*Research Article*

# Analysis Of Financial Value With The Measurement Of Financial Ratios In Companies Jointed In The Multiple Industrial Sector

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**Abstract:** This study examines the impact caused by the ratio of loss to firm value in companies that are members of various industrial sectors. The movement between variables that occurs is one of the phenomena that occurs in the sector. The sample selected is as many as 13 companies using descriptive verification method. The results showed that the financial ratios used by measuring ROE, DER and SIZE had no effect on Firm Value as measured by PBV.

**Keywords**: ROE, DER, SIZE and PBV.

## 1. Introduction

As we know, the various industrial sectors are one of the IDX sectors that are included in the manufacturing industry group, namely industries that process raw materials into finished goods (products) or semi-finished goods (components). All subsectors in various industrial sectors are producers of products of basic necessities needed by consumers, so that their sales levels are relatively high. However, this will not guarantee that the value of the company will always be good, the various industrial sector prices (JKMISC) were recorded from 2006 to 2018 as in the table below:

Table 1. Industrial sector price data on the IDX

| SECTOR | EoY-2006 (IDR) | EoY-2018 (IDR) | GROWTH IN 12 YEARS | | |
|---|---|---|---|---|---|
| | | | IDR | % | AVG/YEAR (%) |
| JKSE | 1.805,52 | 6.194,50 | 4.388,98 | 243,09 | 20,26 |
| JKAGRI | 1.218,45 | 1.564,42 | 345,97 | 28,39 | 2,37 |
| JKMING | 933,21 | 1.776,50 | 843,29 | 90,36 | 7,53 |
| JKBIND | 147,10 | 854,73 | 707,63 | 481,06 | 40,09 |
| JKMISC | 284,12 | 1.394,43 | 1.110,31 | 390,79 | 32,57 |
| JKCONS | 392,46 | 2.569,29 | 2.176,83 | 554,66 | 46,22 |
| JKPROP | 122,92 | 447,75 | 324,83 | 264,26 | 22,02 |
| JKINFA | 771,62 | 1.064,29 | 292,67 | 37,93 | 3,16 |
| JKFINA | 206,57 | 1.175,67 | 969,10 | 469,14 | 39,09 |
| JKTRADE | 275,08 | 783,83 | 508,75 | 184,95 | 15,41 |

Based on the table above, it can be seen that various industries are only the second to have a good performance for 12 years, this indicates fluctuations in stock price movements that can be used as an illustration of company value. Even though it has a good contribution, the industrial sector still has obstacles in conducting its business. These obstacles include the large number of investors who are more interested in the service sector, the competitive level of sector and subsector competition and finally the level of competitiveness of human resources. Firm value is the investor's perception or view of the company's success rate. In addition to showing the level of success of the company at this time, the company's value also describes how the company's prospects in the future. Firm value in this study is measured by the PBV ratio, where this ratio shows the price of the shares being traded is above or below the book value of the shares. The company value will also be influenced by several factors, including the profitability ratio, capital structure and company size. The choice of these factors after the authors compared with previous research literature that these factors tend to consistently have an impact on firm value. The company's profitability will be reflected in its share price, because high profits will encourage investors to increase demand for shares so that the share price will increase. The proxy for the profitability ratio in this study is *return on equity* (ROE). This ratio shows the company's ability to generate net profit using its own capital. Capital structure affects firm value in accordance with MM theory which states that an increase in debt can increase firm value as long as

it has not reached its optimal point. This is related to the advantage of reducing the tax burden because the interest paid as a result of the debt reduces the taxable income. But if the debt is too high it will increase the risk of bankruptcy, this is in accordance with the trade off theory. The ratio used in this study is the *debt to equity* ratio (DER) where this ratio compares the amount of debt to equity. Investors give more confidence to large companies because large companies are considered to have more stable conditions. Because of this, it is easier for large companies to obtain funds from investors. In this study, to measure the size of the company using total assets, where the measurement is by calculating the natural logarithm of the total assets.

Based on the above introduction, the problems examined in this study are formulated as follows:

1. Is there an effect of ROE on PBV?
2. Is there an effect of DER on PBV?
3. Is there an effect of SIZE on PBV?

Referring to the above problems, this study aims as follows:

1. To determine the effect of ROE on PBV.
2. This is to determine the effect of DER on PBV.
3. This is to determine the effect of SIZE on PBV.

## 2. Literature review

### Company Value

Every company that has a goal to maximize its company value. Company values are important for a sustainable company to run. With the high value of the company, it will increase the prosperity of shareholders, this will encourage new investors to invest in the company. Firm value is the performance of a company as reflected by the stock price which is formed from the supply and demand in the capital market, which reflects the public's assessment of the company's performance (Harmono, 2014; Senkic, 2018). In contrast to the statement from Harmono, according to Septiyuliana (2016) company value is often associated with stock prices. The higher the share price, the higher the firm value, that maximizing firm value also means maximizing the prosperity of shareholders, which is the company's goal. So it can be concluded that company value is a description of the company's performance which is often associated with stock prices where the higher the stock price, the higher the value of the company. In this study, the authors used the Price to Book Value (PBV) measurement method. The PBV ratio is a ratio that describes how much the public appreciates the book value of the company's shares. According to Tryfino, 2009 (in Rahayu 2016) price to book value is a comparison between the market value and the book value of a stock. This ratio provides information for investors about the number of times the market value of a stock is valued from its book value. This ratio can describe the possible price movements of a stock. To calculate this ratio is as follows:

$$Price\ to\ Book\ Value = \frac{Market\ Price\ per\ Share}{Book\ Value\ per\ Share} \frac{Market\ Price\ per\ Share}{Book\ Value\ per\ Share}$$

Where, to calculate*book value per* share is as follows:

$$Book\ Value\ per\ Share = \frac{Total\ Equity}{Number\ of\ Shares\ Outstanding} \frac{Total\ Equity}{Number\ of\ Shares\ Outstanding}$$

### Return on Equity (ROE)

Maximizing profit is the goal of every company. The level of profitability has an important role in attracting investors' interest. According to Kasmir (2015), profitability is a ratio to assess a company's ability to seek profits in a certain period. This ratio also shows the level of effectiveness of the company's management which can be seen from the profit earned from sales or from investment income. Meanwhile, according to Sartono, 2010 (in Hibatullah, 2017) profitability is the ability of a company to earn profits related to sales, total assets and own capital. In this study, the authors used the ROE ratio to measure the company's profitability. ROE itself is a ratio used to measure net profit after tax (EAT) with own capital. This ratio shows the level of efficiency of the company in generating profit using its own capital. The high ROE value illustrates that the company's position is in a good position, and vice versa. To calculate this ratio is as follows:

$$Return\ on\ Equity = \frac{Earning\ After\ Tax}{Total\ Equity} x100\%$$

### Debt to Equity Ratio (DER)

Capital structure is a factor that will directly affect the company's financial position and condition. The right capital structure will make it easier for the company to achieve a good financial position. The capital structure itself is a financial measure between long-term debt, short-term debt and equity used for company activities.

According to Halim (2015), capital structure is a comparison between total foreign capital and total own capital. Meanwhile, according to Sartono, (2012) (in Hakim, 2017) the capital structure is a balance of short-term permanent debt, long-term debt, preferred stock and common stock. In this study, the authors used the debt to equity ratio (DER). According to Kasmir (2014), DER is the ratio used to assess debt to company equity. This ratio is used to find out the funds provided by the creditor and the owner of the company. To measure the DER ratio is as follows:

$$Debt\ to\ Equity\ Ratio = \frac{Total\ Liabilities}{Total\ Equity} x100\%$$

**Firm Size**

Company size is one of the factors that are considered to affect firm value. The larger the size of a company, the easier it will be to obtain sources of funds. According to Brigham & Houston (2014), company size is the size of a company that can be assessed through total assets, total sales, total profit, tax expense and others. Meanwhile, according to Jogiyanto (2013) company size is a scale in which a company can be classified as large as small as a company using various methods (total assets, log size, stock market value, etc.). To calculate company size is as follows:

Size = Ln (Total Asset)

### 2.1. Hypothesis The

hypothesis formulated is:
$H_1$ = ROE affects PBV
$H_2$ = DER affects PBV
$H_3$ = SIZE affects PBV

## 3. Research method

This study uses descriptive and verification research methods, the definition of descriptive methods according to Sugiyono (2013) is research conducted to describe independent variables, either only on one or more variables (independent variables) without making comparisons and looking for those variables with other variables, The verification method according to Sugiyono (2013) is research conducted on a particular population or sample with the aim of testing the predetermined hypothesis.

## 4. Research results and discussion

After going through model testing to determine the best model, followed by a classic assumption test to ensure the data is suitable for use, the best model is obtained as follows:

**Table 1. Common Effect Model Test**

| Variable | Probability | Decision |
|---|---|---|
| ROE | 0.3535 | Rejected |
| DER | 0.5280 | Rejected |
| SIZE | 0.1849 | Rejected |
| Adjusted R-squared | 0.011489 | |

Source: output eviews 9 The

value of the company as measured by PBV can be explained by the ROE, DER and SIZE variables only at 1.15% while the rest is explained by other variables not included in the variables studied at 98.85%. To answer the previously stated hypothesis, it is known that there is no single variable that affects PBV with a probability criterion greater than alpha (with probability 0.3535> 0.05, 0.5280> 0.05 and 0.1849> 0.05, respectively). The results of this study are in line with those conducted by Ilham Thaib and Acong Dewantoro (2017) where the results of their research show that profitability has a negative and insignificant effect on firm value. Likewise, research conducted by Heven Manoppo and Fitty Valdi Arie (2016) shows that company size has no effect on firm value.

## 5. Conclusion

The results of this study indicate that what occurs in various industrial sectors is an anomaly, where it is not a guarantee that good performance will be a special attraction for investors to invest, but it also shows that the company's ability to generate profits is measured by ROE. not an indicator that is able to form a good company

value, as well as the company's ability to pay its obligations and the larger the size of the company, the better the company's value.

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