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The Effect of Profitability and Liquidity on the Value of Infrastructure Sector Companies on the Indonesia Stock Exchange for the 2014-2023 Period

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ABSTRACT

The impact of infrastructure development over the past ten years should have begun to be felt by the community, which is expected to increase company profits and attract investors to make investments. This study aims to determine investment opportunities for companies listed on the Stock Exchange of Indonesia. The data to be processed is ratio data consisting of ROE, Cash Ratio, and Value Ratio from five infrastructure sector companies that are at least one decade old and are included in the Main Board category, namely issuers that are large companies and have a good financial track record. The research methodology is quantitative and makes use of SEM PLS. The study's findings indicate that although the profitability ratio and profitability ratio have increased, this only has a small effect on the Company's Valuation. Therefore, investors should not only focus on paying attention to the company's financial ratios, but also need to pay attention to its business strategy in the future.

Keywords: Indonesia Stock Exchange, Infrastructure Sector Companies, Liquidity, Profitability.

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INTRODUCTION

Massive infrastructure development since 2014 in almost all regions of Indonesia has made investment opportunities in companies listed on the Indonesian Stock Exchange and operating in this sector become one of the attractive securities for investors to invest the resources they have. With the positive impacts resulting from this development, such as economic growth in the regions and various other social aspects, it becomes interesting when investors are able to take a scientific approach to determine investment opportunities for listed companies. A company is one of the institutions whose purpose of formation is to provide benefits for the owner and other individuals within it. With this aim, the company will carry out every type of business, whether it is the production of goods or services on a permanent and continuous basis. Apart from this, the long-term goal of establishing a company is to optimize the value of the company itself (Ananda, 2017). Company value can be analyzed using 3 approaches, namely the fundamental approach, technical approach and market efficiency approach (Lutfi & Hendrian, 2019). Lutfi & Hendrian (2019)

stated that the fundamental approach to stock prices in the market can be influenced by fundamental economic factors (external to the company) and fundamental factors of the company (internal to the company). Overall, the performance of a company will be reflected in the company's financial reports which can be measured through financial ratios, namely profitability ratios and liquidity ratios.

The profitability ratio in this study will be determined using the Return on Equity (ROE) ratio. One indicator of a company's ability to make money for its shareholders is the return on equity (ROE) ratio. A greater ROE ratio suggests that the company is managing its capital quite effectively.

Trade-off theory

Modigliani and Miller first identified trade-off theory in 1963. Harjito (2011) explained that in trade-off theory there is an optimal point between company value and capital structure. This theory states that in order for a company to be considered to have an optimal capital structure, the company must always maintain an optimal level of debt. This implies that the business has a higher chance of going bankrupt if the debt level beyond a particular threshold, but it will be profitable in terms of tax payment responsibilities.

Profitability Ratio

A company's ability to generate a profit over a given period of time can be evaluated using a ratio known as the profitability ratio (Lutfi & Hendrian, 2019). This ratio can provide an idea of the company's effectiveness in earning profits from both sales activities and investment income. The profitability ratio in this research is based on the amount of Return on Equity (ROE). Return On Equity (ROE) is a measuring tool to determine a company's ability to generate profits on the capital it owns. A higher ROE rating indicates that the business can make extremely large profits. The formula for measuring the size of ROE is: $ROE = \frac{Net\ Income}{Total\ Equity}$. Generally speaking, a company's capacity to turn a profit is considered strong if its ROE is more than 20%.

Liquidity Ratio

An overview of the company's capacity to meet debt commitments on schedule by making the most of its available resources can be obtained from the liquidity ratio (Masyitah & Harahap, 2018). The most cautious ratio for assessing a company's capacity to meet its responsibilities is the cash ratio. Short-term creditors are very interested in this ratio because the value of cash and cash equivalents (such as marketable securities) is also a comparison factor for total current debt (Affandi et al., 2018). Cash divided by short-term liabilities yields the cash ratio. Explicitly, the formula for calculating cash ratio is $cash\ ratio = \frac{cash + Marketable\ Securities}{Total\ Current\ Liabilities}$.

Company value ratio

The Tobins'Q ratio was used in this study to calculate the company value. One ratio that separates a company's assets into tangible and intangible components is the Tobins'Q ratio (Dzahabiyya et al., 2020). The formula for calculating the Tobins'Q ratio is: $Q = \frac{Equity\ Market\ Value+D}{Equity\ Book\ Value+D}$.

Where

Q = Company Value

D = total value debt

Equity Market Value (EMV) = closing price of shares at the end of the year multiplied by the number of shares outstanding

Equity Book Value (EBV) = total assets minus total liabilities.

Previous research by Ananda (2017) shows that profitability ratios have no effect on company value. This is because investors tend to be interested in carrying out technical analysis rather than fundamental analysis. This conclusion contradicts the results of research by Pratami dan Jamil

(2020) which states that by using multiple regression analysis with SPSS there is an influence between profitability and company value. Other research by Fadillah & Tiara (2021), demonstrates how profitability influences a company's value but liquidity has no effect. Zuhro & Irsad (2022) added that the value of a company is not positively impacted by liquidity.

It is crucial to do this research because, by now, the community should be feeling the effects of the infrastructure development during the previous ten years, which should boost business earnings and draw in investors. The Covid-19 pandemic also struck during the study period (2014–2023), which affected public interest in investing and caused it to rise. The companies sampled in this research are also companies that are at least a decade old and are included in the Main Board category, namely issuers that are large companies and have a good financial track record.

The government's infrastructure development program for the next few years will continue. By analyzing and scientifically approaching data from the past, investors will get an idea of how decisions will be taken in the future. If the investment picture has been obtained and the investor is able to find good investment opportunities and then proceed with making the right decisions, then the investor will have a better life in the future, and his welfare will increase (Tandelilin, 2010). By using a scientific process, investors should be able to make the best decisions to increase the value of earnings in their portfolios. Research Hypothesis:
H1: The Infrastructure Sector Company Value Ratio is impacted by the liquidity ratio.
H2: The Infrastructure Sector Company Value Ratio is impacted by the profitability ratio.

METHODS

This study employed a quantitative approach with SEM PLS as its research methodology. In SEM using PLS, through a series of Ordinary Least Squares (OLS) regression iterations, partial model relationships are estimated in order to maximize the variances of the explained endogenous latent variables (Sarwono & Narimawati, 2015). The SEM PLS method is used to predict endogenous latent variables or main variables. The SEM PLS model in this research begins with a measurement model test (outer model) which is divided into three parts, namely:

a. measuring convergent validity with parameters: loading factor > 0.70; average variance extracted (AVE) > 0.50; and communality > 0.50;
b. discriminant validity measurement with cross loading parameters > 0.70 for each variable; the square root of AVE which must be greater than the correlation between latent constructs;
c. reliability measurement with Cronbach's Alpha parameters > 0.70 and composite reliability > 0.70.

After the measurement model (outer model) has been measured, then proceed with the structural model (inner model) with the R-Square and Q-Square Predictive Relevance criteria. The population in this research are companies that have been listed on the Indonesian Stock Exchange for a minimum period of ten years. Of the sixty-nine existing infrastructure companies, five companies included in the main listing board were taken as samples, including Telkom Indonesia (Persero) Tbk (TLKM), Sarana Menara Nusantara Tbk. (TOWR), Tower Bersama Infrastructure Tbk. (TBIG), Jaya Konstruksi Manggala Prata (JKON), XL Axiata Tbk. (EXCL). The research time period is from 2014 to 2023. The data that will be processed is ratio data consisting of ROE, Cash Ratio, and Value Ratio for the five companies.

RESULTS AND DISCUSSION

Evaluation of Measurement Model (Outer Model)

Outer Model iteration begins by removing loading factors that are considered invalid and do not meet the criteria. The result are as follows:

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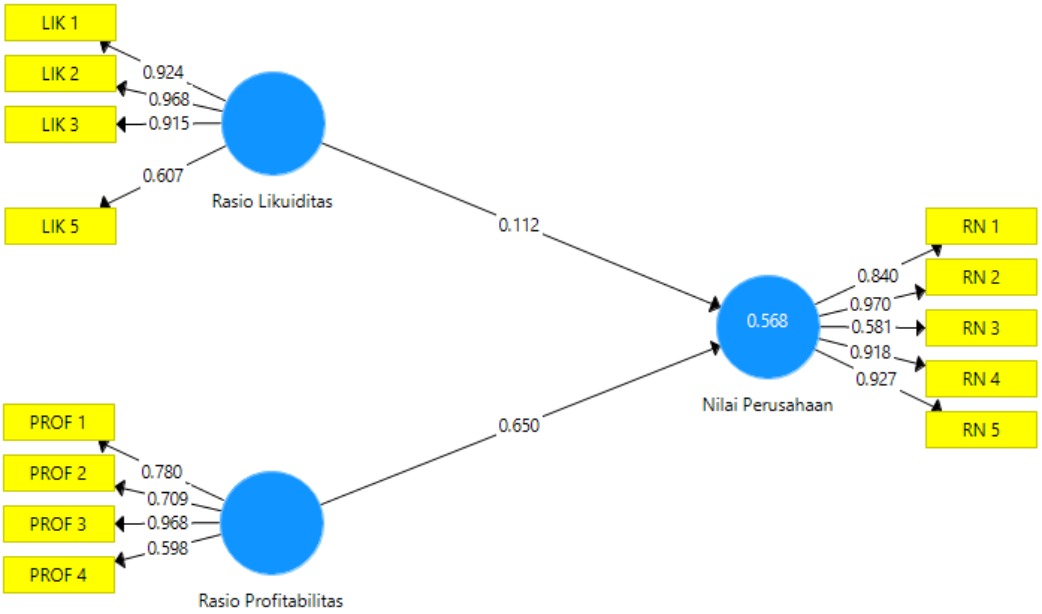

Figure 1. Outer Model

Source: SEM PLS analysis

Measuring reliability with the Construct Reliability and Validity parameters shows that all data is reliable, where the Average Variance Extracted (AVE) calculation results show that all calculation results are above 0.5 and the Cronbach's Alpha and Composite Reliability values are also above 0.7.

Table 1. Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Company Value	**0,913**	**0,990**	**0,932**	**0,737**
Liquidity Ratio	**0,895**	**1,003**	**0,921**	**0,749**
Profitability Ratio	**0,773**	**0,833**	**0,854**	**0,601**

Source: SEM PLS analysis

The square root of Average Variance Extracted (AVE), which is the value of the Fornell-Larcker Criterion, likewise indicates that the correlation between latent constructs is less than the square root of AVE.

Table 2. Fornell-Larcker Criterion

	Nilai Perusahaan	Rasio Likuiditas	Rasio Profitabilitas
Company Value	0,858		
Liquidity Ratio	0,700	0,866	
Profitability Ratio	0,752	0,905	0,775

Source: SEM PLS analysis

It may be inferred from the measurement model (outer model) measurements above that every indication in this study has been deemed legitimate and suitable for use as construct measures.

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Evaluation of the structural model (inner model)

Proceed with the structural model (inner model) using the R-Square and Q-Square Predictive Relevance criteria after the measurement model (outer model) has been measured. R-Square and Q-Square Predictive Relevance are utilized in the structural model (inner model) test itself to determine the relative contributions of each exogenous latent variable to the endogenous latent variable.

The structural model (inner model) test begins by carrying out a Bootstrapping test on SmartPLS.

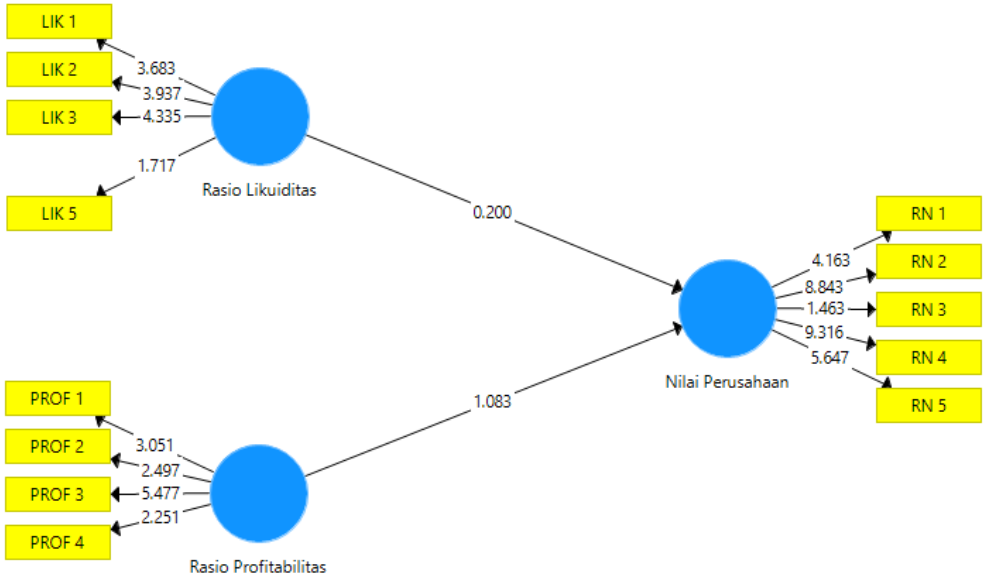

Figure 2. Outer Model
Source: SEM PLS analysis

Based on Bootstrapping calculations, the following are the findings of the path analysis is:

Table 3. Bootstrapping

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Liquidity Ratio -> Company Value	0,112	0,125	0,562	0,200	**0,842**
Profitability Ratio -> Company Value	0,650	0,657	0,600	1,083	**0,279**

Source: SEM PLS analysis

The Liquidity Coefficient to Value Ratio is 0.112, indicating that it has a favorable impact. The P value of the Liquidity to Value Ratio is 0.842 > 0.05, meaning it is not significant.

Thus, it is said that the Liquidity Ratio has a positive and minor effect on the Company Value Ratio.The Profitability Coefficient on Liquidity is 0.650, indicating that it has a favorable impact. The P value of Profitability on is 0.279 <0.05, meaning it is not significant. Accordingly, it is claimed that the Company Value Ratio is positively and negligibly impacted by the Profitability Ratio.

CONCLUSION

Given the results of the structural model (inner model) evaluation tests indicated above, it can be concluded that while the liquidity and profitability ratios have both grown, the company value ratio has not been significantly impacted. Increasing liquidity and profitability ratios is a positive indicator of a company's financial performance, but this is not the only factor that can determine company value. In determining company value, there are various other factors such as macroeconomic conditions, market perception, company efficiency, debt, and so on. Therefore, in addition to concentrating on the company's financial parameters, investors should also be aware of the industry's future business plan.

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