

# THE EFFECT OF LIQUIDITY, LEVERAGE AND PROFITABILITY ON FIRM VALUE (Case Study on Sub-Sector Companies *Food And Beverage* Those Listed on the Indonesia Stock Exchange Period 2017-2021)

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## ABSTRACT

This study's aim is to analyze the effect of liquidity, leverage and profitability on firm value case studies on sub-sector companies food and beverage listed on the Indonesia Stock Exchange for the 2017-2021 period. The approach used in this study is a quantitative research approach (using data that can be measured on a numerical/numeric scale), using secondary data in the form of panel data (pooling data) that combines time series data and cross-sectional data in a period of time. In analyzing the data, researchers used a regression test with the help of an application eviews 9. The result of the study shows that liquidity has a positive and significant effect on firm value. Leverage has a positive and insignificant effect on firm value. Profitability has a positive and significant effect on firm value in sub-sector companies food and beverage listed on the Indonesia Stock Exchange for the 2017-2021 period.

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## 1. INTRODUCTION

One of the objectives of the establishment of a company is to maximize shareholder value (Karnadi, 1993). The company strives to achieve maximum profit and wealth for shareholders or owners by optimizing the value of the company. Firm value is defined as the price that prospective buyers are willing to pay if the company is sold (Husnan and Pudjiastuti, 2015). Company value can describe the state of the company. According to Fahmi (2015) company value is a consideration for investors to invest. The better the value of the company, the company will be viewed favorably by potential investors, and vice versa if the value of the company is bad, the company will be viewed badly by potential investors.

In the capital market, the value of the company will increase when it continues to generate high returns for investors. Corporate value to the company go public reflected in its stock price (Wahyudi and Pawestri, 2006). Stock prices in the capital market are formed based on an agreement between investor demand and supply. Share price is fair price which can be used as a proxy for company value (Hasnawati, 2005). The higher the company value, the higher the share price, and conversely the lower the company value, the lower the stock price (Hery, 2017). The higher the stock price of a company will lead to a high value of the company which will have an impact on the greater prosperity of the company owner (Sukarya, 2019). In this study, firm value is measured by ratio price to book value (PBV).

According to Farizki et al (2021) there are several factors that can affect company value including profitability, leverage, liquidity, company size, and asset structure. Liquidity is the company's ability to meet short-term or immediate financial (financial) obligations (Martono and Harjito, 2007). Measuring tool that is often used in assessing liquidity is current ratio, where this ratio divides current assets and current liabilities (Farizki et al, 2021). In research by Sukarya and Baskara (2019) states that liquidity has a positive and significant effect on company value. This result differs from research conducted by Nugraha and Alfarisi (2020) which reveals that liquidity has a negative and insignificant effect on company value.

Nugraha and Alfarizi (2020) state that leverage is a company's ability to fulfill all obligations or debts, both short-term debt and long-term debt by pledging the company's assets. Leverage ratio is a ratio that measures how much a company uses debt funds (Martono and Harjito, 2007). The leverage variable in this study is proxies by DER (Debt to Equity Ratio). According to Kasmir (2012) DER is the

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ratio used to compare the amount of debt to the amount of equity. Research conducted by Nugraha and Alfarisi (2020) shows that leverage has a positive and significant effect on firm value, while research conducted by Aisyah et al. (2019) shows that leverage has no significant effect on firm value.

Profitability can be an indicator of effectiveness in generating profit through managing assets and capital owned (Anni'mah, 2021). Munawir (2001) states that profitability is measured using ratios Return on Assets (ROA) which is the company's ability to generate profits from the assets used. Several studies on the effect of profitability on firm value show different results. Research by Pasaribu et al. (2019) shows that profitability has a significant positive effect on company value, whereas in Ayem and Tia's (2019) study states that profitability has no effect on company value.

Several reasons underlying taking the object of research in the company food and beverage namely Sector food and beverage plays an important role in meeting consumer needs because the food and beverage sector is engaged in consumption (Sukarya and Baskara, 2019). This industrial sector is more stable and not easily affected by seasons or changes in economic conditions such as inflation. Even though there was an economic crisis, the smooth running of industrial products food and beverage will remain guaranteed, because the industry is engaged in the main field of human beings. Based on the above research problems, researchers will conduct research to determine the effect of liquidity, leverage, and profitability on company value case studies on sub-sector companies *food and beverage* listed on the Indonesia Stock Exchange for the 2017-2021 period.

## 2. METHOD

The research data is secondary data in the form of PBV data (price to book value) and CR data (Current Ratio), DER (Debt to Equity Ratio), ROA (Return on Assets) of each issuer included in the sub-sector company group food and beverage 2017-2021 obtained from the website Indonesian Stock Exchange ([www.idx.co.id](http://www.idx.co.id)) as well as the financial statements of the companies to be examined. Collection of archival data in the form of secondary data using database retrieval data collection techniques pooling data/ panel data (combined data time series and cross section). In analyzing the data, researchers use a regression test with the help of an application *views 9*.

The population in this study is all sub-sector companies food and beverage listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period, amount to 30 companies. The sample used in this study is non-probability *sampling* by method *purposive sampling* that is the technique of determining the sample with certain considerations (Sugiyono, 2010). The criteria used in sampling are as follows:

1. Sub sector companies *food and beverage* listed on the Indonesia Stock Exchange for the 2017-2021 period.
2. Sub sector companies *food and beverage* who published complete financial statements for the period 2017-2021 and did not *new listing* period 2017-2021.

From the criteria above, there were 15 companies used as samples in this study. The data analysis technique used in this research is multiple linear regression analysis technique. The multiple linear regression equation in this study is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Where:

- Y = Firm Value (*price to book value*)  
 a = Constant  
 X1 = Liquidity (*Current Ratio*)  
 X2 = Leverage (*Debt to Equity Ratio*)  
 X3 = Profitability (*Return on Assets*)  
 b1, b2, b3 = coefficient regress  
 e = error

## 3. RESULT AND DISCUSSION

**Table 1.** Regression Test Results with *views 9*  
 Dependent Variable: Firm Value

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CR	1.437554	0.064786	5.462916	0.0143
THE	0.462587	0.496274	0.021436	0.6863

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Variable	Coefficient	Std. Error	t-Statistic	Prob.
LONG	2.843095	0.083763	2.500547	0.0411
C	3.406.447	113.160341	20.706934	0.0000

Source: results of data processing with *eviews*, 2022

#### The Effect of Liquidity on Firm Value

After processing and analyzing the data, the  $\beta$  coefficient value is 1.437554 with a significance of  $0.0143 < 0.05$ . This shows that Liquidity has a positive and significant effect on Firm Value in sub-sector companies *food and beverage* listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. The positive direction of the liquidity coefficient indicates that the greater the company's liquidity, the greater the company's value. The results of this study are supported by the research of Sukarya and Baskara (2019) which states that liquidity has a positive and significant effect on firm value. The results of this study accept the first hypothesis which states that liquidity has a positive and significant effect on firm value.

#### Effect of Leverage on Firm Value

After processing and analyzing the data, the  $\beta$  coefficient value is 0.462587 with a significance of  $0.6863 > 0.05$ . This means that the Leverage Variable has a positive and insignificant effect on Firm Value in sub-sector companies *food and beverage* listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. The results of this study are in accordance with the results of Anni'mah's research (2021) which states that leverage has a positive and insignificant effect on company value. Leverage coefficient direction which has a positive direction indicates that the higher the Leverage means the more efficient and effective use of the company's equity to gain profits for shareholders. The higher the leverage, the higher the interest of investors to invest in the company which will ultimately increase the value of the company. Leverage has an insignificant effect on firm value, indicating that leverage is not a concern of investors because the size of leverage does not always make the value of the company decrease, even with leverage, companies can use it as a source of capital and assets that can be used as a company's business to get high profitability so that by the increasing of profitability it will create prosperity for investors and increase company value.

#### Effect of Profitability on Company Value

After processing and analyzing the data, the  $\beta$  coefficient value is 2.843095, the significance is  $0.0411 < 0.05$ . This shows that profitability has a positive and significant effect on firm value in sub-sector companies *food and beverage* listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. The direction of the positive coefficient of the liquidity variable indicates that the greater the company's liquidity, the greater the company's value. The results of this study are in accordance with the research conducted by Pasaribu et al. (2019) which shows that profitability has a significant positive effect on company value. These results indicate that the third hypothesis which states that profitability has a positive and significant effect is accepted.

#### 4. CONCLUSION

Based on the results of the study it can be concluded as follows: Liquidity has a positive and significant effect on firm value in sub-sector companies *food and beverage* listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. Leverage has a positive and insignificant relationship to firm value in sub-sector companies *food and beverage* listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. Profitability has a positive and significant influence on firm value in sub-sector companies *food and beverage* listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period

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