

The Effect of Profitability, Solvency and Liquidity on the Value of Manufacturing Companies in the Food and Beverage Industry Sub-Sector Listed on the Indonesia Stock Exchange

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ABSTRACT

This study examines the influence of profitability, Liquidity, and leverage on the value of manufacturing companies in the food and beverage industry sub-sector listed on the Indonesia Stock Exchange. The observation period in this study is from 2017 to 2022. This study is a quantitative study using purposive sampling; 17 companies are selected as the sample, and the regression used is panel data regression. This research produced four findings: profitability, solvency, and liquidity influence the company's value by 46.85%. There is an influence between profitability and the value of the Company. There is an influence between solvency and the value of the Company. There is no effect of liquidity on company value.

Keywords: Profitability, Solvency, Liquidity, Company Value, Manufacturing Company

How to Cite

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1.0 INTRODUCTION

Maximizing the value of a company is very important, because if the company is able to maximize its value of the company, the company is also expected to achieve the main goal of the company, which is to get maximum profits and to improve the welfare of shareholders, which can be realized by maximizing the value of the company. Thus, the company can continue to compete and can also continue to survive in the global market competition. As time goes by, the competition is felt to be getting tighter (Bambang, 2017).

When a company decides to offer its shares to the public, the company's value is interpreted as an investor's view of it. Investors can use the company's value as a basis to see the company's performance in the coming period, where the company's value is linked to the stock price. Investors will make a profit if the stock price is high. The company's value is important because it reflects the company's performance, which can influence investors' perception of the company. A high company value will increase an investor's confidence in the company (Candra, 2021).

Therefore, there are several ways that can certainly be done to project the company's value, one of which is through Price Book Value. PBV is a comparison between the price per share and the book value of the Company (Candra, 2021). In Indonesia, business competition, especially in the economic field, has progressed so rapidly that we can see from the increasing number of companies every day due to the many companies that have emerged, especially companies in the manufacturing sector that compete with each other to be able to become a company that lasts for a long time and of course, wants to be the best. This forces the company to continue implementing various strategies to avoid bankruptcy, namely by enhancing the company's advantages, as one of the efforts to achieve the company's long-term goals.

Many factors affect a company's value, including Profitability, Solvency and Liquidity. Profitability is a company's ability to generate profits. The ability to earn profits can be measured from all funds owned by the company or from its own capital. Profitability is a factor that should receive close attention because, to continue operating, a company must be profitable. Without profit, it will be very difficult for companies to attract capital from outside. Munawir also stated that Profitability is a ratio that shows the company's ability to generate profits during a certain period. A company's profitability is measured by its success and its ability to use its assets productively. The profitability of a company can be known by comparing the profits obtained in a period with the number of assets or the amount of capital of the company (Maryati, 2018). Empirical research conducted by Linda Safitri Dewi and Nyoman Abundanti (2019) states that profitability has a significant effect on company value.

Meanwhile, solvency is a ratio that shows how the company is able to manage its debts in order to make a profit and is also able to pay off its debts. Based on the theory that the higher the debt-to-total-assets ratio, the higher the company's risk, which will impact its relationship/correlation with the company's value (Silva, 2019). Previous research conducted by Ekayana Sangkasari and Silva Nurhasana (2019) found no significant effect of solvency on Company Value.

Finally, the factor used to assess a company is liquidity. Liquidity is a ratio that describes the company's ability to meet short-term obligations. For example, the ability to pay salaries, pay company operating expenses, pay short-term debts, and other expenses that require immediate payment. Companies whose operations yield optimal profits will experience smoother financing and funding, and vice versa. Thus, in theory, a liquid company means that the company is able to fulfill short-term obligations, which is a signal for investors to invest, which will increase the demand for shares, and thus the company's stock price increases. An increase in stock prices will also increase the value of the company (Linda, 2019).

Based on empirical research that liquidity has a significant influence on company value, the research by the first, Prisilia (2014) and Tui et al. (2017), while the research conducted by Nurhayati (2013), Alfi & Safarzadeh (2016) and Tahu & Sus, Ilo (2017) revealed that liquidity does not have a significant influence on company value. The manufacturing industry plays a key role as a development engine because it has several advantages over other sectors: the value of embedded capital is very large, it has the ability to absorb a large workforce, and it creates added value from every input

or basic material processed (Anis, 2020). A manufacturing company is a business that produces goods by mechanically, chemically, or manually transforming basic materials into semi-finished goods, or into goods of lower value, into goods of higher value and closer to the end user.

Manufacturing Companies are divided into several sectors and also sub-sectors, one of which is the Consumer Goods Industry sector sub-sector of the Food and Beverage Industry, where as an authority in the capital market, the Indonesia Stock Exchange requires companies to go public in order to be listed on the IDX and where the decision to go public is a business decision chosen after taking into account various benefits and consequences. Based on factual evidence showing a difference in the company's value (PBV) as a representation of the company's performance. Also, based on the background of the above research, with the description of the theory and previous statements, it can be used to further analyze the relationship between financial ratios and company value. Therefore, the author is interested in conducting a study that aims to analyze the influence of profitability, solvency, and liquidity on company value in manufacturing companies in the food and beverage industry sub-sector listed on the Indonesia Stock Exchange.

2.0 LITERATURE REVIEW

Signal theory

According to Brigham & Houston (2011), everyone, both investors and managers, has the same information about the prospects of a company. This is referred to as symmetric information. Signalling Theory or signal theory according to Ross states that companies that have better information about companies that have better information about their companies or can be said that companies that are experiencing financial health mean that companies with good news will be encouraged to convey this information to potential investors so that the company's stock price increases, while if the company is experiencing financial distress, it means that the company has bad news that shows negative signals for investors so that it will affect openness.

Agency Theory

In agency theory, which is commonly called agency theory, it is known that the relationship between managers and shareholders is likened to the relationship between agents and principals. The relationship is in the form of giving power by the principal to the agent so that the principal's goals are achieved. The limitations of shareholders in running the company make shareholders use managers to run the company's operations with the intention that the goals of the shareholders can be achieved (Brigham & Houston, 2011).

Company values

Corporate Value is the process that has been passed by a Company for the view rather than the community's trust in a company. A high Company value indicates strong performance and promising future prospects. Company Value is a condition achieved by a Company, reflecting the public's trust in the Company after several years of activities, from the Company's establishment to the present. Company Value is the selling value of a Company as a business that is operating (Utomo, 2019).

Profitability

High profitability will provide an indication of the Company's good prospects, so that it can trigger investors to increase demand for shares. Furthermore, the increased demand for shares will cause the value of the Company to also increase (Hery, 2023).

Solvency

The definition of solvency or leverage ratio is a ratio used to measure the extent to which a company's activities are financed with debt". Solvency is a ratio that shows how the company is able to manage its debt in order to make a profit and is also able to pay off its debt. Another definition of solvency is the company's ability to meet its financial obligations if the company is liquidated, both short-term and long-term (Hery, 2023).

Liquidity

The liquidity ratio shows the relationship between the company's cash and other current assets and its current liabilities. Liquidity ratios are measures of a company's ability to pay its short-term debts. The liquidity ratio in this study is measured by the Current Ratio. The Current Ratio shows the amount of current liabilities that are guaranteed to be paid by current assets. The higher the ratio of current assets to current debt, the smoother the company's liquidity, which will increase the company's value (Hery, 2023)

3.0 METHODOLOGY

This research method is quantitative, based on secondary data from all financial statements of manufacturing companies in the food and beverage industry sub-sector listed on the Indonesia Stock Exchange for the period 2017-2022. The quantitative method uses quantitative analysis, presenting results in numbers that are then explained and interpreted in a description (Basuki, 2017). The data analysis in question aims to develop a hypothesis and address the proposed problem formulation. The data obtained will be processed using quantitative techniques. The data analysis used is panel data analysis. The device used in this study to process and analyze the existing data is the Eviews software. The regression data panel consists of CEM, FEM and REM models, with the selection of models based on the Chow test, Hausman test and multiplier lagrange test. According to Nachrowi (2017), hypothesis tests are useful for testing the significance of the regression coefficients obtained. This means that the regression coefficient obtained statistically is not equal to zero, because if it is equal to zero, it can be said that there is not enough evidence to state that the independent variable has an influence on the dependent variable. For this purpose, all regression coefficients must be tested. There are two types of hypothesis tests on regression coefficients that can be carried out, namely the statistical t test (Partial Test) and the statistical F test (Simultan Test), as well as the Determination Coefficient (R²). The linear analysis of panel data is the analysis of panel data equations, which is a combination of cross-sectional data and time series data, as follows:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + e$$

Information:

Y_{it} = Company Value (PBV)

α = Constant

X_{1it} = Profitability (ROA)

X_{2it} = Solvency (DAR)

X_{3it} = Liquidity (CR)

i = entity- i

t = period- t

e = Error Term

4.0 FINDINGS AND DISCUSSION

Based on the results of the estimation with panel data regression, the results of the analysis are obtained in Table 1:
Table 1 Panel Data Regression

Dependent Variable: PBV				
Method: Panel Least Squares				
Date: 03/09/24 Time: 10:22				
Sample: 2017 2022				
Periods included: 6				
Cross-sections included: 17				
Total panel (balanced) observations: 102				
Period weights (PCSE) standard errors & covariance (d.f. corrected)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.939808	1.162979	3.387686	0.0010
ROA	0.200203	0.065091	3.075749	0.0028
DAR	-3.087737	1.516316	-2.036341	0.0446
CR	0.047716	0.122212	0.390436	0.6971
Effects Specification				
Period fixed (dummy variables)				
R-squared	0.510668	Mean dependent var	5.757681	
Adjusted R-squared	0.468575	S.D. dependent var	10.78133	
S.E. of regression	7.859470	Akaike info criterion	7.045413	
Sum squared resid	5744.728	Schwarz criterion	7.277028	
Log likelihood	-350.3160	Hannan-Quinn criter.	7.139202	
F-statistic	12.13187	Durbin-Watson stat	1.316650	
Prob(F-statistic)	0.000000			

Source: data processed, 2024

The following are the results of the panel data regression equation:

$$PBV = 3.939808 + 0.200203 ROA + -3.087737 DAR + 0.047716 CR + e$$

From the results of the regression equation above, it can be explained that: The Constant Coefficient of 3.939808 means that Y = PBV will be worth 3.939808 if Profitability, Solvency, and Liquidity are considered constant or said to have no change, so that the value of the company will increase by 3.939808 according to the magnitude of the constant. The Profitability Variable (ROA) obtained a regression coefficient of 0.200203, indicating that for every increase in solvency, the company's value will increase by that amount as well. The Solvency Variable (DAR) obtained a regression coefficient of 3.087737. The Liquidity Variable (CR) obtained a regression coefficient value of 0.047716, which states that for every addition/increase in liquidity, the value of the company will increase by 0.047716.

Coefficient of Determination

The Coefficient of Determination, denoted by R-Square, is a very important measure in regression. Because it can provide good or bad information about the estimated regression model. From the results above, it can be seen that the adjusted R-squared value is 0.468575 or 46.85%. Using the adjusted R-squared, with 3 independent variables, only 2 have a significant effect on the company's value. The value of 46.85% can be significantly explained by Profitability (ROA) and Solvency (DAR). The remaining 53.15% is explained by factors and other variables not addressed in this study.

Test F (Simultaneous)

In this F test, it is intended to test the regression coefficient (slope) hypothesis at the same time; in other words, it is used to determine whether the model that has been selected is feasible or not suitable to be interpreted with independent variables to bound variables (Ghozali, 2013). The results of the F Test above show a Prob value (F-Statistic) of 0.000000, which is smaller than the constant 0.05, so H_a is accepted. so that the variables of Profitability (ROA), Solvency (DAR) and Liquidity (CR) simultaneously or together affect the Value of Manufacturing Companies in the Food and Beverage Industry Sub-Sector..

Test t (partial)

This t-test is used to test whether the regression coefficient is individual. The test was carried out on the population regression coefficient, whether it is equal to zero, which means that the independent variable does not have a significant influence on the dependent variable at all, or it is not equal to zero, which means that the independent variable has a significant influence on the dependent variable (Ghozali, 2013).

Effect of Profitability (ROA) on Company Value (PBV)

Based on the results of the parameter test carried out above, the Profitability significance level of 0.0028 is obtained, which is smaller than the significance level of 0.05. Therefore, it is said that, in part, the alternative hypothesis Ha2, which states that "Ha2 Profitability has a positive effect on the value of the company," is accepted because Profitability, as projected by ROA, affects the Value of Manufacturing Companies in the Food and Beverage Industry Sub-Sector.

Effect of Solvency (DAR) on Company Value (PBV)

Based on the results of the parameter test carried out above, the Solvency significance level of 0.0446 is obtained, which is smaller than the significance level of 0.05. Therefore, it is said that, in part, the alternative hypothesis Ha3, which states that "Ha3 Solvency has a positive effect on the value of the company," is accepted because the Solvency projected by DAR affects the Value of Manufacturing Companies in the Food and Beverage Industry Sub-Sector.

Effect of Liquidity (CR) on Company Value (PBV)

Based on the results of the parameter test carried out above, the Liquidity significance level of 0.6971 is obtained, which is greater than the significance level of 0.05. Therefore, it is said that, partially, the alternative hypothesis Ha4, which states that "Ha4 Liquidity has a positive effect on the value of the company," cannot be accepted because liquidity projected with CR does not affect the Value of Manufacturing Companies in the Food and Beverage Industry Sub-Sector.

The Effect of Profitability on Company Value in Manufacturing Companies in the Food and Beverage Industry Sub-Sector Listed on the Indonesia Stock Exchange in 2017-2022

Hypothesis test 1 shows that the variable X1 has a positive and significant effect on the variable Y because the p-value is 0.0028, which is less than 0.05. Thus, the first hypothesis, which states "Profitability has a positive and significant effect on the value of manufacturing companies in the food and beverage industry sub-sector listed on the IDX," can be accepted. If the Return on Assets is higher, the company's value will also be better. Profitability Ratio is a ratio used to measure the effectiveness of overall management, based on the level of profit obtained relative to sales and investment. The higher the profitability ratio, the better it reflects the company's ability to generate high profits. The results of this study show that there is a positive and significant influence of the profitability ratio on the value of the company so that it supports the results of research conducted by Azizah Lutfah in 2018, "The Influence of Profitability, Solvency and Liquidity of Companies (Empirical Study on Property and Real Estate Companies) Listed on the IDX in 2014-2017". The main goal of a company is to increase its value. The company's value will be guaranteed to grow sustainably if the company is able to improve its financial performance. The results of this study indicate that Return On Assets has a positive and significant effect on the Company's Value, so that the higher the Return On Assets, the higher the Company's Value in Manufacturing Companies in the Food and Beverage Industry Sub-Sector listed on the IDX in 2017-2022.

The Effect of Solvency on Company Value in Manufacturing Companies in the Food and Beverage Industry Sub-Sector Listed on the Indonesia Stock Exchange in 2017-2022

The 2nd hypothesis test shows that variable X2 has a positive and significant influence on variable Y because the significance number is 0.0446, which is smaller than 0.05. Thus, the second hypothesis, which reads "Solvency has a positive and significant effect on the value of manufacturing companies in the food and beverage industry sub-sector listed on the IDX," was accepted. Solvency is how a company is able to allocate its funds to meet its short-term obligations. So it can be concluded that if the company is able to pay its short-term debts, it will increase the company's value. This research supports the results of research conducted by Rai Gina Artaningrum, Ketut Rudiarta and Made Geda Wirakusuma in 2018 entitled "The Influence of Profitability, Solvency, Liquidity, Company Size and Management Change on the Audit Report Lag of Banking Companies.

The Effect of Liquidity on Company Value in Manufacturing Companies in the Food and Beverage Industry Sub-Sector Listed on the Indonesia Stock Exchange in 2017-2022

The 3rd hypothesis test shows that variable X3 has a negative and insignificant influence on variable Y because the significance value is 0.6971, which is greater than 0.05. Thus, the third hypothesis, which reads "Liquidity has a positive and significant effect on the value of manufacturing companies in the food and beverage industry sub-sector listed on the IDX," was rejected. This provides information that there is an increase in liquidity, which has the potential to reduce the

company's value. Because when there is a change in liquidity in a company, it will not have much impact on the company. In this study, the liquidity is proxied by the Current Ratio (CR); the Current Ratio itself is a ratio of current assets to current liabilities. A liquid company will be trusted by investors because they believe the company is able to pay off its obligations on time. But on the other hand, we also need to know that these liquid companies usually tend to use internal funds compared to external funds in the form of debt. In addition, companies with high liquidity tend to allocate more funds to meet their short-term obligations so that the dividends distributed to shareholders/investors are smaller. For this reason, the company's liquidity that is not too high can be an opportunity to attract investors because, from the investor's view, if the liquidity is not too high, the dividends distributed will be even larger. The results of this study support those of a 2019 study by Linda Safitri and Nyaman Abundanti, titled "The Influence of Profitability, Liquidity, Institutional Ownership and Managerial Ownership on Company Value".

5.0 CONCLUSION

The influence of Profitability, Solvency, and Liquidity has a significant effect on the Value of Manufacturing Companies in the food and beverage industry sub-sector. Profitability, as measured by Return On Assets, has a significant effect on the Value of Manufacturing Companies in the food and beverage industry sub-sector. The effect of Solvency in terms of Debt to Asset Ratio has a significant effect on the Value of Manufacturing Companies in the food and beverage industry sub-sector. Liquidity, as measured by the current ratio, does not have a significant effect on the Value of Manufacturing Companies in the food and beverage industry sub-sector.

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