Company Value Impact of Liquidity, Solvability and Profitability

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Abstract: This study aims to determine the effect of Current Ratio, Solvency (Debt to Equity Ratio), and Profitability (Net Profit Margin) on Firm Value (Price to Earning Ratio) in Textile and Garment Sub-Sector Manufacturing Companies Listed on the Sharia Index. Indonesia Stock Exchange for the period 2014-2018. Purposive Sampling was used as a sampling technique and 9 selected companies met the criteria to be the research sample. The results showed that Current Ratio had no positive and significant effect on Price to Earning Ratio, Debt to Equity Ratio had positive and significant effect on Price to Earning Ratio, Net Profit Margin had no positive and significant effect on Price to Earning Ratio. Simultaneously, Current Ratio, Debt to Equity Ratio, and Net Profit Margin have a significant effect on the company value of the Textile and Garment Sub-Sector Manufacturing companies listed on the Indonesia Stock Exchange Sharia Index for the period 2014-2018. The results showed that the solvency, liquidity and profitability variables in this study amounted to 26.65%, while the remaining 73.35% was explained by other variables outside the research model.

Keywords: Current ratio, debt to equity ratio, net profit margin

1. Introduction

Company performance can be measured in various ways, one of the ways commonly used is financial ratios. Financial ratios consist of liquidity ratios, solvency ratios and profitability ratios. The liquidity ratio is a ratio that shows the company's ability to meet its obligations or pay its short-term debt. This ratio can be used to measure how liquid a company is. If the company is able to fulfill its obligations, it means that the company is liquid, whereas if the company is unable to fulfill its obligations, it means that the company is liquid (Riyanto, 2008). How to measure the company is liquid or not, can compare the components on the balance sheet, namely total current assets with total current liabilities. This measurement can be carried out for several periods so that the company's liquidity development can be seen from time to time. The liquidity ratio owned by the company can provide benefits, namely anticipating the funds needed when there is an urgent need, making it easier for customers (for financial institutions or banks) to withdraw funds, and determining points for a company to obtain investment approval or other profitable business. According to Riyanto (2008), solvency is showing the company's ability to fulfill all its financial obligations if the company is liquidated. Meanwhile, according to Sugiarso (2006) defines solvency as the company's ability to pay its debts, both short and long term. The solvency of a company shows the company's ability to meet its financial obligations both in the short and long term if the company is liquidated. A company that is solvable means that the company has sufficient assets or assets to pay off all its debts (Prabowo, 2014). The company is basically to get maximum profit or profit. In financial statement theory, profitability is a measure of the company in generating profits. The amount of profit is used to measure the performance of the company and is used to measure the effectiveness of the company's operations so as to produce maximum profit for the company. Profitability ratio analysis is very important for all users of annual reports, especially equity investors and creditor investors. The earnings equity investor is the only determinant of changes in the value of securities (securities). Measuring and forecasting earnings is the most important job for equity investors. For investors and creditors, operating profit and cash flow are generally a source of interest and principal payments (Fred Weston, 2008). The value of the company that is formed through the stock market value indicator is strongly influenced by investment opportunities. Investment spending provides a positive signal about the company's future growth, thus increasing the share price as an indicator of company value. The most representative concept for determining firm value is the intrinsic concept. Firm value in the concept of intrinsic value is not just the price of a set of asset values, but company value as a business intensity that has the ability to generate profits in the future (Wahyudi & Pawestri, 2006). The manufacturing industry in Indonesia is now experiencing many problems from almost all directions. From within the country, this labor-intensive industry seems to be squashed by regulatory impartiality, entangled in capital, infrastructure, and of course labor or labor issues. Firm value is the investor's perception of the company's success rate which is often associated with the stock price. High stock prices make the company value high, and the increase in market confidence is not only in the company's current performance but also on the company's prospects in the future. The Indonesian Employers' Association, through its general chairperson, expressed pessimism towards industry growth target set by the Ministry of Industry of more than 7% throughout
the year. Apindo estimates that the growth in the manufacturing sector can shrink from last year's achievement of 7%. The government has lowered industrial growth targets for the three sectors, namely the textile, leather goods and footwear industries. He said he lowered the industrial growth target in the three sectors this year from 3.75% to 2.65%. The revision is based on the introduction of the textile, leather goods and footwear industries, which up to September grew 2.86%, far from the target growth of 3.75% this year. The slowdown in growth is due to a contraction in Indonesia's traditional markets for exports of textiles, leather goods and footwear to Europe. Specifically, the leather, leather goods and footwear industries could grow negatively, mainly because the domestic market was flooded with imported products. The research that can be found has examined financial ratios that can predict bond ratings in Indonesia and found a variety of different empirical results. Research conducted by Erni Linandarini (2010) shows that profitability has a positive and significant effect on firm value, liquidity has a positive and significant effect on firm value, and solvency has no positive and significant effect on firm value.

2. Literature Review

2.1. The value of the company

Firm value is the investor's perception of the company's success rate which is often associated with the stock price. High stock prices create high company value and increase market confidence not only in the company's current performance but also in the company's future prospects. Maximizing company value is very important for the company, because maximizing company value means maximizing the company's main objective. Sartono stated (2010) Company value is the selling value of a company as an operating business. Any excess in the selling value over the liquidation value is the value of the management organization that runs the company. For Harmono (2009), Company value is the company's performance as reflected by the stock price formed by the demand and supply of the capital market, which reflects the public's assessment of the company's performance. The value of a company can be measured by the share price using a ratio called the valuation ratio. This assessment ratio provides information on how much the public appreciates the company, so that people are interested in buying shares at a price higher than the book value.

2.2. The effect of liquidity on firm value

liquidity is an indicator of the company's ability to pay all short-term financial liabilities at maturity using available current assets. Liquidity is not only related to the overall financial condition of the company, but also to its ability to convert certain current assets into cash (Syamsudin 2001). Munawir (2004) states that liquidity is showing the ability of a company to meet its financial obligations that must be fulfilled immediately, or the company's ability to meet financial obligations when they are collected. Based on the understanding of liquidity from the two experts, it can be concluded that liquidity is the ability of a company to pay off its short-term debts. Firm value is very important because high company value will be followed by high shareholder wealth (Gapensi, 1996), the higher the share price the higher the firm value. The company's goal is basically to maximize the value of the company. To achieve this goal, there is still a conflict between the company owner and the fund provider as the creditor. If the company runs smoothly, the value of the company's shares will increase, while the value of the company's debt in the form of bonds is not affected at all. It can be concluded that the value of ownership shares can be an appropriate index to measure the level of company effectiveness. Based on that reason, the objective of financial management is stated in the form of maximizing the value of shares of company ownership, or maximizing share prices. The goal of maximizing share prices does not mean that managers must seek to increase the value of shares at the expense of bondholders (Erlna, 2002).

2.3. The effect of solvency on firm value

The solvency ratio is the ratio to assess the company's ability to pay off all its liabilities, both short and long-term, with a guarantee of assets or assets owned by the company until the company is closed or liquidated (Fred Weston, quoted by Kasmir). The amount of debt burden borne by the company will be compared with its assets. Long-term debt, namely the obligation to pay loans with maturities of more than one year. The difference between the Solvency Ratio and the Liquidity Ratio is the loan term. The solvency ratio measures the company's ability to meet its long-term liabilities, while the liquidity ratio measures the company's ability to meet its short-term obligations. The solvency ratio compares the company's overall debt expense to its assets or equity. This ratio describes the number of company assets owned by shareholders compared to assets owned by creditors. If more company assets are owned by holders, then the company is less leverage. If creditors or creditors have dominant assets, then the company has a high degree of leverage. The solvency ratio makes it easier for management and investors to understand the level of risk in the company's capital structure through notes on
financial statements. Solvency ratio is used to measure the company's ability to meet its long-term obligations. Darsono and Ashari (2005) state that the solvency ratio is the ratio to determine the company's ability to pay its obligations if the company is liquidated. Debt to Equity Ratio is financial leverage which is considered as a financial variable because theoretically it shows the risk of a company so that it has an impact on stock price uncertainty. Corry Winda Anzlina's research, Rustam (2013) states that the debt to equity ratio has no effect on firm value, meaning that any increase in debt to equity ratio will not be followed by an increase or decrease in company value.

2.4. Effect of profitability on firm value

Profitability ratio is a ratio or comparison to determine the company's ability to get profit from earnings related to sales, assets and equity based on certain measurement bases. The types of profitability ratios are used to show how much profit or gain is obtained from the performance of a company that affects the notes on financial statements that must be in accordance with financial accounting standards (Syafri, 2008). Profitability ratios required for recording financial transactions are usually assessed by investors and creditors to assess the amount of investment return that will be obtained by investors and the amount of company profit to assess the company's ability to pay debts to creditors based on the level of use of assets and other resources so that it can be seen the efficiency level of the company. Management effectiveness and efficiency can be seen from the profit generated on the company's sales and investment as seen from the elements of the financial statements. The higher the ratio value, the better the company's condition based on the profitability ratio. A high value symbolizes the level of profit and high efficiency of the company which can be seen from the level of income and cash flow. Profitability ratios provide more important information than the ratios of the previous period and the ratio of achievement of competitors. Industry trend analysis is needed to draw useful conclusions about a company's profit rate. Profitability ratios reveal the final results of all financial policies and operational decisions made by the management of a company where the recording system of petty cash is also influential. The analysis is interested in the profitability of the company because the profitability of the company is the only good indicator of the health of the company (Tandelilin, 2010). The greater the profit, the better the management in managing a company. This fact indicates that the expectations of the expected equity in accordance with the reality will increase the value of the company. External conditions surrounding the company are difficult to predict, often giving negative sentiment to the increase in firm value even though the expected return tends to increase (Husnan, 2005).

2.5. Hypothesis

H1: Liquidity has a positive effect on firm value.
H2: Solvency has a negative effect on firm value.
H3: Profitability has a positive effect on firm value.

3. Research Methods

This study uses causal research, because causal research has the aim of testing whether one or more variables have an influence on changes in other variables. The object in this study is the Textile and Garment Industry Sector which is listed on the IDX for the 2014-2018 period, with a total sample of 9 companies listed on the Sharia Index list which remained in place during the 2014-2018 period. The independent variable in this study is Liquidity, Solvency, Profitability, while the dependent variable is Firm Value.

Research Sample Determination Criteria:
1. Companies must be recorded continuously during the period 2014 to 2018, otherwise the data will be biased.
2. Have complete transaction data for the period 2014 to 2018.
3. Not carrying out corporate actions, such as announcing bankruptcy, conducting acquisitions or mergers during the 2014 to 2018 period.
4. Textile companies listed on the Sharia Index List.

4. Results and Analysis

4.1. Panel data regression model (random effect)

Panel data regression equations
Dependent Variable: CR
Method: Panel EGLS (Cross-section random effects)
Date: 04/19/19  Time: 22:55
Sample: 2014 2018
Periods included:  5
Cross-sections included: 9
Total panel (balanced) observations: 36
Swamy and Arora estimator of component variances

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<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
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<td>3058.965</td>
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<td>NPM</td>
<td>293.8451</td>
<td>679.8743</td>
<td>0.432205</td>
<td>0.6685</td>
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<td>PER</td>
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<td>0.685286</td>
<td>1.142698</td>
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<td>Prob(F-statistic)</td>
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<td>Sum squared resid</td>
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<td>Durbin-Watson stat</td>
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</table>

Source: Results of data processing (2019)

\[ Y = 31727.69 + 0.012104 (X_1) - 9732.838 (X_2) + 293.8451 (X_3) \]

4.2. Interpretation of the regression equation

\( a = 31727.69 \) means that if Liquidity, Solvency, and Profitability are 0, then the Firm Value variable has a constant value of 31727.69

\( b_1 = 0.012104 \) means that the regression results of the panel data regression coefficient for liquidity is 0.012104log and is positive, meaning that every increase in liquidity and other independent variables are assumed to be constant, it is predicted that the Company Value will increase by 0.012104log.

\( b_2 = 9732.838 \) means that the regression results of the panel data regression coefficient for solvency is 9732.838log and is negative, meaning that any increase in solvency and other independent variables are assumed to be constant, it is predicted that the Company Value will decrease by 9732.838log.

\( b_3 = 293.8451 \) means that the result of the regression coefficient for profitability is 293.8451log and is positive, meaning that every time there is an increase in profitability and other independent variables are assumed to be constant, it is predicted that the company value will decrease by 293.8451log.

5. Research Discussion

5.1. Effect of liquidity, solvency and profitability on firm value in textile and garment sub sector manufacturing companies listed on the Indonesia stock exchange 2014-2018 period

A large amount of profit does not always mean that the company is able to share company value because the availability of cash must also be adequate. Company value plays an important role for the company as a signal about the condition of the company and its prospects for generating profits in the future. The distribution of dividends in cash is more desired by shareholders than in other forms, because the value of the company helps reduce uncertainty in the investment activities of shareholders. Firm value is a source of cash flow for shareholders and provides information about the company’s current and future performance. The result of research on liquidity, solvency and profitability have an effect on firm value in the Textile and Garment Sub Sector Manufacturing companies listed on the Indonesian Stock Exchange from 2014 to 2018. The Result
showed that the solvency, liquidity and profitability variables in this study amounted to 26.65%, while the remaining 73.35% was explained by other variables outside the research model.

5.2. The effect of liquidity on firm value in textile and garment sub sector manufacturing companies listed on the Indonesian stock exchange 2014-2018 period

Companies tend to pay out a higher percentage of earnings in the form of dividends to their investors than companies whose profits fluctuate. A company that is unstable with the result of its financial performance is usually unsure whether the expected profit in the coming years can be achieved, so the company tends to hold most of the liquidity at this time. As a result of retained earnings, lower dividends will be more easily paid if profits decline in the future. The results showed liquidity had no effect on firm value in the Textile and Garment Sub-Sector Manufacturing companies listed on the Indonesia Stock Exchange from 2014 to 2018. Based on the results of the calculation of the comparison between \( t_{count} \) of 0.396452 while \( t_{table} \) is 1.987, namely 0.396452 < 1.987. So it can be concluded that Ho is accepted and Ha is rejected, meaning that partially the liquidity variable does not have a significant positive effect on Firm Value. The results of this study are not in line with what Wahyudi Asto Nugroho (2012) states that the Quick Ratio has a significant effect on firm value.

5.3. The effect of solvency on firm value in textile and garment sub sector manufacturing companies listed on the Indonesian stock exchange 2014-2018 period

Negative solvency gives an unfavorable signal to investors because negative solvency means that the company cannot generate sufficient cash to finance the company's activities, including in terms of dividend payments so that the value of the company that will be received by shareholders will decrease, and vice versa. While the results of the research on non-operating cash flow have an effect on firm value in the Textile and Garment Sub-Sector Manufacturing companies listed on the Indonesia Stock Exchange during 2012 to 2016. The results showed that between \( t_{count} \) of -3.181743 while \( t_{table} \) is -1.987, namely -3.181743 < -1.987. So it can be concluded that Ho is rejected and Ha is accepted, meaning that partially the solvency variable has an effect on Firm Value. The results of this study are not in line with the research by Corry Winda Azlina, Rustam (2013) which states that the Debt to Equity Ratio has no effect on firm value, meaning that any increase in Debt to Equity Ratio will not be followed by an increase or decrease in company value.

5.4. The effect of profitability on firm value in textile and garment sub sector manufacturing companies listed on the Indonesia stock exchange for the 2014-2018 period

Profitability can be used for discretionary uses such as acquisitions and capital expenditures with a growth orientation, debt payments, and payments to shareholders in the form of dividends. The greater the available profitability, the healthier the company is because it has cash available for growth, debt payments and dividends. Profitability shows an illustration for investors that dividends distributed by the company are not just a strategy to get around the market with the intention of increasing the value of the company. The results show that profitability has an effect on firm value in the Textile and Garment Sub-Sector Manufacturing companies listed on the Indonesia Stock Exchange from 2014 to 2018. The calculation result states that the ratio between \( t_{count} \) is 0.432205, while \( t_{table} \) is 1.987, which means \( t_{count} < t_{table} \) is 0.432205 < 1.987. The conclusion is that Ho is accepted and Ha is rejected, it means that partially the profitability variable does not have a significant positive effect on Firm Value. The results of the study are not in line with Tirza Tiara Muhammad (2015) that profitability as measured by ROA has no effect on the company's stock price.

6. Conclusion

1. Liquidity in the textile and garment manufacturing sub-sector companies during 2014-2018 tended to be stable, solvency tended to fluctuate and profitability in the company was considered good even though there were still companies that had low values during the five years.
2. Liquidity has no effect on firm value, solvency has no effect on company value and profitability has no effect on manufacturing companies in the textile and garment industry sub-sector.
3. Liquidity, solvency and profitability in the textile and garment manufacturing sub-sector companies have an effect on firm value.
References