**Liquidity Effect, Profitability Leverage to Company Value: A Case Study Indonesia**

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**ABSTRACT:**

**Purpose:** In Engineering Economics is taught that to make an investment an investor must be careful and need to understand the economic condition and performance of the Company where we will conduct investment activities. Economic performance of the current situation The competitiveness of companies in the market becomes a decisive choice. An examination of the ability to pay debts will provide accurate financial statements. The Company's value is one of the indicators evaluate the performance of the company in general. To support and understand investment activities. The research is expected to knowing impact of the profitability, liquidity, leverage variables on Company's value, especially in companies listed in the Jakarta Islamic Index Indonesia (JII) to assist investors in decision making.

**Design / methodology / approach:** The technique used in this analysis is quantitative approach with sample determination technique with purposive sampling technique while to analyze the data used multi-linear regression analysis.

**Finding:** In contrast to the results of researches on companies based on conventional (non Islamic) This research successfully showed that in Islamic Index-based companies only liquidity variables impact the Company Value, while the variables Profitability and Leverage do not affect Company Value.

**Keywords:** Liquidity; Profitability; Leverage; Company value.

**1. INTRODUCTION**

The Company as an economic entity generally have short and long-term goals. The company aims for the short term to obtain a profit to the maximum by using existing resources. As for the way Measure the shareholders’ prosperity are through the value of Company. Increase in value of company high is a long-term objective to be attained by a company that reflected in its stock market price because the company assessment of investors can be
observed by moving the share price of the transacted company on an exchange for public companies. Baronina (2020); Lu et al. 2019; Muharremi 2020; Omarkhanova et al. 2019; Pantoja, Kurfess, and Hummer 2020; Zain and Muhamad Sori 2020) Investors will be more interested in make an investment if they gain a sense of security for their investment because of the instability of the share price makes potential investors hesitate and think again to invest their capital, therefore they be selective in making decisions investments related to the shares to be purchased in the capital market by analyzing the company first because instability of the value of the stock makes potential investors so that the investment in the do it can provide an advantage (Bhatnagar, Vrat, and Shankar 2019; Cekuls 2019; Chelhi et al. 2018; Nagpal, Chandok, and Chhabra 2019; Petrov, Piliposyan, and Tkachev 2019; Singvejsakul, Chaiboonsri, and Sriroonchitta 2018; Stratigaki 2019).

The declining share price will certainly have implications for the returns obtained by investors. Returns are a comparison of the initial cost with the results obtained by the investor. Investment returns will be directly proportional to the risks borne by investors. The higher the expected level of risk that must be borne by investors (Albert et al. 2020; Buchanan et al. 2020; J.-B. Kim and Bae 2020; Koukoulakis et al. 2020; L. Li et al. 2020; Orchard, Hughey, and Schiel 2020; Shao et al. 2020).

The value of the company can essentially be calculated in different ways, the company's stock price is one of those, since the stock price of three firms represents the total value of each investor's share. Gaur et al. (2020; Liu et al. 2020; Nsenga kumwinma et al. 2020; Rapone et al. 2020; Zeydalinejad et al. 2020; Zhou et al. 2020) Several global studies demonstrated a substantial impact on the valuation of the business from various leverage outcomes. (Bawa et al. 2020; Boros et al. 2020; Mousavi, Liu, and Min 2020; Park et al. 2020; Thakur et al. 2020; Zheng et al. 2020). Empirically showed a relationship between liquidity ratio and profitability ratio which had an impact on increasing the company value. While mulyadi and Anwar's research results (Abo et al. 2020; Khalsa et al. 2020; J.-H. Luo et al. 2020; Orban et al. 2020; Shi et al. 2020; Yang et al. 2020) showed that, three measures of profitability in the form of; ROA, ROE, and NPM plus non-financial models, namely Corporate Social Responsibility (CSR) affect the company's value (Tobin's Q) (Abdi, Li, and Câmara-Turull 2020; Aksoy et al. 2020; Chang, Lin, and Ma 2020; Gala, Gomes, and Liu 2020; Garcia-Blandon, Castillo-Merino, and Chams 2020; Osazebaru and Tarurhor 2020; Sehrawat, Singh, and Kumar 2020).

Kartikasary et al. (2020; Nazar et al. 2018) shows a correlation between the effectiveness of the company's added value to profitability ratio (ROA, ROE, CAP) and investor capital gain in the banking and insurance sectors. Pramartha et al. (2020) showed that, funding decisions, investment decisions, dividend policies have a positive effect on company value, where 17.8% of changes in the company's value are influenced by funding decisions, investment decisions, and dividend policies. Klobučar and Orsag (2019; Munangi and Sibindi 2020; Uddin, Chowdhury, and Islam 2017) shows that, leverage and growth ratios have a positive effect on ROA and ROE thus increasing the company value. Showed that ROA and ROE having a positive impact to company value (Alareeni and Hamdan 2020; Cherian et al. 2019; Fekadu Agmas 2020; Lim and Rokhim 2020; Purbawangsa et al. 2019; Samo and Murad 2019; Subramanyam and Shalini 2019).

2. THEORY FOUNDATION AND HYPOTHESIS DEVELOPMENT
2.1 Signaling theory

Signaling theory is an activity made by the manager to direct owners as to how management sees the future of the company, which is in the form of details about what the management has done to fulfill the owner's desires. Jensen & Meckling define Signaling theory (Bouzine and Lueg 2020; Brown et al. 2020; Cabaleiro-Cerviño and Burchart 2020; Shahrbabaki et al. 2020; Shou et al. 2020; Y. Wang et al. 2020; Zuo, Weng, and Xie 2020).

The signal can be information stated that the company is better than other companies (Doukas and Zhang 2020; Javed et al. 2020; A. Kumar, Nigam, and Singh 2020; da Motta Veiga, Clark, and Moake 2020; Mullins, Menguc, and Panagopoulos 2020; Zimmer, Salonen, and v. Wangenheim 2020). Owing to their effect on investment decisions outside the business, the knowledge the organization receives is an important thing. The information is important for investors since the information directly delivered in the form of a note or a summary of the history, for survival current and future of the company and its impact on the company.

2.2 Theory Agency

Jensen and Meckling (1976) theory Agency explains the agency's relationship as "Relation of the agency as a contract whereby one or more individuals (directors) engage a different the agent (person) to conduct on behalf of some service of them, including delegating certain decision-making powers to that agency" which is defined as a contract between the owner (principal) involving others (agents) perform a service on the principal's behalf and delegate authority to the decision-making to the agent. In business organizations, managers generally not as an owner. A specialization of responsibilities is created, where the manager has the task of coordinate activities, while the owner of the company assumes the risk. If the company failure, the owner of the company will bear a large financial loss.

2.3 Liquidity

Liquidity implies the willingness of the organization to pay for all short-term financial bonds with maturity using existing reserves available (Bui, Scheule, and Wu 2020; Grossmann and Hottiger 2020; Han et al. 2020; Hussain et al. 2020; L. Li, Mei, and Li 2020; Wijaya, Lucianna, and Indriati 2020). One of the best-known financial ratios is the quick ratio. Current Ratio is a comparison between current assets and short-term debt (Dementiev 2019; Fawzi Shubita 2019; Hassan and Giouvris 2020; Kalshetty et al. 2020; Linh and Mohanlingam 2018; Weinblat 2018). Current Ratio shows the company's liquidity as measured by comparing current assets to current debt or short-term debt (Kalshetty et al. 2020).

2.4 Rentability

Rentability or profitability is a percentage ratio used to determine how well the company can produce profit at a reasonable cost. In different ways, the viability of a corporation can be measured based on the benefit and assets and resources to be compared (Abusharbeh 2020; Hussain et al. 2020; Z. Li et al. 2020; T. H. I. H. Nguyen and Tran 2020; Ozili, Salman, and Ali 2020; Thanh et al. 2020).

2.5 Leverage

Leverage measure the level of debt financing an enterprise. From the use of a company's debt, there will be an interest expense to be paid by the company’s. The larger the value of a company's leverage, the higher the debt's interest costs, the increased costs of interest affect the reduced tax burden of a company (Al-Mulla and Bradbury 2020; Barbera, Merello, and Molina...
Leverage means how much the company is used to see is able to pay all its obligations/liabilities (long term and short term) to the state (Al-Twajry 2009; Beck et al. 2017; Forsyth and Vetzal 2017; Hartley 2019; Mizerka, Czapiewski, and Lizińska 2015).

Leverage can be calculated using the Debt to Equity Ratio (DER) formula. According to Home and Wachowicz (Breuer 2002; Klobučar and Orsag 2019; Kogdenko, Putilov, and Vorobev 2015), The DER ratio shows the degree to which debt finance is used in conjunction with share financing. The funding ratio measured by the DER indicator shows ability of the company to meet all of its responsibilities as indicated by some of the share of its own capital used to pay down debt. DER provides guarantees about how much debt the company owes by its own capital. The higher the ratio indicates the lower the company's funding provided by shareholders (H. A. Kim and Jeong 2018; Prasad et al. 2018; Proelss, Schweizer, and Seiler 2018; Purag, Abdullah, and Bujang 2016; Širec and Mocnik 2016; R. Wang et al. 2020).

2.6 Company values

The company value’s an investor's view the success rate a company this is closely linked to its share price. The high share price makes the company's value also high. It increases confidence in the market not only in the current performance of the company, but the company's future prospects (Cabaleiro-Cerviño and Burcharth 2020; Y. A. N. Luo et al. 2020; T. K. Nguyen and Razali 2020; Ricci et al. 2020; Scholtens and Oueghlissi 2020; Soares and Campani 2020).

Company values can be calculated using the Price to Book Value (PBV) formula (Baldick and Jang 2020; Füllbrunn, Neugebauer, and Nicklisch 2020; Johansson and Johansson 2020; Lai 2020; Ong, Mohd-Rashid, and Taufil-Mohd 2020; Pham et al. 2020). Book value prices (BVP) Show how market appreciation for the book value shares of a company. The higher the ratio, the market is dedicated to the future of the business. PBV also reveals how much comparatively high valuation a business will generate with the amount of money spent. PBV may also be a ratio that shows whether an overvaluation (above or undervaluation (below of the share book value is the stock tradable share prices (Abinzano et al. 2020; Carson 2020; Gao and Wang 2020; S. Kumar, Demirer, and Tiwari 2020; Moore 2020; Q. E. Yin and Ritter 2020).

Company’s Value is one of the factors considered by investors in choosing companies to invest their funds, the better the value of company, the higher the profit is obtained and the more net income that shareholders get. The hypothesis is as follows based on the above description:

H₁: It is suspected that Liquidity has an influence on company value
H₂: It is suspected that Profitability has an influence on company value
H₃: It is suspected that Leverage has an influence on company value

3. RESEARCH METHODS

3.1 Types of Research Approaches

This type of research uses quantitative research with descriptive approach. Quantitative research is based on theory and the results of previous research to examine the population or research sample (Juanamasta et al. 2019; Prabowo et al. 2020; Rusdiyanto, Agustia, et al. 2020; Rusdiyanto, Hidayat, et al. 2020). Data collection uses statistical data with the aim of testing hypotheses on company value. The study employed secondary data as annual financial reports and Jakarta Islamic Index (JII) registered companies in period 2015 - 2019. The data was
obtained from idn.financial.com. For share price data obtained from yahoofinance.com

3.2 Research Variable Model Specifications
The independent variables used in this study consisted of Liquidity; Profitability; Leverage as for the dependent variable the Value of the Company.

3.3 Definition Variables and Variable Measurement
The variables used in this study, among others:

3.3.1 Independent Variable

1. Variable Liquidity is proxied using the Current Ratio. This ratio compares current assets with short-term debt. Current Ratio shows liquidity of the company's as measured by comparing current assets to current debt or short-term debt (Chuang et al. 2020; Khan et al. 2020; N.-A. Nguyen et al. 2020; Park and Myers 2020; Yan et al. 2020). Current Ratio Formula can be seen below:

\[ \text{CR} = \frac{\text{Current Asset}}{\text{Total Liability}} \]

2. Variable Profitability is proxied using the Return on Asset. This ratio for return on assets (ROAs) tests the company's potential to earn net profits on the basis of a certain level of assets (Bratis, Laopodis, and Kouretas 2020; Geetha et al. 2020; Meher et al. 2020; T. K. Nguyen and Razali 2020; Osazevbaru and Tarurhor 2020). Return on Asset Formula can be seen below:

\[ \text{ROA} = \frac{\text{Net Profit}}{\text{Total Asset}} \]

3. Variable Leverage uses Debt to Equity Ratio to proxy. DER provides guarantees about how much debt the company owes by its own capital. The higher the ratio indicates the lower the company's funding provided by shareholders (Branzoli and Caiumi 2020; Chen, Chen, and Lien 2020; Hussain et al. 2020; Pennington-Cross and Smith 2020; Pokharel, Archer, and Featherstone 2020; Thorgren and Williams 2020).

\[ \text{DER} = \frac{\text{Total Liability}}{\text{Total Equity}} \]

3.3.2 Dependent Variable
Company’s Value is proxied using PBV. This ratio that shows whether an overvaluation (above or undervaluation (below of the share book value is the stock tradable share prices (Basuki, Pulungan, and Udin 2020; Blackburn and Cakici 2020; Chhajer, Mehta, and Gandhi 2020; Forte, Gianfrate, and Rossi 2020; Sun 2020). The formula can be used to systemically calculate PBV:

\[ \text{PBV} = \frac{\text{Net Profit}}{\text{Total Asset}} \]

3.4 Stages of Estimation
3.4.1 Sample and Population
Population in this research is a company registered in the Jakarta Islamic Index (JII) of 30 companies. The sample data obtained is as many as 23 companies because 7 companies with financial statements in the form of dollar exchange rates are not with the rupiah value, so it is excluded from variables at the time of data processing that researchers do.

3.4.2 Data Analysis Techniques and Descriptive Statistical Analysis
Descriptive statistical data analysis, classical assumption testing, multiple regression
analysis, and hypothesis testing are used in the research analysis method. Descriptive statistical data analysis describes the data description as seen from the average value, variance value, standard deviation, minimum and maximum value. This test gives an overview of the sample data distribution on financial performance variables and variable of share prices.

4. ANALYSIS AND DISCUSSION

4.1 Classic Assumption Test Results: Multicollinearity

Multicollinearity test is conducted to test whether independent variables have a perfect direct relationship (correlated). If so, then the three independent variables cannot be used together as independent variables. If it is free from multi-covariance problems, then the three independent variables can be used together in multiple regression testing.

The regression equations formed are:

\[ Y = -7710.685 + 0.566 X_1 + 0.087 X_2 + 0.010 X_3 + e \]

Autocorrelation Test is used to test whether there is an automatic relationship between variable dependent and variable independent. The result in the research that the researchers conducted the model contains autocorrelation because the test results with durbin watson model value is 0.418 (Auto negative correlation with \(d < d_1\)).

5. DISCUSSION

5.1 Liquidity to Company Value

The first hypothesis states liquidity affects the Company's Value. Test results showed a significance level of 0.00 with (\(\alpha\)) = 5% (0.05). Means that the significance value < 0.05 so that it could be concluded liquidity variables impact to company's value. The result of the research
conducted by this research is liquidity has a significant positive impact to company's value. The results of research, explanation of the positive liquidity and significant influence to company value.

5.2 Profitability to Company Value

The second hypothesis states Profitability affects the Company's Value. Test results showed a significance level of 0.397 with (α) = 5% (0.05). Means that the significance value > 0.05 so it can be concluded that the Profitability variable has no impact to company value. The result of the research conducted by this study is profitability has a positive impact insignificant to company value.

Profitability is a performance indicators of companies that considered by investors to be a factor in measuring the level of return on investment. Profitability high performance and good company prospects. This study is in accordance with the concept of signaling theory states that investors are informed of the company's performance, the investor will react i.e. buy stocks. Investors are increasingly interested, the share price created will increase, and stock prices rising make company value will increase. Also, the results of the research in line with also found evidence that profitability has an influence on significant positive value to Company value.

5.3 Leverage to Company Value

The second hypothesis states Profitability affects the Company's Value. Test results showed a significance level of 0.899 with (α) = 5% (0.05). Means that the significance value > 0.05 so it can be concluded that the Leverage variable has no impact to company value. The result of research conducted by this research is leverage has no impact on the company value.

6. CONCLUSION

Based on data analysis and discussion, Liquidity has a significant impact, it can be concluded on the company's value, while Profitability and Leverage have no impact to the company's value. While the influence of the 3 variables states that Liquidity, Profitability and Leverage affect the Company's Value. In contrast to the results of researches on companies based on conventional (non Islamic) this research successfully showed that in Islamic Index-based companies only liquidity variables impact to company value, while the variables Profitability and Leverage do not impact to company value.

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