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THE INFLUENCE OF LIQUIDITY, LEVERAGE AND PROFITABILITY ON COMPANY VALUE (EMPIRICAL STUDY ON BASIC INDUSTRY AND CHEMICAL COMPANIES LISTED ON INDONESIA STOCK EXCHANGE)

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ABSTRACT

The purpose of this research is to determine the influence of Liquidity, Leverageand Profitability on Company Values. The population used in this study is the basic industry and chemical companies listed on the Indonesia Stock Exchange within 2014-2016 with a total of 25 companies. The research used purposive sampling method. The analysis technique used in this research was descriptive statistics and panel data regression analysis using the econometric views (Eviews) application with an adjusted r-squared value of 9.01% compared to other models. The results show that liquidity has a significant influence on company values, while leverage and profitability don't.

KEYWORDS: ***Liquidity,Leverage, Profitability, Company Value***

INTRODUCTION

The main purpose of the company establishment is to generate maximum profits and these profits will be used to develop the company, thereby improving value and increasing prosperity for its owners or shareholders. The more profit generated, the higher the stock price of a company. The increasing stock price will show an increase in company values.

In the process of increasing company value, there are often differences in objectives between shareholders and company's managers. Such issue is always present in every company. The company managers will usually prioritize personal interests which may result in increased costs that arise from these objectives, while shareholders tend to reduce costs in order to increase the company's profits. If the costs arising from the manager's goals continue to increase, the profits will decrease. This will lead to decreased stock prices and will directly reduce the company value (Jensen (1976) in Permanasari (2010:1).

The fluctuating stock prices is the main highlight because investors must be more careful in making decisions when they sell or buy shares. The fluctuating rupiah exchange rate has also been very influential on investment decisions as the infrastructure development in Indonesia has not been optimal. This is an obstacle for investors to invest their capital. According to www.cnnindonesia.com , share price of several companies on the Indonesia Stock Exchange, particularly in basic industry and chemical sub-sectors, decreased in 2015, one of which was the share price of PT Semen Indonesia Tbk (SMGR) which decreased by 4.33 percent to Rp.14,350 then slumped more in 2016 to Rp.9,175 per share. The decline in net income also occurred in several basic industry and chemical sub-sector, especially in cement companies in 2016.This was caused by an oversupply.

Table 1: Percentage of Cement Company Net Profit Decrease in 2015 to 2016

No	Issuer Name	Net profit		Decline
		2015	2016	
1	PT Semen Indonesia Tbk (SMGR)	Rp.3.54 trillion	Rp.2.92 trillion	8.4%
2	PT Indocement Tungggal Prakarsa Tbk (INTP)	Rp.3.08 trillion	Rp.3.14 trillion	2.2%
3	PT Semen Baturaja Tbk (SMBR)	Rp265 billion	Rp.174.7 billion	3.4%
4	PT Holcim Indonesia Tbk (SMCB)	Rp.372.2 billion	Rp.160 billion	(132%)

(Source: www.cnnindonesia.com December 2, 2016)

Such phenomenon can be an evidence that stock prices are a reference in investor decision-making. The higher the stock price, the better the management of the company. Financial performance can be measured using financial ratio. Liquidity is a measure of a company's performance as indicated by how far the company is able to meet its current debt assets. Profitability, for example, is used to calculate and show the profit generated by a company in a certain period. One type of profitability ratios is the current ratio,that is used to measure the company's ability to pay off its short-term liabilities for current assets owned by the company.According to previous research, Azari (2017) stated that profitability has a positive and significant influence on company's value.

In addition to profitability, leverage or debt to equity ratio can also be used to measure a company's performance in terms of seeing how much the company's debt is compared to the equity held by the company.According to Azari (2017) and Cheng (2011) research, leverage has a significant influence on company value. Whereas according to a study conducted by Novari (2016), leverage does not have a significant influence on company value, while Ernawati's research (2015) suggested that leverage has a negative influence on company's value.

Thus, the phenomenon is the reason behind the author effort to re-examine the "Influence of Liquidity, Leverage and Profitability on the company's value (Empirical Study on Basic Industry and Chemical Sub-Sector in the Indonesia Stock Exchange) .The research problem is formulated on whether liquidity, leverage and profitability affects the company value (Empirical Study on Basic Industry and Chemical Sub-Sector Companies in the Indonesia Stock Exchange).

OBJECTIVES

The purpose of this research is to find empirical evidence that Liquidity , Leverage and Profitability affect the company value (Empirical Study on Basic Industry and Chemical Sub-Sector Companies in the Indonesia Stock Exchange.This research is expected to deepen the knowledge on how the implementation of theories and concepts about liquidity , leverage and profitability influence the value of the company.For companies, the results of this research are expected to be taken into consideration when making an investment decision and maximize the company's value in order to win global competence.

LITERATURE REVIEW

Agency Theory. Management is responsible to manage the company, and this form of accountability can be seen from the company's financial statement. In this case, there is often a difference or conflict of interest in which the manager will prioritize personal interests, for example with a decision to add costs which results in reduced corporate profits. Jensen and Meckling (1976:5) stated: "We define an agency relationship as a contract under which one or more persons (the principal (s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent."

According to Luthans (2011: 91), "Specifically, agency theory is concerned with diverse interests and goals that are held by a corporation's stakeholders (stockholders, managers, employees) and methods by which the enterprise's reward system is used to align these interests and goals." The company's push to provide information is because there is information asymmetry between companies and outsiders since the company knows more about the company and future prospects than outside parties (Eliyani&Utami, 2016; Ross, 1977; Utami&Suharmadi, 1998).

Company Value. According to Ain (2013), company value is the value needed by investors to make investment decisions as reflected in the company's stock price. Creating high company value is one of the purpose of going public in the capital market through optimizing stock prices (Widyanti, 2014).Increasing stock price will also increase the profits generated by the company and will directly hoist the dividend payments to shareholders. Senata (2016) stated investors' assessment of a company is likely linked to stock prices. There are several approaches used to analyze the ratio in market value assessment according to Bringham&Hounston, they are price earnings ratio (PER), price to book value ratio (PBV), market book ratio (MBR), dividend yield ratio, and dividend payout ratio (DPR).While the ratio used in this research is the price to book value ratio (PBV) which resembles how many times an investor is willing to buy shares based on the book value per share.The book value per share is obtained from total assets minus total debt and the result is divided by the number of shares. According to Sartono (2010), the higher the PBV, the higher the stock price compared to the book value per share, while the higher the stock price, the more successful the company creates value for shareholders, thereby increasing benefits to investors.

Liquidity. Kasmir (2010:110) stated that liquidity is the company's ability to fulfill its short-term obligations. Liquidity testing focuses on the amount and influence between current debt and current assets owned by the company.

Leverage. Sartono (2010) stated leverage is the use of assets and sources of funds by companies that have fixed costs in order to increase the potential profits of shareholders. According to Kasmir (2010:112) leverage is described to measure the extent to which a company's assets are financed by debt. Debt to Equity Ratio (DER) is used to determine the amount of funds provided by the creditor with the owner of the company.The higher the DER ratio, the better the company condition. Conversely, the lower the ratio, the higher the funding level for the debtors in case of a loss or depreciation of the assets value.

Profitability. Moniaga (2013 inAzari, 2017) revealed that profitability is the company's ability to generate profits in the future and serves as an indicator of the company's operations success.The Return on Assets (ROA) shows the company's ability to use all assets owned to generate profit after tax.The greater the ROA, the more efficient the use of company assets. In other words, the same amount of assets can produce greater profits, and vice versa (Sudana, 2015: 26).

PREVIOUS RESEARCH

Table 2 Previous Research

Researcher	Research Title	Variables used	Research result
Ni KadekAyuSudiani and Ni PutuAyuDarmayanti (2016)	The Influence of Profitability, Liquidity, Growth and Investment Opportunity Set on Company Values in Consumer Goods Industry Sector Companies Listed on the Indonesia Stock Exchange in 2012-2014	Independent Variables Profitability, Liquidity, Growth and Investment Opportunity Set Dependent Variable Company Value 26 company samples	Profitability and investment opportunity sets have a positive and significant influence on company value, while liquidity and company growth have negative influence but not significant to company value
PutuMikhyNovari and PutuVivi Lestari (2016)	The Influence of Company Size, Leverage , and Profitability on Company Values in Property and Real Estate Companies Listed on IDX in 2012-2014	Independent Variables Company Size, Leverage , and Profitability Dependent Variable Corporate Value 40 company samples	Company size has a positive and significant influence on company value , while leverage does not have a significant influence, and profitability has a positive and significant influence on the value
DewiErnawati (2015)	The Influence of Profitability, Leverage and Company Size on Company Value in Consumable Goods Industry Sector Companies Listed on IDX in 2009-2011	Independent Variables Profitability, Leverage and Company Size Dependent Variable Corporate Value 22 company samples	Profitability has a positive influence on company value, leverage has a negative influence on company value, while company size has a positive influence on the value

FRAMEWORK

Based on the above main theories, we can conclude the following frame of mind:

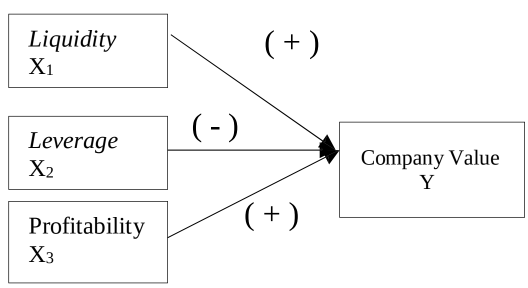

Figure 1 Theoretical Framework

RESEARCH METHODS

This research uses causal research method, which tests the hypothesis about the influence of independent variables on the dependent variable.The research object in the study are Liquidity (X_1), Leverage (X_2), Profitability (X_3), and company value (Y).

Table 3 Variables and Measurement

Variable	Indicator	Measurement	Scale
Company Value (Y)	Financial statements	Price to Book Value (PBV) : Market Price per Share / Book Value per Share	Ratio
Liquidity (X_1)	Financial statement	Current Ratio = Total current asset / Total current debt	Ratio
Leverage (X_2)	Financial statement	DER = Total Debt (Debt) / Total Equity	Ratio

SAMPLES

The population in this research is companies in basic industry and chemical sector of the Indonesia Stock Exchange (IDX) in 2014 to 2016 and have published financial statements for three consecutive years on www.idx.co.id.This research uses secondary data type and is collected using the library research method.

STATISTICAL DESIGN

The data in this research are analyzed using descriptive statistics and time series-cross section combined data panel regressive analysis by using econometric views (Eviews) application. According to Gujarati in Zulkifli (2018): (1). pooled least square is applied in data in the form of a pool. (2). Fixed effect (3). Random effect. The selection of panel data models are as follows: (1). The chow test is conducted to find out whether the model used is pooled least square or fixed effect. If sig value is less than 0.05, the fixed effect model is better and later will be followed by a Hausman test. On the other hand, if the sig value is greater than 0.05, the pooled least square model is better. (2). Hausman test is conducted to find out whether the model used is a fixed effect or random effect. If the sig value is lower than 0.05, the fixed effect model is better. Conversely, if the sig value is greater than 0.05, then the random effect model is better.

RESULTS

The data panel regression method used in this research is based on three models, namely pooled least square, fixed effect, and random effect. The best model in this research to be analyzed further, prior to knowing the results, will undergo a paired tests for each model with the chow and Hausman test.

Table 4 Chow test results

Effect test	Statistics	df	Prob
Cross-section F	5.451825	(24.47)	0.0000
Cross-section Chi-square	99.806853	24	0.0000

Source: data processed by researchers, 2019

Table 4 shows the probability value of F test (0.0000) is lower than 0.05, then the fixed effect model is better than common effect model. Therefore, it is necessary to continue to the Hausman test.

Table 5 Hausman Test

Effect test	Chi-Sq Statistics	Chi-Sq. df	Prob.
Random cross-section	4.176393	3	0.2430

Source: data processed by researchers, 2019

Based on table 5, the probability of random test is 0.2430 or greater than 0.05, then the random effect model is better than the fixed effect model.

Table 6 Random Effect Test Results

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	2.776201	0.502628	5.523372	0.0000
CR	-0.0222833	0.069962	-3.185762	0.0021
DER	-0.473243	0.285875	-1.655419	0.1023
ROA	0.451168	0.904912	0.498577	0.6196

Source: data processed by researchers, 2019

Table 6 shows that the goodness-of-fit test as measured by Adjusted R-squared shows a value of 9.01 percent, which means that changes in both the increase and decrease in company value can be explained by the current ratio, debt to equity ratio, and return on assets .While the remainder with a value of 90.99 percent has been explained by other variables not used in this research model. The simultaneous significance test shows a probability value of 0.021, or lower than 0.05. This means that the current ratio, debt to equity ratio, and return on assets influence the company value, while the independent variables are feasible to be included in this research model.The equation of the pooled least square model is as follows:

PBV = 2.776 C - 0.222 CR - 0.473DER + 0.451 ROA

Ci = the pooled least square constant of company i, i=1......25

The influence of liquidity on company value. According to t variable test, the current ratio shows a regression coefficient of -0.222 which negatively affects the basic industry and chemical sector companies listed on the IDX and significantly influences the company value with a confidence level of 95 percent. Meanwhile, the t-statistics probability value is 0.0021 or smaller than 0.05, which means the alternative hypothesis (Ha) is accepted and the null hypothesis (Ho) is rejected.

The influence of leverage on company value. Based on the t variable test, the debt to equity ratio variable shows a regression coefficient of -0.473 which negatively affects the basic industry and chemical companies listed on the IDX and does not affect the company value with a confidence level of 95 percent. Meanwhile, the t-statistic probability value is 0.1023 or greater than 0.05, which means the alternative hypothesis (Ha) is rejected and the null hypothesis (Ho) is accepted.

The influence of profitability on company value. Based on the t variable test, the return on asset ratio shows a regression coefficient of 0.4511 which positively affects basic industry and chemical companies listed on the IDX and does not affect the company value with a confidence level of 95 percent. Meanwhile, the t-statistic probability value is 0.1023 or greater than 0.05, which means that the alternative hypothesis (Ha) is rejected and the null hypothesis (Ho) is accepted.

CONCLUSION

This research concludes that (a) liquidity negatively and significantly affects the company value.This empirical finding is not in line with the research hypothesis which states that liquidity variable has a positive and significant effect on company value. (b). leverage does not affect the company value.This empirical finding is not in line with the research hypothesis which states that leverage variable has a negative and significant effect on company value. (c). profitability does not affect company value. This empirical finding is not in line with the research hypothesis which states that the profitability has a positive and significant effect on company value

SUGGESTIONS

Further research is recommended to add other internal factors of financial performance because the empirical findings in this research produced an adjusted r-squared value of 9.01 percent, which means that the variables of liquidity, leverage, and profitability can contribute to the company value by 9.01 percent.Further research should also add or use other factors, not only internal factors but also external factors, that affect the company value.It is possible that the remaining 90,99 percent can be explained by other independent variables so that it can contribute to the increase in adjusted r squared, which can produce more comprehensive research.

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