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The Value of Firm: The Influence of Capital Structure and Profitability in Supermarket Sub-industry Companies Listed on the Indonesia Stock Exchange for the 2018-2023 Period

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Abstract: One of important role for the company is the perception of the community, especially investors in shaping the company's image through the value of firm. Companies that are able to manage resources efficiently will be more successful in increasing their value of firm. Therefore, the purpose of this study is to analyze the effect of Debt to Equity Ratio, Return on Assets, Return on Equity, and Net Profit Margin partially on Price to Book Value in supermarket sub-industry companies listed on the Indonesia Stock Exchange for the 2018-2023 period. The method used is quantitative descriptive method with the data used is secondary data which is annual financial reports. The data analysis technique uses panel data regression techniques through Eviews 12. The results of this study indicate that Debt to Equity Ratio and Return on Equity have no effect on Price to Book Value, Return on Assets has a positive and significant effect on Price to Book Value, and Net Profit Margin has a negative and significant effect towards Price to Book Value.

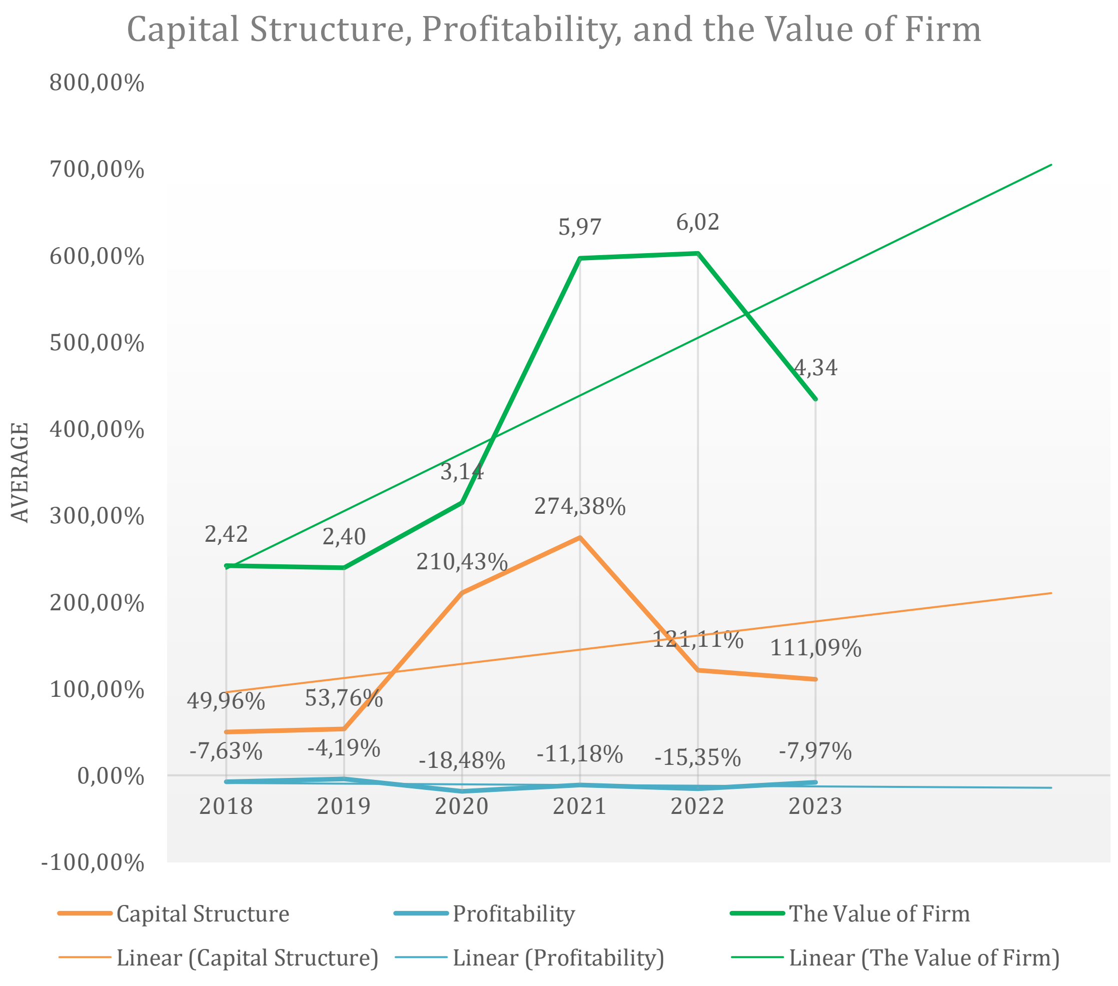
Keyword: Debt to Equity Ratio, Return on Assets, Return on Equity, Net Profit Margin, Price to Book Value.

INTRODUCTION

One of the important aspects for a company is public perception, especially from investors in shaping the company’s image. Sari & Mildawati (2017) state that the value of firm is a certain condition achieved by a company that reflects the public's trust in the company after a series of activities over several years, from the company's establishment until the present. According to Weston & Copeland (2010), the value of firm can be represented by the Price to Book Value ratio, which measures the comparison between the stock price per share and the book value per share. A high value of firm indicates that the company is performing well and its future prospects are trusted by investors (Pambudi et al., 2022). Aldi et al. (2020) emphasize the importance of corporate management in effectively and efficiently managing available resources to enhance the value of firm.

Fahmi (2017) states that capital structure is an illustration of a company’s financial proportion between its capital sourced from long-term liabilities and shareholders' equity, which serves as the company's financing source. This aligns with Riyanto (2014), capital structure proxied by the Debt to Equity Ratio. Wilfridus & Susanto (2021) explain that factors affecting the value of firm include profitability, leverage, asset growth, and company size. In this research, the focus is on the profitability factor. According to Titman et al. (2016), profitability plays a significant role in determining the value of firm. Hanafi & Halim (2016), profitabily proxied by Return on Assets, Return on Equity, and Net Profit Margin.

The object of this research is supermarket sub-industry companies listed on the Indonesia Stock Exchange for the 2018-2023 period. Figure 1 shows the average condition of capital structure, profitability, and value of firm in supermarket sub-industry companies listed on the Indonesia Stock Exchange for the 2018-2023 period.



Source: Research data

Figure 1. The Average Condition of Capital Structure, Profitability, and the Value of Firm

Based on Figure 1, the supermarket sub-industry companies listed on the Indonesia Stock Exchange have shown a linear increase in the average capital structure and corporate value, in contrast to profitability which has been declining over the 2018-2023 period. Based on this observation, the author finds it interesting to analyze the partial effects of the Debt to Equity Ratio, Return on Assets, Return on Equity, and Net Profit Margin on the Price to Book Value in supermarket sub-industry companies listed on the Indonesia Stock Exchange for the 2018-2023 period.

METHOD

The research method used a quantitative method with a descriptive approach. Sugiyono (2019) explains that the quantitative method is a research method based on positivist philosophy, considered scientific because it meets scientific principles concretely or empirically, objectively, measurably, rationally, and systematically. Meanwhile, Purba et al. (2021) describe the descriptive approach as the collection of data to test hypotheses or answer questions about the current status of the research subject. This research was conducted on supermarket sub-industry companies listed on the Indonesian Stock Exchange for the 2018-2023 period. These companies include PT Sumber Alfaria Trijaya, Tbk (AMRT); PT Hero Supermarket, Tbk (HERO); PT Midi Utama Indonesia, Tbk (MIDI); PT Matahari Putra Prima, Tbk (MPPA); and PT Supra Boga Lestari, Tbk (RANC).

The data used in this research are secondary data in the form of annual financial reports from supermarket sub-industry companies for the 2018-2023 period, which have been published on the Indonesian Stock Exchange. The data collection techniques for this research involved literature studies and documentation studies. Furthermore, the research data were processed through panel data regression analysis using Econometric Views (Eviews) version 12 with the research model as follows:

$$Y = 3{,}4809 + 0{,}2138X1 + 28{,}8169X2 – 0{,}7702X3 – 31{,}1054X4$$

The research model above was selected through model selection tests, referring to Basuki (2016), who states that regression model estimation using panel data can be performed through three approaches: the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). Based on the model selection test results, the most appropriate model for this research is the Fixed Effect Model. According to Basuki & Yuliadi (2014), if the chosen model is CEM or FEM, the classical assumption tests that need to be performed are the multicollinearity test and heteroscedasticity test. The research model used has been tested and passed both the multicollinearity and heteroscedasticity tests. Subsequently, a partial hypothesis test was conducted using the T-test, which aims to identify whether or not there is a partial influence of independent variables on the dependent variable, expressed by the probability value with a significance level of α=5% or 0.05. This research also conducted a determination coefficient test to determine how much the independent variables can explain the dependent variable. According to Ghozali (2021), the determination coefficient is represented by the adjusted R-square or adjusted R^2 value.

RESULTS AND DISCUSSION

Result

The hypothesis in this study tests the partial effect of independent variables on the dependent variable. Eviews 12 was used to T-test, as well as to measure the value of the coefficient of determination. The value of T-table is 2.048407 which is processed using Microsoft Excel through the formula =TINV(α value, deg_freedom) with α value = 0.05 and deg_freedom value = 28. Based on Table 1, the Debt to Equity Ratio and Return on Equity have a T-statistic value smaller than the T-table value and a probability value greater than the significance level (α). In contrast, the Return on Assets and Net Profit Margin have a T-statistic value greater than the T-table value and a probability value smaller than the significance level (α).

Table 1. T-test Result

Variable	T-Statistic	T-Table	Probability	α Value	Adjusted R-square
Debt to Equity Ratio	1.246065	2.048407	0.2243	0.05	0.311478
Return on Assets	4.276438		0.0002		
Return on Equity	-1.048559		0.3044		
Net Profit Margin	-3.414185		0.0022		

Source: Research Results

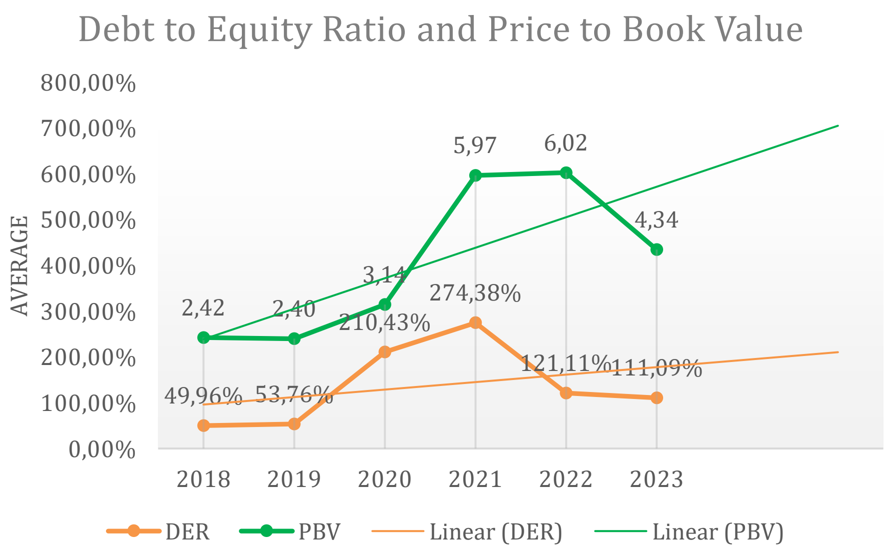
This research also measures the extent to which the independent variables explain the dependent variable through the coefficient of determination, represented by the adjusted R-squared. The value of adjusted R-squared indicates that the Debt to Equity Ratio, Return on Aset, Return on Equity, and Net Profit Margin are able to explain the Price to Book Value in supermarket sub-industry companies listed on the Indonesia Stock Exchange for the 2018-2023 period by 31.15%, so 68.85% is explained by other variables not included in this research model.

Discussion

This study aims to determine the effect of the Debt to Equity Ratio, Return on Assets, Return on Equity, and Net Profit Margin on the Price to Book Value of supermarket sub-industry companies listed on the Indonesia Stock Exchange for the 2018-2023 period. In more depth, the following is an elaboration of each point identified in this research:

The Debt to Equity Ratio on Price to Book Value

The Debt to Equity Ratio reflects an internal decision or the company’s management strategy in managing its debt and equity. Based on Figure 2, the average Debt to Equity Ratio ranges from 49.96% to 274.38%, indicating that almost or even more than 50% of supermarket sub-industry companies listed on the Indonesia Stock Exchange for the 2018-2023 period use long-term debt to finance their operations. Referring to the industry standard for the Debt to Equity Ratio, as stated by Kasmir (2019), only in 2018 and 2019 did supermarket sub-industry companies have a good average Debt to Equity Ratio or less than 90%, which was 49.96% and 53.76%, respectively. Meanwhile, in 2020-2023, the average Debt to Equity Ratio exceeded 90%, indicating a less favorable condition.



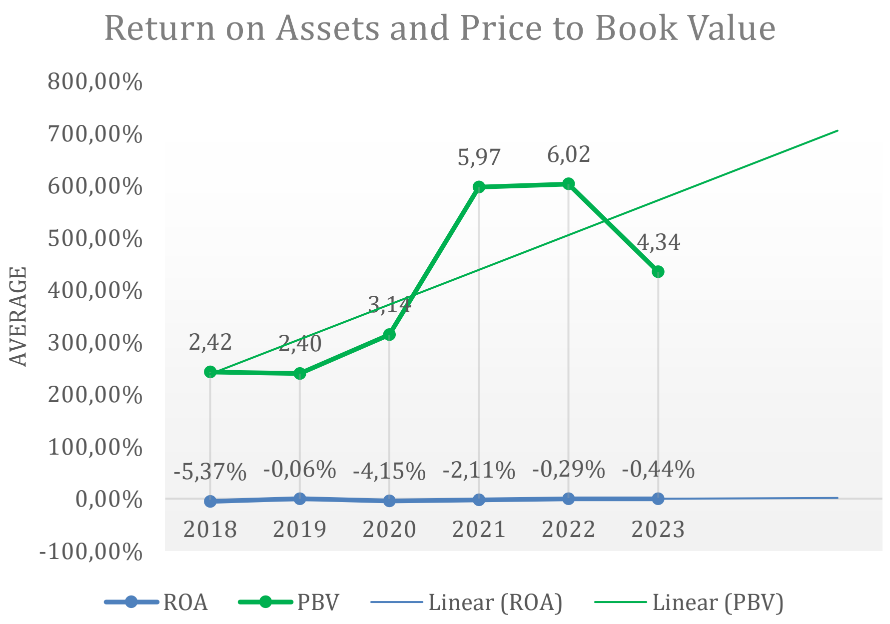
Source: Research data

Figure 2. The Average Condition of Capital Structure and the Value of Firm.

A high Debt to Equity Ratio has a detrimental impact on a company's performance, as a higher level of debt indicates an increased interest burden, which reduces profits. This suggests that the company is heavily reliant on external financing to fund its operations. The role of management is crucial in maintaining a balance between debt and equity. Based on the results of the T-test, the T-statistic value is smaller than the T-table value, which is 1.24 < 2.05, and the probability value is greater than the significance level, which is 0.2243 > 0.05. This indicates that the Debt to Equity Ratio does not affect the Price to Book Value of supermarket sub-industry companies listed on the Indonesia Stock Exchange for the 2018-2023 period. The results of this study are consistent with the findings of Purba & Africa (2019), Nawianto & Djazuli (2022), Hertina (2024), and Damayanti & Retnani (2024).

The Return on Assets on Price to Book Value

The Return on Assets indicates the ability of the assets invested by supermarket sub-industry companies to generate overall profits. Based on Figure 3, the average Return on Assets reflects that supermarket sub-industry companies experienced net loss during the 2018-2023 period. However, the average Return on Assets showed an increase aligns with the average Price to Book Value falling into the overvalued category due to having a market value greater than its book value. Referring to Kasmir (2019), the Return on Assets value of supermarket sub-industry companies does not meet the industry standard for a good Return on Assets, as it is below 30%.



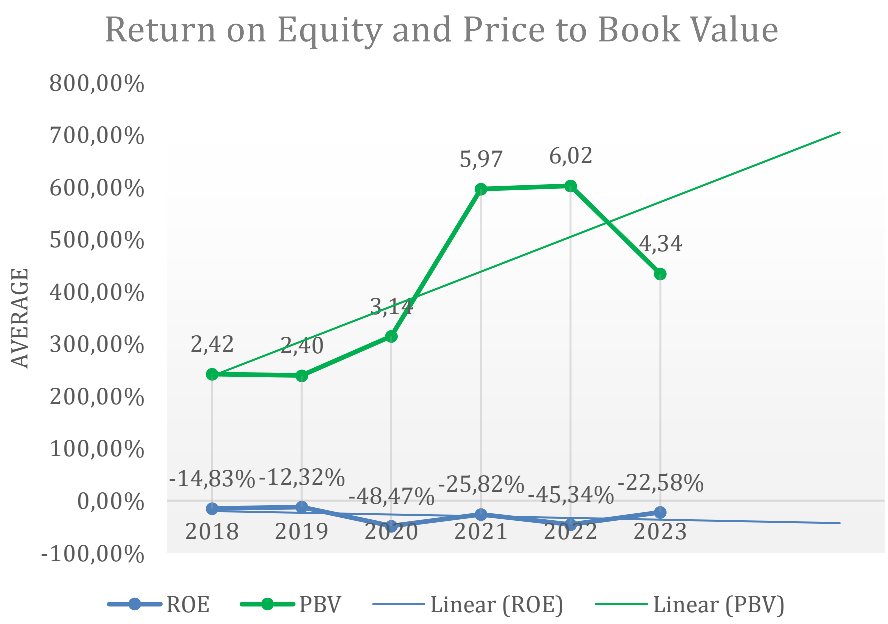
Source: Research data

Figure 3. The Average Condition of Return on Assets and the Value of Firm.

The higher the Return on Assets, the more efficiently a company utilizes its assets. An increase in Return on Assets over time represents improvements in operational efficiency and asset management. This phenomenon occurred in supermarket sub-industry companies during the 2018-2023 period, which continuously strived to improve asset utilization efficiency. Based on the results of the T-test, the T-statistic value is greater than the T-table value, which is 4.28 > 2.05, and the probability value is smaller than the significance level, which is 0.0002 < 0.05. This indicates that Return on Assets has a positive and significant effect on the Price to Book Value (PBV) of supermarket sub-industry companies listed on the Indonesia Stock Exchange for the 2018-2023 period. The results of this study are consistent with the findings of Puspitasari & Wiagustini (2019), Natsir & Yusbardini (2020), and Hertina et al. (2023).

The Return on Equity on Price to Book Value

The Return on Equity is used to measure a company's efficiency in generating profit from its equity. Based on Figure 4, the average Return on Equity (ROE) is still below zero, indicating that, on average, companies within the supermarket sub-industry experienced losses during that period. This implies that shareholders will incur losses on their investments in these companies. Referring to the industry standard for Return on Equity as stated by Kasmir (2019), the Return on Equity value of companies within the supermarket sub-industry does not meet the benchmark for a good industry standard, which is less than 40%.



Source: Research data

Figure 4. The Average Condition of Return on Equity and the Value of Firm.

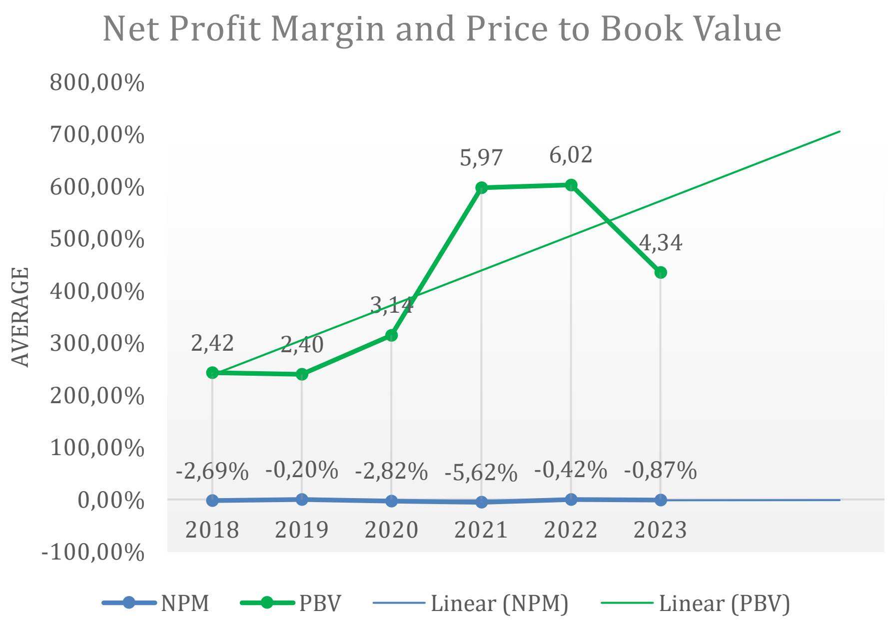
The higher the Return on Equity, the more efficient the company is in using its equity to generate profit. In practice, Return on Equity and Price to Book Value generally have a close relationship. Return on Equity is a profitability indicator that reflects how efficiently a company generates profit from its equity, while Price to Book Value indicates the comparison between the company's market stock price and its book value. Based on the results of the T-test, the T-statistic value is smaller than the T-table value, specifically 1.05 < 2.05, and the probability value is greater than the significance level, specifically -0.3044 > 0.05. This indicates that Return on Equity does not have an impact on the Price to Book Value for companies in the supermarket sub-industry listed on the Indonesia Stock Exchange during the 2018-2023 period.

The lack of influence of Return on Equity on Price to Book Value may be attributed to the market's high perception of the company due to being overvalued. Investors believe that the stock price is already too high, making Return on Equity insufficient to reflect an increase in the company's value. Price to Book Value often reflects market expectations for future growth, while Return on Equity primarily indicates current performance. If investors believe that a company has high growth prospects in the future, the Price to Book Value may remain high even if Return on Equity does not experience a significant increase. This research result contrasts sharply with findings from studies conducted by Purba & Africa (2019), Mubyarto

(2020), Nawianto & Djazuli (2022), Damayanti & Retnani (2024), and Hertina (2024), which state that Return on Equity has an impact on Price to Book Value.

The Net Profit Margin on Price to Book Value

Net Profit Margin is used to measure the percentage of net profit generated from each sale or the company's revenue. Based on Figure 5, the low average Net Profit Margin in companies within the supermarket sub-industry indicates that these companies are in an unfavorable condition or can be said to be facing issues with their product sales. Referring to the industry standard by Kasmir (2019), the Net Profit Margin value of companies within the supermarket sub-industry does not meet the benchmark for a good industry standard, which is less than 20%.



Source: Research data

Figure 5. The Average Condition of Net Profit Margin and the Value of Firm.

A high or increasing Net Profit Margin indicates that a company has a good profit margin and can reinvest these profits for future growth, such as expanding the business or developing new products. A negative Net Profit Margin can occur due to high interest expenses that need to be paid. These interest expenses reduce net profit, even when the company is still generating revenue from its operations. Based on the results of the T-test, the T-statistic value is greater than the T-table value, specifically 3.41 > 2.05, and the probability value is smaller than the significance level, specifically -0.0022 < 0.05. This indicates that the Net Profit Margin has a negative and significant impact on the Price to Book Value for companies in the supermarket sub-industry listed on the Indonesia Stock Exchange during the 2018-2023 period. The results of this study are consistent with the findings of Maulida et al. (2023).

CONCLUSION

Based on the research conducted regarding Company Value: The Influence of Capital Structure and Profitability on Supermarket Sub-Industry Companies Listed on the Indonesia Stock Exchange for the 2018-2023 Period, the conclusions obtained are Debt to Equity Ratio and Return on Equity have no effect on Price to Book Value; Return on Assets has a positive and significant effect on Price to Book Value; and Net Profit Margin has a negative and significant effect on Price to Book Value. The Debt to Equity Ratio, Return on Aset, Return on

Equity, and Net Profit Margin are able to explain the Price to Book Value in supermarket sub-industry companies listed on the Indonesia Stock Exchange for the 2018-2023 period by 31.15%, so 68.85% is explained by other variables not included in this research model.

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