





DETERMINANTS OF PROFITABILITY AND ITS IMPLICATIONS ON CORPORATE VALUES (STUDIES AT CERAMIC, PORCELAIN AND GLASS SUB SECTOR LISTED IN INDONESIA STOCK EXCHANGE, 2009 - 2018)

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ABSTRACT

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This study aims to analyse the effects on the profitability (return on assets) and its implications on corporate value by internal influences (current ratio, leverage and sales growth) and external influences (IDR exchange rate and energy price). The object of research is ceramics, porcelain and glass industries registered in the Indonesian stock exchange with total 8 industries in the period 2009 – 2018. The methodology used is descriptive quantitative research and causality with purposive sampling technique and panel data regression analysis. The result of the study indicated that liquidity and energy price did not have a significant negative effect on profitability, leverage had a significant negative effect on profitability, sales growth had a significant positive effect on profitability, and IDR change rate did not have a significant positive effect on profitability. While profitability has significant positive effect on corporate value.

Contribution/Originality: This study is one of very few that has investigated the causal relationship between internal and external influence at ceramic, porcelain and glass manufacturing that very impact to production cost and profitability. Consequently, it highlights that very importance of improving efficiency of energy and manage financial ratio to increase profitability.

1. INTRODUCTION

Corporate value is investors' perception of the level of success of a company that is often associated with stock prices. High stock prices make the value of the company also high, and increase market confidence not only in the company's current performance but also in the company's future prospects.

Maximizing corporate value is very important for a company, because maximizing the value of the corporate also means maximizing the company's main goals. Increasing corporate value is an achievement in accordance with the wishes of its owners, because with increasing corporate value, the welfare of the owners will also increase.

Profitability is one of the important indicators for assessing a company. Profitability is used not only to measure the company's ability to generate profits but also to determine the company's effectiveness in managing its resources.

Although the government has made many breakthroughs, the economic slowdown is inevitable mainly due to external factors, including instability in global financial conditions, the economic slowdown in developing countries which are Indonesia's trading partners, and falling commodity prices. The direct impact caused by these external

factors is the significant weakening of the IDR exchange rate and this condition has had a negative impact on market share in all sectors.

The development of manufacturing industry companies in Indonesia is quite rapid. This can be seen from the growing number of manufacturing companies listed on the Indonesia Stock Exchange. With the increase in manufacturing companies, this does not rule out the possibility that this company is needed by the community and its prospects are profitable in the present and the future, but the competition is becoming tighter.

Infrastructure development and public housing have been the main focus of the government for the past 4 years. This is realized by providing a sizable portion of the budget in the APBN. Infrastructure development has also become a stimulus for housing supply growth because areas that were previously considered to be in the middle of nowhere have become easier to reach.

Indonesia's current economic growth trend shows improvement, namely at 5.17%, compared to the previous 3 years which grew at an average of 5%. However, at the end of 2018 there were no significant developments and growth in the national ceramics industry due to several factors such as increased ceramics imports, especially from China, and the property sector which has not been stretched. A number of local ceramics producers have become disrupted, one of the indications is that most ceramics industries are not fully producing or the average utilization of production capacity is only around 65-70 percent of the total installed capacity.

Energy prices that remain high are the main challenges that must be faced as an industry that still depends on an adequate supply of energy. The movement of the IDR exchange rate is one factor that we look at. The weakening of the rupiah against the US dollar will increase production costs because the portion of production costs in the US dollar is still quite significant.

The basic and chemical industry sector is one of the 3 sectors in the Indonesia Stock Exchange which represents the basic elements used in daily life. Almost all items that we use every day are products of basic industrial and chemical companies. The basic and chemical industry sector consists of 8 sub-sectors and one of them is the ceramic, porcelain and glass sub-sector.

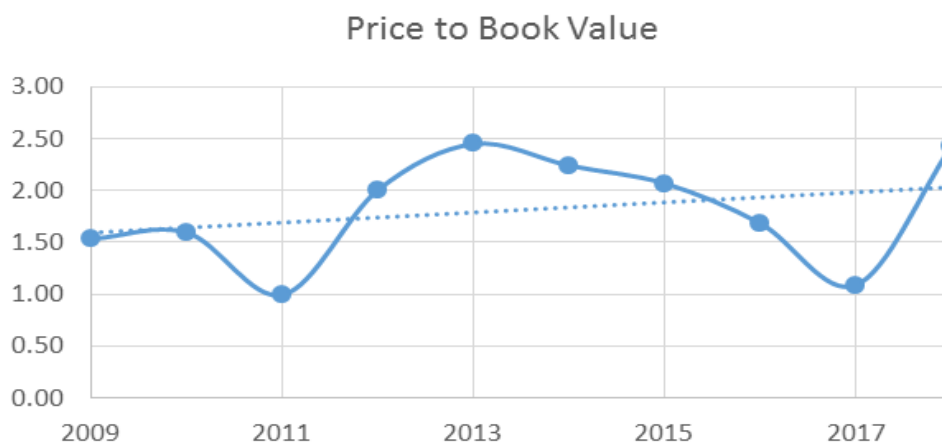


Figure-1. Price to book value (PBV) of 6 companies of ceramics, porcelain and glass sub sector 2009 – 2018.

Figure 1 shows fluctuation and uptrend in the average PBV of 6 companies' ceramics, porcelain and glass manufacturers.

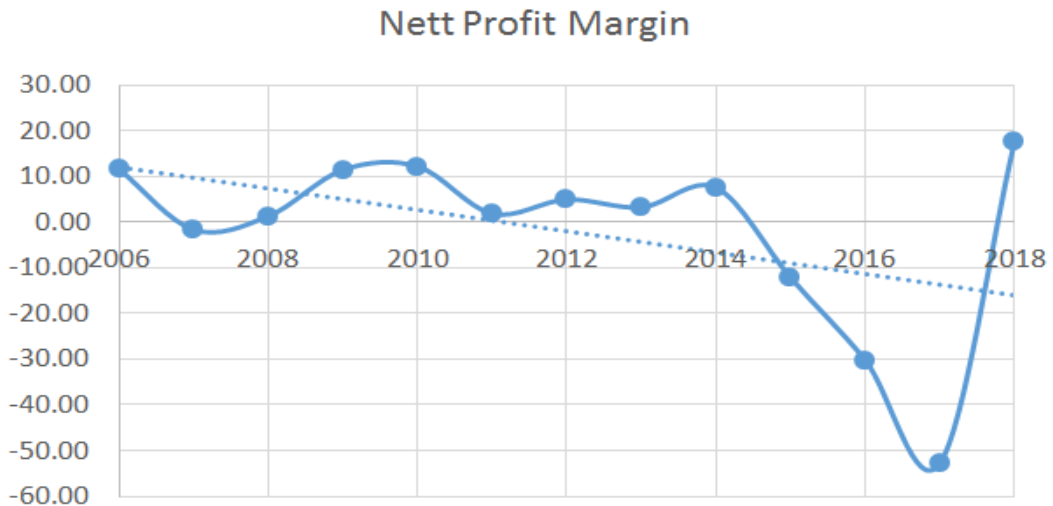


Figure-2. Profitability / net profit margin (NPM) 6 companies of ceramic, porcelain and glass sub sector 2009 – 2018.

Figure 2 shows fluctuation and downward trend in the average NPM of 6 companies’ ceramics, porcelain and glass manufacturers.

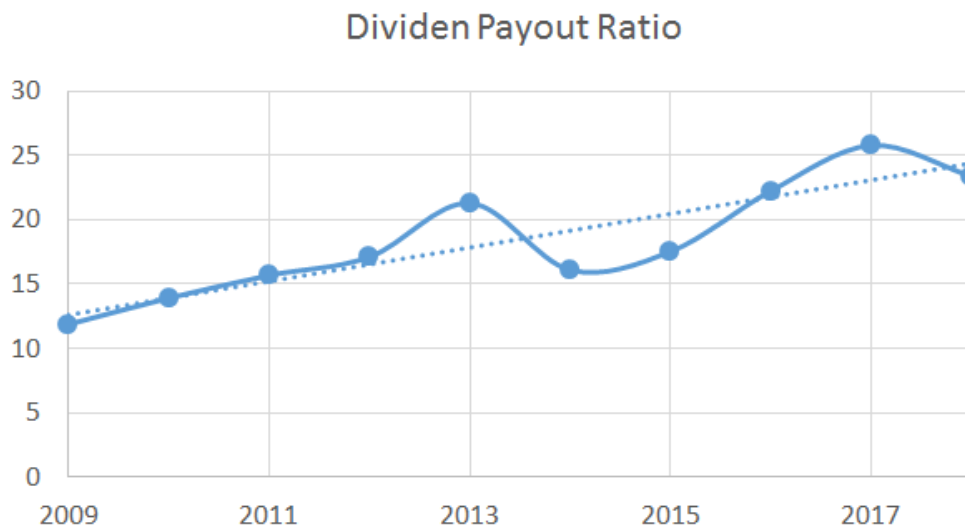


Figure-3. Dividend payout ratio of 6 companies of ceramic, porcelain and glass sub-sector 2009 – 2018.

Figure 3 shows fluctuation and uptrend in the average Dividend Payout Ratio of 6 companies’ ceramics, porcelain and glass manufacturers.

Base on the background, it can be seen that the average fluctuating of corporate value (PBV) tends to rise, but the average profitability (NPM) fluctuating and have tends to decrease and every year there is an increment of the distribution of dividends (DPR), therefore it is necessary to analyze the causes of variations fluctuations from internal and external financial performance factors that resulted in the rise and fall of profitability and corporate value, especially in the issuers of the ceramics, porcelain and glass sub-sectors, which seemed to be very strongly affected by changes in policy from the government and energy prices.

2. LITERATURE VIEW

2.1. Corporate Value

The company's main goal is to maximize profits or wealth, especially for its shareholders, manifested in the form of efforts to increase or maximize the market value of the company's stock price in question. This goal is

outline, because in practice the goal is always influenced by decisions in the financial sector (Tika, Kartika, & Pratama, 2012).

Value is something that is desirable if the value is positive in the sense of beneficial or pleasant and makes it easy for the party who obtained it to fulfill its interests related to that value. Conversely, value is something that is undesirable if the value is negative in the sense of harming or making it difficult for those who obtain it to influence the interests of those parties so that the value is shunned (Tika et al., 2012).

According to Fama and French (1998) the value of a company can be seen from the price of its shares. Stock prices are formed at the request and offer of investors, so that the stock price can be used as a proxy for the value of the company. According to Jensen (2001) to maximize the value of a company is not only the equity value that is considered, but financial sources such as debt and preferred stock. High stock prices make the value of the company also high (Brealey, Myers, & Marcus, 2007).

2.2. Profitability

Profitability is one of the important indicators for assessing a company. Profitability is used not only to measure the company's ability to generate profits but also to determine the company's effectiveness in managing its resources.

Profitability ratios measure the success of management as indicated by the profits generated by sales and investments. This profitability growth is marked by changes in profit margins on sales. With a high level of profitability, the company will operate at a low cost, which will eventually result in high profits.

Horne (2005) suggest profitability ratios consist of two types, ratios that show profitability in relation to sales and ratios that show profitability in relation to investment. Profitability in relation to sales consists of gross profit margin and net profit margin. Profitability in relation to investment consists of the rate of return on total assets and the rate of return on equity.

2.3. Liquidity

Liquidity analysis is used to measure the company's ability to meet short-term financial obligations, both the obligation to finance the production process and the company's exit obligations. According to Hani (2015) the notion of liquidity is the ability of a company to meet all financial obligations that can be immediately disbursed or are past due. Specifically, liquidity reflects the availability of funds owned by the company to meet all debts that are due.

2.4. Leverage

This ratio measures the company's ability to meet its long-term obligations. A company that is not solvable is a company whose total debt is greater than its total assets. This ratio focuses on the company's obligations. Some analysts use the term leverage ratio (Suad, 2003).

2.5. Sales Growth

Sales growth reflects the success of past investment periods and can be used as a prediction of future growth. Sales growth is an indicator of demand and competitiveness of companies in an industry. According to Kesuma (2009) also states that sales growth is an increase in the number of sales from year to year or from time to time. High sales growth, it will reflect the company's revenue which also increased. The growth rate of a company will affect the ability to maintain profits in marking the opportunities that will come. High sales growth then reflects increased income so that the tax burden increases.

Sales growth can be seen from changes in sales the year before and the next period. A company can be said to experience growth for the better if there is a consistent increase in the main activities of its operations. The

calculation of the company's sales level is compared at the end of the period with sales that are made into the base period. If the comparison value gets bigger, it can be said that the growth rate of sales is getting better.

2.6. Exchange Rate

The exchange rate is the value of a country's currency compared to the value of another country's currency. Within the scope of monetary science generally known as the two exchange rate systems that are applied, namely the fixed exchange rate system and the flexible exchange rate system, but with the rapid development of science new concepts related to the exchange rate system in the exchange rate are controlled floating exchange rate systems. Some systems used in the exchange rate are a) a fixed exchange rate system, b) a flexible exchange rate system, c) a managed floating exchange rate system.

2.7. Framework

Based on the background, problem formulation, research objectives and the results of previous studies, the research model is as follows:

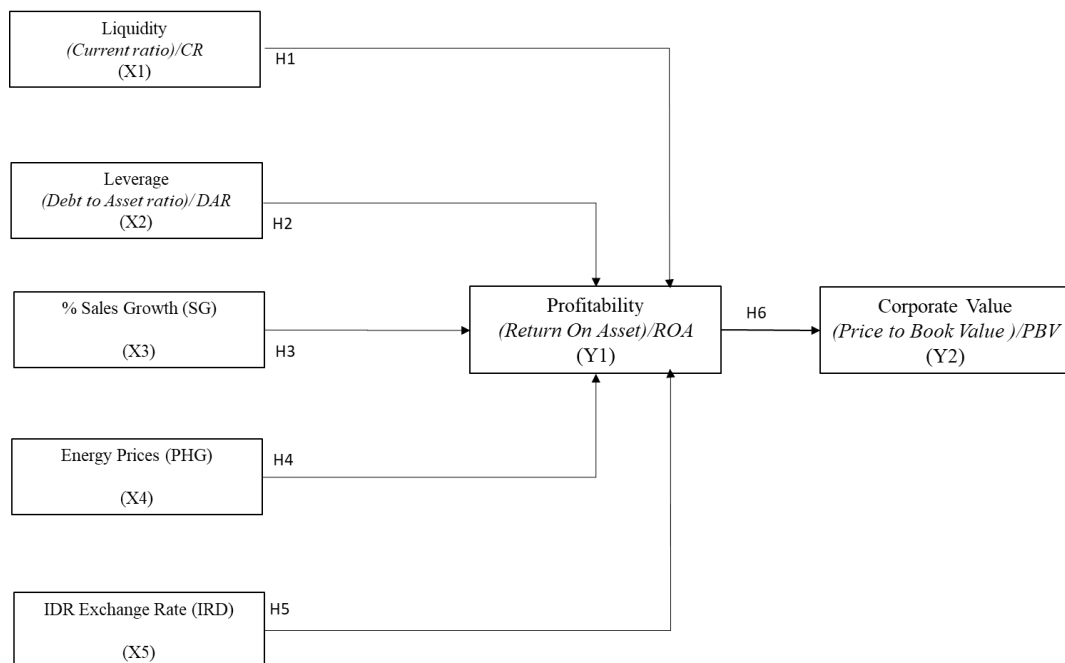


Figure-4. Framework.

Based on the above framework, the hypotheses of this study are as follows:

- H1: Liquidity (CR) has a positive effect on profitability (ROA).
- H2: Leverage (DAR) has a negative effect on profitability (ROA).
- H3: Sales Growth (SG) has a positive effect on profitability (ROA).
- H4: Energy prices (PHG) has a positive effect on profitability (ROA).
- H5: IDR exchange rate (IRD) has a positive effect on profitability (ROA).
- H6: Profitability (ROA) has a positive effect on corporate value.

3. RESEARCH METHODOLOGY

This research is an associative research with a causal relationship which aims to find out the relationship between two or more variables. Causal relationships are causal relations, the independent variable (X) affects the dependent variable (Y). Interactive or reciprocal relationships are relationships that affect each other.

The type of research approach used is quantitative that produces structured data, so that it can carry out the process of quantifying data, changing the original data into tangible data (Sinambela, 2014). This study uses 2 (one) dependent variables, Price to Book Value (PBV), and Profitability (ROA) and 5 (five) independent variables, liquidity (CR), leverage (DAR), sales growth (SG), energy prices (PHG), IDR exchange rate (IRD).

The population in this study were ceramics, porcelain and glass sub-sectors listed on the Indonesia Stock Exchange in 2009-2018, total have 8 companies. The sampling method that will be used in this study is the purposive sampling method. Of the 8 companies listed, only 6 companies met the criteria for the sample. The data source used is secondary data that is the source of research data obtained indirectly through intermediary media. And the intermediary media that researchers use is the Indonesian Capital Market Directory (ICMD) as well as the official website of Bank Indonesia as well as financial report data and annual reports from all listed companies analyzed.

From the time of data collection in this study classified into panel data that is time series and cross section data. The data analysis method that will be used in this study is the panel regression model. There are three types of analysis model approaches in panel data. The three types of approaches are Common Effect Model, Fixed Effect Model and Random Effect Model. In determining which panel regression model is appropriate for use, the Chow test, Hausman Test and Langrange Multiplier Test are performed. The chow-test is used to determine the common effect model approach or the fixed effect model approach. The Hausman Test is used to determine between the fixed effect model approach or the random effect model approach. And the Langrange Multiplier Test is used to determine between the common effect model approach or the random effect model approach.

Descriptive statistics is an analysis that provides a description or description of a data that is seen from the mean (standard), standard deviation, variance, maximum, minimum. Descriptive statistical analysis is used to find a description of the variables used namely Price to Book Value (PBV), Profitability (ROA), Liquidity (CR), Leverage (DAR), Sales Growth (SG), energy prices and the IDR exchange rate.

The classic assumption test conducted in this study includes the normality test, the multicollinearity test, the heteroscedasticity test and the auto correlation test.

3.1. Hypothesis Test

The coefficient of determination (R^2) essentially measures how far the model's ability to explain variations in independent variables. The coefficient of determination is between zero and one. A small R^2 value means that the ability of the independent variables to explain the variation of the dependent variable is very limited. A value close to one means that the independent variables provide almost all the information needed to predict variations in the dependent variable (Ghozali, 2011).

The simultaneous significance test F basically shows whether the model or analysis tool is feasible to use. The F test in this study will use a comparison approach of F calculated with F table with the criteria if F calculated $>$ F table then the model or analysis tool is feasible to use and can predict the effect of certain variables on other variables.

The statistical t test basically shows how far the influence of one independent variable individually in explaining the variation of the dependent variable (Ghozali, 2011).

Hypothesis criteria:

$H_0: b_i = 0$, means that there is no significant (partial) individual influence between the independent variables individually on the dependent variable.

$H_1: b_i \neq 0$, meaning there is a significant (partial) individual influence between the independent variables individually on the dependent variable.

T test in this study uses the approach of t arithmetic comparison with t table and the comparison of signification against alpha with the provisions if t calculated > t table and significance < alpha (0,05), then the independent variable has a significant effect on the dependent variable.

4. RESULT AND DISCUSSION

From 8 companies listed at Ceramics, porcelain and glass sub-sectors on the IDX, only 6 companies are eligible and data can be taken in this study.

4.1. Descriptive Statistic.

Table-1. Descriptive statistic

Variable	Y2	Y1	X1	X2	X3	X4	X5
Mean	1.869333	5.116667	181.5167	43.11667	5.516667	2.900000	6.700000
Median	1.100000	5.000000	152.0000	40.50000	8.000000	1.500000	7.000000
Maximum	7.800000	45.00000	500.0000	87.00000	62.00000	21.00000	13.00000
Minimum	0.100000	-28.00000	3.000000	8.000000	-46.00000	-10.00000	-3.000000
Std. Dev.	1.900656	12.48333	119.0810	21.81594	17.07063	7.659491	5.723280

The average corporate value of all issuers is 1.869333% with a minimum value of 0.1% while the maximum value is 7.80% and the standard deviation of the corporate value of all issuers is 1.900656%. Average profitability of all issuers is 5.116667% with a minimum value of -28.00% while a maximum value of 45% and a standard deviation of profitability of all issuers is 12.48333%.

The average liquidity of all issuers is 181.5167% with a minimum value of 3.00%, while the maximum value is 500.00% and the standard deviation of liquidity for all issuers is 119.0810%.

The average leverage of all issuers is 43,11667% with a minimum value of 8%, while the maximum value is 87% and the standard deviation of all issuers' leverage is 21,81594%.

The average sales growth of all issuers was 5.516667% with a minimum value of -46.00%, while the maximum value was 62.00% and the standard deviation of sales growth for all issuers was 17.07063%.

The average energy prices in 2009 - 2018 was 2.90% with a minimum value of change of -10.00% in 2009, while the maximum value of changes was 21.0% in 2012 and the standard deviation of energy prices in 2009 - 2018 was 7,659491%. The average the IDR exchange rate in 2009 - 2018 was 6.7% with a minimum value of change of -3% in 2011, while the maximum change in value was 13% in 2014 and the standard deviation of IDR exchange rate in the year 2009 - 2018 amounted to 5.723280%.

4.2. Selection of Estimated Models

A. Analysis model 1 is the relationship of Independent variables (CR, DAR, sales growth, energy prices and IDR exchange rate to dependent variable (profitability).

Chow Test Analysis Model 1:

Empirical results state that H₀ is rejected, because it is seen from the significance value that is P-value < 0.05 or 0.0000 < 0.05. So, it can be concluded that with a confidence level of 95%, it can be concluded that the Fixed-Effect Model is better used than the Common Effect Model/Pooled Least Square.

Hausman Test Analysis Model 1:

Empirical results state that H₀ is accepted, because it is seen from the significance value that is P-value > 0.05 or 1.0000 > 0.05. So, it can be concluded that with a confidence level of 95% the Random-Effect Model is better used than the Fixed Effect Model. After the stages of selecting the best model with the Chow test and Hausman test, it can be concluded that the best model to explain the relationship between the independent variable and the dependent variable is the Random-Effect Model.

Based on the results of the calculation of the multicollinearity test the correlation coefficient values indicate that there is no correlation value of all independent variables that have a value > 0.8, then it is stated that among the independent variables there is no multicollinearity. The chosen model is a random effect model so that it does not need heteroscedasticity and autocorrelation tests, because the random effect model uses the Generalized Least Square estimator that is free of heteroscedasticity and autocorrelation (Gujarati & Porter, 2010).

The estimation results using the Random-Effect Model are as follows:

Table-2. Random-effect model.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	19.61635	5.500228	3.566462	0.0008
X1	-0.021435	0.014849	-1.443571	0.1546
X2	-0.302617	0.061578	-4.914355	0.0000
X3	0.191912	0.072376	2.651610	0.0105
X4	-0.271576	0.143405	-1.893766	0.0636
X5	0.323568	0.185530	1.744019	0.0868
Weighted Statistics				
R-squared	0.369714	Mean dependent variable		1.536166
Adjusted R-squared	0.311354	S.D. dependent variable		9.421334
S.E. of regression	7.818264	Sum squared residual		3300.764
F-statistic	6.335079	Durbin-Watson stat		1.306847
Probability(F-statistic)	0.000107			

Based on data Random Effect Model table above, it can be seen that the R-Squared value is $R^2 = 0.369714$. Thus it can be interpreted that the ROA behavior in the equation model can be explained by all independent variables at 36.97%. while the rest is explained by other variables not included in this study.

The results of the comparison of the calculated F value with the F table value are: F calculate according to the table above = 6.335079, F table = according to the table F (0.05) (n1) = 5 and (n2) = 55 table values = 2.38. The conclusion is F calculated is greater than F table, it can be interpreted that the model or analysis tool is feasible to use and can predict the effect of independent variables (liquidity, leverage, sales growth, energy prices and IDR exchange rate) on the dependent variable (profitability).

The regression equation obtained for analysis model 1 is:

$$ROA = 19.616 - 0.021 CR - 0.302 DAR + 0.191 SG - 0.271 PHG + 0.323IRD$$

Based on the regression equation analysis model 1 above, it can be interpreted as follows:

- The constant coefficient of the regression equation of 19.616 can be interpreted that if all independent values are zero, then the value of profitability (ROA) is 19.616.
- Liquidity (X1) has a beta coefficient of -0.021435. The coefficient can be interpreted that an increment in liquidity (X1) by percent unit or one unit, it will reduce profitability (Y1) by 0.021435.
- Leverage (X2) has a beta coefficient of -0.302617. The coefficient value can be interpreted that an increment in leverage (X2) by percent unit or one unit, it will reduce profitability (Y1) by 0.302617.
- Sales growth (X3) has a beta coefficient of 0.191912. The coefficient value can be interpreted that an increment in the sales growth (X3) by percent unit or one unit, it will increase profitability (Y1) by 0.191912.
- Energy prices (X4) has a beta coefficient of -0.271576. The coefficient can be interpreted that an increment in the change of gas price (X4) by percent unit or one unit, it will reduce profitability (Y1) by 0.271576.
- IDR exchange rate (X5) has a beta coefficient of 0.323568. The coefficient can be interpreted that an increment in IDR exchange rate variable (X5) by percent unit or one unit, it will increase Y1 by 0.323568.

Based on Table 2, the t-test was carried out and concluded as follows:

- Liquidity (X1) has a significance level of 0.1546, where the value of $0.1546 > 0.05$. So, it can be interpreted that liquidity has no significant effect on the profitability. Faced with the hypothesis in Chapter II which states that liquidity has a significant positive effect on profitability, the test results state the hypothesis is rejected. This

research is in line with the results of research by Wulandari (2017) which states that liquidity has no significant effect on profitability.

- b. Leverage (X2) has a significance level of 0.0000, where the value of 0.0000 < 0.05. So, it can be interpreted that leverage has a significant effect on variable profitability. Faced with the hypothesis in Chapter II which states that leverage has a significant negative effect on profitability, the test results state the hypothesis is accepted. This study is in line with the results of research Yulia, Putra, and Badjra (2015) and Parminto, Djoko, and Jhonny (2016) which states that leverage has a negative and significant effect on profitability.
 - c. Sales growth (X3) variable shows the level of significance of 0.0105, where the value of 0.0105 < 0.05. So, it can be interpreted that sales growth has a significant effect on the profitability. Faced with the hypothesis in Chapter II which states that sales growth has a significant positive effect on profitability, the test results state the hypothesis is accepted. This study is in line with the results of research (Shintya, Situmorang, & Iryani, 2015) which states that sales growth has a positive and significant effect on profitability. But contrary to the results of Yulia et al. (2015) which states that sales growth has a negative and not significant effect on profitability.
 - d. Energy prices (X4) has a significance level of 0.0636, where the value is 0.0636 > 0.05. So, it can be interpreted that changes in gas prices have no significant effect on the profitability variable. Faced with the hypothesis in Chapter II which states that changes in gas prices have a significant positive effect on profitability, the test results state the hypothesis is rejected.
 - e. IDR exchange rate (X5) has a significance level of 0.0868, where the value is 0.0868 > 0.05. So, it can be interpreted that IDR exchange rate does not significantly influence on profitability. Faced with the hypothesis in chapter II which states that IDR exchange rate have a significant positive effect on profitability, the test results state the hypothesis is rejected. And these results are in line with the results of research by Mafirotul, Puspitaningtyas, and Bidhari (2016) which state that IDR exchange rate do not significantly influence on profitability.
- B. Analysis model 2 is the relationship between Independent variable (Profitability) and dependent variable (Corporate Value)

Chow Test Analysis Model 2

Table-3. Random-Effect Model (Model Analysis 2).

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.637132	0.503032	3.254526	0.0019
X1	0.045381	0.021451	2.115558	0.0387
Weighted Statistics				
R-squared	0.072800	Mean dependent variable		0.790775
Adjusted R-squared	0.056814	S.D. dependent variable		1.642020
S.E. of regression	1.594693	Sum squared residual		147.4967
F-statistic	4.553932	Durbin-Watson stat		0.847808
Probability (F-statistic)	0.037083			

From the empirical results it is stated that H0 is rejected, because it is seen from the significance value that is P-value < 0.05 or 0.0018 < 0.05. So, it can be concluded that with a confidence level of 95%, it can be concluded that Fixed-Effect Model is better used than Common Effect Model/ Pooled Least Square.

Hausman Test Analysis Model 2

From the empirical results it is stated that H0 is accepted, because it is seen from the significance value that is P-value > 0.05 or 0.9630 > 0.05. So, it can be concluded that with a confidence level of 95%, it can be concluded that the Random-Effect Model is better used than the Fixed Effect Model. After the stages of selecting the best model

with the Chow test and Hausman test, it can be concluded that the best model to explain the relationship between the independent variable and the dependent variable is the Random-Effect Model.

The estimation results using the Random-Effect Model are explained in Table 3. Based on Table 3 random effect model (Analysis 2) the results of the coefficient of determination test on the table shows the magnitude of $R^2 = 0.072800$. Thus it can be interpreted that PBV (Corporate Value) behavior in the equation model can be explained by profitability (ROA) of 7.28%. while the rest is explained by other variables not included in this study.

The results of the comparison of the calculated F value with the F table value are: F calculate according to the table above = 4.553932, F table = according to the table F (0.05) (n1) = 5 and (n2) = 59 the value of the table = 4.00. The conclusion is F calculate is greater than F table, it can be interpreted as a model or analytical tool feasible to use and can predict the effect of independent variable (profitability) on dependent variable (Corporate Value).

Based on Table 3 the regression equation analysis model 2 is:

$$PBV = 1,637 + 0.045 ROA$$

Based on the regression equation analysis model 2 above, it can be interpreted as follows:

- a. The constant coefficient of the regression equation of 1.637 can be interpreted that if all independent values are zero, then corporate value (PBV) is 1.637
- b. Profitability (Y1) has a beta coefficient of +0.045. This coefficient can be interpreted that every time there is an increase in profitability (ROA) (Y1) by percent unit or one unit, it will increase corporate value (PBV) (Y2) by 0.045.

Based on Table 3, the t-test was carried out and concluded as follows:

Profitability variable (Y1) has a significance level of 0.0387, where the value of $0.0387 < 0.05$. So, it can be interpreted that the profitability (ROA) has a significant effect on corporate value (PBV). Faced with the hypothesis in Chapter II which states that profitability has a significant positive effect on corporate value, the test results state the hypothesis is accepted.

And these results are also in line with the hypothesis in this study which states H6: Profitability (ROA) has a positive effect on corporate value (PBV).

5. CONCLUSION

This study aims to obtain empirical evidence about the factors that effect on corporate value as seen from the relationship between internal factors such as liquidity, leverage and sales growth and external factors such as energy prices and IDR exchange rate with profitability whose implications effect on corporate value.

This research was conducted on ceramics, porcelain and glass listed companies listed on the Indonesia Stock Exchange (IDX) during the 2009-2018 period. Based on the research results, the following conclusions are obtained:

1. Liquidity (CR) has a significant negative effect on profitability (ROA).
2. Leverage (DAR) has a significant negative effect on profitability (ROA).
3. Sales Growth (SG) has a significant positive effect on profitability (ROA).
4. Energy prices (PHG) have a non-significant negative effect on profitability (ROA).
5. IDR exchange rate (IRD) have a not significant positive effect on profitability (ROA).
6. Profitability (ROA) has a significant positive effect on corporate value (PBV).

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