times.[79].

This phenomenon has encouraged companies to improve their financial performance as much as possible and achieve their main goal of establishing a business. The main purpose of establishing a company is to generate profits and prosper investors[98]. Investor prosperity can be achieved by the company by having a high company value in the market[99] .

The value of the company is an indicator that reflects the interest and assessment of investors in the company's shares[126]. The level of investor interest in a company's shares can be known by looking at the company's stock price on the stock exchange[94] . The stock price on the stock exchange is an illustration of the value of the investment destination company, a high stock price indicates a high company value, so that the company's ability to prosper its investors will be more promising.[22]. In line with the increasing interest and growth of investors in the capital market, company value is one of the important information that investors need to understand as an investment decision-making tool and to predict future business prospects.

Increasing the value of the company can be achieved through the delivery of information to investors about the company's success in its financial performance by publishing financial statements. Published financial statements will later need to be analyzed by investors using financial ratios to find out the extent of the company's financial success by evaluating the company's performance within a certain period of time or making comparisons with competing companies that are still in the same industry sector. To measure the company's success on its financial performance, investors generally make an assessment using the liquidity ratio, profitability ratio, debt or solvency ratio and dividend policy.(Octaviarni et al., 2019).

A high liquidity ratio will create confidence in investors that the company's financial performance is good because it has a large number of current assets and is able to distribute dividends as a return on investment. This will make the stock look more attractive in the eyes of investors so that it can make the stock price increase which indicates that the value of the company is increasing[117]. However, a liquidity ratio that is too high can result in a decrease in the value of the company, this is because there is an assumption that there are maintenance and storage costs on productive assets that are not utilized properly by the company.[95]. Based on the results of previous research, it was found that there were differences in the results behind this research, where Chasanah & Adhi (2017)[18]found that liquidity does not have a significant effect on firm value, but the results of research from Mery et al.(2017) [61]refutes this which explains that liquidity has a significant effect on firm value.

In addition to having a high liquidity ratio value, the company must also have the ability to generate good net income in order to prosper its shareholders and make its shares look more attractive in the eyes of investors.

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A high profitability ratio value will give confidence to investors that the company has good prospects in the future, this will create positive sentiment in the market so that the demand for shares will increase which will cause stock prices to increase. The increase in stock prices indicates an increase in the value of the company.

For long-term investors, the role of profitability ratios as a material consideration in making investment decisions is very important, because the profitability ratios can provide an overview to investors regarding profits in the form of dividends that can be obtained by investors. Where the company's potential to prosper its investors through the distribution of dividends will be in line with the amount of profit that can be obtained by the company[96]. The results of research conducted by Hertina et al. (2019)[36]explained that profitability has a positive and significant effect on firm value because the high profitability ratio describes the company's promising performance and prospects in the future so that it will have an impact on increasing stock prices which illustrates an increase in firm value. But Thaharah & Asyik (2016[123] suggests otherwise that profitability does not have a significant effect on firm value.

The ratio that is no less important is the attention of investors and has an impact in supporting the increase in company value, in addition to liquidity and profitability is the debt policy. Debt is included in the company's external capital source, so the company is required to be able to manage it effectively and efficiently so that the amount of profit earned is greater than the principal cost of debt and the debt interest expense that must be paid.[69].

The value of the debt policy ratio represents the existing capital structure in a company. A low debt policy ratio value indicates a low percentage of the company's capital structure originating from debt. This will minimize the risk of default and show better company performance in the eyes of investors because of the assumption that the company is able to pay off its debts to creditors and can prosper investors through dividend payments. However, this theory was refuted by Setiawati & Lim (2018)[103] which states that an increase in interest expense on debt will reduce net income so that the company has to pay less tax. So it can be concluded that the greater the amount of debt can increase the value of the company. Based on the results of research conducted by Yanti & Abundanti(2019)[134]stated that there is a positive and significant effect of the ratio of debt policy on firm value. Meanwhile, according to the research findings of Nurminda et al.(2017)[54] explained that there is no significant effect of the ratio of debt policy on firm value.

2 Research Methodology

This research is included in associative research which aims to examine the causal relationship, namely the magnitude of the influence and cause and effect of the dependent variable which is influenced by the independent variable on the object of research [34]. The approach used in this study is a quantitative approach related to numbers as research data and the analytical techniques used are statistical. The purpose of using a quantitative approach is to test the theories and hypotheses that have been described previously[49].

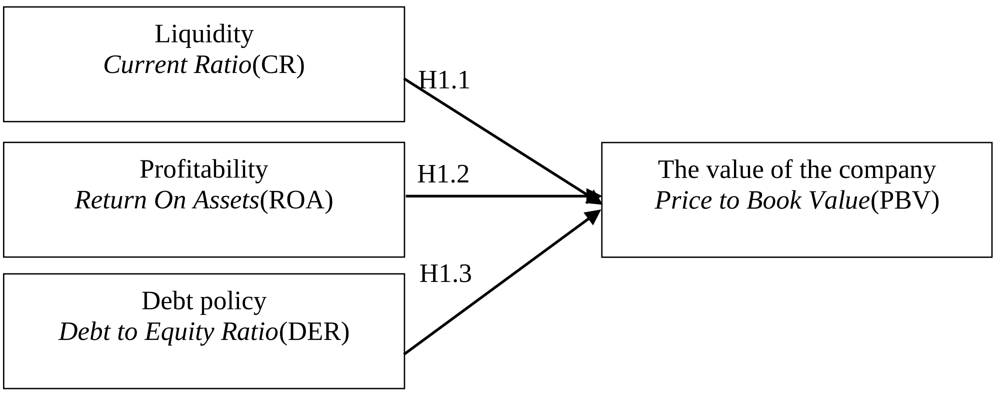

Figure 2.1 conceptual framework

Based on the conceptual framework of the problems above, the hypothesis put forward by the researcher is as follows:

H1.1 :Liquidity has a significant positive effect on firm value.

H1.2 :Profitability has a significant positive effect on firm value.

H1.3 :Debt Policy has a significant positive effect on the value of

company.

In this study, the program used by researchers to analyze the data so that the results and conclusions are obtained is the SPSS (Statistical Product and Service Solutions) software version 22. The data analysis used in this study is multiple linear regression and the MRA (Moderated Regression Analysis) test which aims to to determine the effect of liquidity, profitability, debt policy on firm value with dividend policy as a moderating variable on LQ45 Index companies on the Indonesia Stock Exchange for the 2018-2020 period.

3 Results And Discussion

Based on the sample selection qualifications that have been determined in this study, 14 companies were determined as samples with a research period of 3 years, namely 2018-2020. The companies selected as samples are companies that are consistently included in the LQ45 index during the study period and meet the completeness of the financial ratio data according to the research objectives. The LQ45 index companies selected as samples in this study are as follows:

Table 3.1 Sample List

No.	Stock code	Company name
1.	ADRO	Adaro Energy Tbk.
2.	AKRA	AKR Corporindo Tbk.
3.	ANTM	Aneka Tambang Tbk.
4.	ASII	Astra International Tbk.
5.	HMSP	HM Sampoerna Tbk.
6.	ICBP	Indofood CBP Sukses Makmur Tbk.
7.	INDF	Indofood Sukses Makmur Tbk.
8.	INTP	Indocement Tunggal Prakarsa Tbk.
9.	KLBF	Kalbe Farma Tbk.
10.	PTBA	Bukit Asam Tbk.
11.	SMGR	Semen Indonesia (Persero) Tbk.
12.	TLKM	Telekomunikasi Indonesia (Persero) Tbk.
13.	UNTR	United Tractors Tbk.
14.	UNVR	Unilever Indonesia Tbk.

The independent variable liquidity (X1) in this study is proxied by the Current Ratio (CR) which compares current assets with current liabilities. The results of the study partially show that liquidity has a significant negative effect on the value of the LQ45 index company in 2018-2020, so H1.1 in this study is rejected. These results indicate that if liquidity increases, the value of the company will decrease. This is because liquidity that is too high can give the assumption that there are maintenance and storage costs on productive assets that are not utilized properly by the company so that it will result in a decrease in company value[95]. According to Kombih & Suhardianto (2018)[46] shareholders will have an unfavorable view regarding the excessively high liquidity value of a company because there is a high possibility of unemployment of current assets that should be utilized by the company for investment. Unemployment of current assets shows that the company is not able to manage the available current funds optimally to maximize the prosperity of shareholders which will have an impact on increasing the value of the company.

The results of this study are in line with the theory and are in line with research conducted by Aji & Atun(2019)[1], Permana & Rahyuda(2019)[71], Andriani & Rudianto(2019)[7], Akbar & Fahmi(2020)[3] and Andy & Jonnardi(2020)[8]which states that liquidity, namely the Current Ratio, has a negative and significant effect on firm value. Where the current ratio value is too high, it also does not guarantee that the company can pay its debts on time due to the low level of inventory turnover due to the high buildup of inventory compared to the number of sales in the future, resulting in over investment or a high balance of receivables which may be difficult to collect[101].

The profitability variable (X2) in this study is calculated using Return On Assets (ROA) which is a comparison between profit after tax and total assets owned by the company so that it can describe the level of management efficiency in managing company assets. The results of the study partially show that profitability has a significant positive effect on the value of the LQ45 index company in 2018-2020, so H1.2 in this study is accepted. These results indicate that the higher the profitability of a company, the higher the value of the company in the market. According to Ramdhonah et al.(2019)[89] the high profitability of the company which is illustrated by the return on assets indicates that in its operational activities the company is able to manage the available resources effectively and efficiently to generate profits and prosper investors by providing maximum investment returns. The better the company's ability to generate profits, the more promising the company's prospects in the future, this will give a positive signal to investors so that the demand for shares increases which causes the stock price to rise and the value of the company to increase[74].

The results of this study are consistent with research conducted by Utomo(2016)[129], Hernomo(2017)[35], Indriyani (2017)[42], Awulle et al.(2018)[14], Prapanca (2019)[73] and Dewi & Abundanti(2019)[22]which states that profitability as proxied by Return On Assets (ROA) has a positive and significant effect on firm value. A high ROA value indicates the company's success in generating profits from its operational activities which then has an impact on higher expectations of returns and investor confidence in the company so that high company value can be achieved[120].

The debt policy variable (X3) in this study is calculated using the Debt to Equity Ratio (DER) which is a comparison of the amount of debt with the amount of equity so that it can provide an overview of the capital structure or debt policy applied by the company. The results of the study partially show that debt policy has no effect on the value of the LQ45 index company in 2018-2020, so H1.3 in this study is rejected. These results suggest that the percentage of the size of the use of debt as part of the capital structure in the company which is calculated using the DER has no effect on the value of the company. Where both the use of debt and equity have their respective advantages and disadvantages besides the costs of using debt and equity are almost commensurate. The use of debt as a source of external funding will provide benefits when economic and business conditions are supportive so that the benefits of the debt will be greater than the interest expense that the company has to pay. This also applies to equity, where the use of equity is considered more profitable if the level of expectation of investment returns by investors is not too high[10]. According to Ratna & Amanah(2016)investors are not too dependent on the size of the proportion of debt in the company's capital structure, this is because fluctuations in stock prices and company value on the stock exchange are more influenced by how the company's efforts to optimize the available funds effectively and efficiently so that investor prosperity can be achieved.

The results of this study are in line with the research conducted by Languju et al.(2016)[51], Chasanah(2018)[17], Irawan & Kusuma(2019)[43] and Suardana et al.(2020)[114] which suggests that debt policy has no effect on firm value. Modigliani and Miller (MM) in their theory suggest that the ratio of the use of debt is irrelevant in influencing firm value because there is no particular optimal capital structure to maximize firm value and firm value does not depend on debt or equity ratios but on cash flow [105]. Investors in analyzing financial statements will look at various aspects of the company's fundamentals and not only rely on debt ratios. Where a high debt to equity ratio (DER) does not always mean bad if the company can manage the use of its debt optimally and can maximize profits and pay off its obligations. Likewise, a low DER value does not always give a bad signal because the company can have large internal funds to finance its operational activities[64].

4 Conclusion

Based on the results of data analysis and discussions that have been reviewed by the researcher, from this research it can be concluded: Liquidity (X1) which is calculated by the Current Ratio (CR) has a significant negative effect on the value of the LQ45 index company in 2018-2020. The company's liquidity value that is too high gives a bad signal to investors because it indicates the occurrence of unemployment in current assets and shows the company's inability to optimally manage the available current funds to maximize shareholder prosperity.

Profitability (X2) which is calculated by Return On Assets (ROA) has a significant positive effect on the value of the LQ45 index company in 2018-2020. The high profitability of the company will be considered as good news by investors because the company is said to have promising prospects if it has good capabilities in generating profits where it also describes the level of effectiveness of the company's management performance based on returns from investment and sales.

Debt Policy (X3) which is calculated by the Debt to Equity Ratio (DER) has no effect on the value of the LQ45 index company in 2018-2020. The size of the proportion of debt in the company's capital structure is not a benchmark for investors because investors are more concerned with how the company's efforts to optimize available funds effectively and efficiently so that shareholder prosperity can be achieved.

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