

The Effect of Liquidity and Leverage on Firm Value Through Profitability at PT. Indofood Sukses Makmur Tbk

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ABSTRACT

The purpose of this study was to analyze and determine the effect of liquidity and leverage on firm value through profitability at PT. Indofood Sukses Makmur, Tbk. Quantitative research methods were processed using the Structural Equation Modeling Partial Least Square (SEM-PLS) and Warp PLS 8.0 applications. Research population data from secondary data obtained from financial reports and annual reports per quarter I-IV on the Indonesia Stock Exchange for the period 2019-2021. The results of this study indicate that liquidity and leverage have a positive and significant effect on firm profitability, but on firm value, the effect of liquidity and leverage is negative, while profitability has no significant effect on firm value.

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INTRODUCTION

Today's economic and business developments make businessmen, investors and human resources in companies must adapt their abilities to current developments. Entering the Economic Community 4.0 and facing the challenges of the global financial crisis caused by Covid-19 and world security, companies and resources must adapt so that they can remain competitive and exist in an increasingly tight business world. Therefore, the expertise and competence of human resources must have high competitiveness in running the company's business. The right strategy is needed to analyze and read market movements so that companies can achieve sustainability in their business. The purpose of formulating this strategy is to maximize the value of the company so that it is increasingly accepted by investors or investors (Husnan, 2006). The main goal of financial management is to maximize shareholder wealth (Brigham and Houston, 2010). Therefore, an increase in the value of the company means that it will increase the wealth of investors or investors. Investors certainly have long-term goals and short-term goals. In the short term, what investors hope for is to get profits by changing the value of shares or capital gains, while in the long term, it is expected to provide welfare for investors in the form of rising stock prices and income from operations or dividends.

Shares are securities in the form of equity or capital issued by the company. Shares reflect the capital activities carried out by the company in managing and operating the company's business. Company funding is carried out by companies, one of which is by issuing new shares. Price changes within the company are determined by the activities contained in the capital market originating from the demand and supply of shares

in the capital market. This makes investors will need various information to determine the company's performance in the capital market which of course will be used as a decision making in investing. The value of the company will be seen from its share price. That way, the stock price will encourage the level of investor confidence to invest in the company (Sitepu and Effendi, 2014). The financial reports presented by the company are useful for investors and internal parties. Apart from investors and internal companies, financial reports are also needed by external parties such as the government, creditors and suppliers (Kasmir, 2008). The financial statements will describe the financial condition and performance of the company. Performance appraisal is a benchmark for the company in carrying out planned and targeted policies.

The capital market is an investment alternative that can be made by investors or financiers (Adityaningrat & Indrianto, 2021). The capital market is an institution that functions for the development of the country's economy. The capital market carries out functions in the economic and financial fields, so that the government will supervise and regulate the running of the capital market. One of the investment objects in the capital market that investors are interested in is stocks. The fair value of the shares to be bought or sold is very important for investors to know, if it is too high it will cause the price to be too high (overvalued), otherwise if it is too low it will cause the price to be too expensive low (undervalued). This can be used by investors in predicting or making expectations of profits and losses that will occur in the future.

Changes in firm value are caused by several factors including profitability, asset and debt management (Brigham & Houston, 2010). Profitability is one of the financial ratios that can assess a company's ability to gain profit or profit within a certain period of time. This ratio also provides a measure of the effectiveness of a company's management. This is indicated by the profit generated from sales and income on investment. In general, the use of this ratio shows the efficiency of the company which can be seen from the financial side (Kasmir, 2008). Measuring tool profitability using Return on Equity (ROE), namely the rate of return on company capital. The greater the ROE, the better the performance, because the higher the rate of return.

Various ways are done by managers to be able to increase profitability and financial performance. One of them is the management of current assets in the form of liquidity. Liquidity is a ratio that shows the ratio of the company's current assets to its current liabilities (Brigham & Houston, 2010). Liquidity can be said as a company's ability to pay its current debts which are guaranteed by its current assets. Thus, short-term debt can be paid with current assets such as cash, current (short-term) receivables and merchandise inventory. Liquidity is measured by the Current Ratio (CR), which is the total current assets divided by current liabilities (Brigham & Houston, 2010). Companies that have high liquidity will be considered safe by investors.

Another effort that can have an impact on profitability and company value is the leverage or debt ratio. The leverage ratio is to measure how much the company is financed with debt (Fahmi, 2011). Leverage is an illustration of the use of a company's debt to finance the company's operations. The use of debt can serve as funding for the company. The company will give a signal to investors because the company is in good health, so it is said to be able to pay interest arising from long-term debt that can be used to obtain profits in the future. However, the company's debt usage ratio must be maintained because it is related to the risk conditions that will be faced by the company. The ratio used to measure leverage is the Debt to Equity Ratio (DER), which means the ratio between the company's debt and equity. DER reflects the company's ability to fulfill all of its obligations as indicated by a portion of the equity used to pay debts (Weston & Copeland, 2010). Leverage management is very important, because the decision to use high debt can increase company value (Anni'mah et al., 2021; Anggraeni 2019). However, the use of debt can also be a big risk for the company so that it can reduce the value of the company (Ndururu et al., 2020). because the decision to use high debt can increase firm value (Anni'mah et al., 2021; Anggraeni 2019). However, the use of debt can also be a big risk for the company so that it can reduce the value of the company (Ndururu et al., 2020). because

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The author's reason for choosing PT. Indofood Sukses Makmur Tbk as the object of research is based on the author's curiosity to analyze why PT. Indofood Sukses Makmur Tbk succeeded in developing the company's book value for 3 years based on quarterly financial reports (2019-2021), although we all know that during this period (2019-2021) were years when the economic conditions were not good for the climate investment especially since the year was hit by the covid-19 pandemic.

Table 1. Financial Report of PT. Indofood Sukses Makmur, Tbk (2019-2021)

Per Data Share (Rp)	2021	2020	2019
EPS (annualized)	870	735	559
Book Values	5,494	4,826	4,303
Financial Ratios			
Debt Equity Ratio (X)	2	2	1
ROA (%)	4	4	5
Roes (%)	16	15	13
NPM (%)	8	8	6

Source: BIONS BNI Sekuritas 2022 application

RESEARCH METHODS

The research design in this study is to use quantitative research methods. The quantitative approach was chosen by the researcher because the quantitative approach tries to find an explanation of the relationship between the variables studied which aims to explain or better describe the pattern of linkages between two or more variables studied (Sugiyono, 2016). This research was processed using Structural Equation Modeling Partial Least Square or SEM-PLS. This method was chosen because PLS SEM can explain the relationship between observed variables and latent variables through its indicators. The purpose of PLS is to assist researchers for prediction purposes. This research data is processed using WarpPLS 8.0. application. The population in this study is the company's financial statements PT. Indofood Sukses Makmur Tbk on the Indonesia Stock Exchange for the 2019–2021 period with a population of 3 years. The research sample of PT. Indofood Sukses Makmur Tbk from 2019-2021. The data obtained in this study were sourced from secondary data in the form of financial report data for quarters I-IV PT. Indofood Sukses Makmur Tbk from 2019-2021.

RESULTS AND DISCUSSION

The data instrument has a very important position as a description of the variables studied and can also function as a measuring tool to prove a hypothesis. The data instrument used must be valid and reliable so that later the data obtained can prove a hypothesis. Convergent validity results can be tested using a loading factor.

Table 2. Loading Factor

	PBV	ROE	CR	DER
PBV	1,000			
ROE		1,000		
CR			1,000	
DER				1,000

Source: Data Processing 2022

In the SEM model with all the variables in it being manifest variables, convergent validity testing is actually impossible to do, this is because in the manifest variable, all indicators used to measure variables are ensured to be valid and have a loading factor of 1,000. because only those indicators measure those variables. The following is the loading factor value of all indicators in the research model based on the results of the estimation of the PLS model with algorithmic techniques.

In addition to looking at the value of the loading factor on each indicator, discriminant validity can be seen from the AVE value of each construct. All constructs in the PLS model are declared to have met discriminant validity if the AVE value of each construct is > 0.5 (Ghozali & Latan, 2020).

Table 3. Average Variance Extracted

Variable	AVE
PBV	1,000
ROE	1,000
CR	1,000
DER	1,000

Source: Data Processing 2022

Construct reliability can be assessed from composite reliability and Cronbach's Alpha obtained from each construct. The recommended composite reliability and cronbach's alpha is > 0.7 , so that low composite reliability and cronbach's alpha values are still acceptable as long as the conditions for convergent validity and discriminant validity have been fulfilled (Ghozali & Latan, 2020). Composite reliability and Cronbach's alpha of all constructs also exceeded 0.7, this indicates that all constructs have met the required reliability.

Table 4. Construct Reliability

Variable	Composite Reliability	Cronbach's Alpha
PBV	1,000	1,000
ROE	1,000	1,000
CR	1,000	1,000
DER	1,000	1,000

Source: Data Processing 2022

The goodness of fit model test is a test carried out to ensure that the compiled PLS model fits the data being analyzed so that it can explain the actual condition of the population ((Ghozali & Latan, 2020)). The goodness of fit of the PLS model can be seen from the R Square and Q Square values of the model as well as the SRMR model. The results of the analysis in table 4 show that the R Square PBV value is 0.769, meaning

that the model has strength in the strong (strong) category, whereas when it is used to predict company ROE, the model has model strength in the moderately strong (moderate) category because the R Square ROE value is equal to 0.458. Furthermore, the results of the analysis of the Q square value of the model show that the model has predictive relevance in the large category when used to predict PBV, namely 0.876, Likewise, when used to predict ROE, the model has a small predictive relevance, namely 0.490. The SRMR value obtained in this study was 0.000 which means *perfect fit*.

Table 5. R Square, Q Square, SRMR

Variable	Endogenous Variables	Score	Criteria
R Square	PBV	0.769	Strong
	ROE	0.458	Moderate
Q Square	PBV	0.876	Big
	ROE	0.490	Small
SRMR		0.000	Perfect Fit

Source: Data Processing 2022

Apart from the R square value, the fit of the model is also assessed from other parameters of goodness of fit models such as the *Average Path Coefficient (APC)*, *Average R-square (ARS)*, *Average Adjusted R-squared (AARS)*, *Average block VIF (AVIF)* and *Average Full Collinearity VIF (AFVIF)*. The results of the analysis in table 6 show that all the criteria for the goodness of fit model are met, which means that the model is fit with the data being analyzed.

Table 6. Goodness of Fit Model

Fit models	Score	P Value	Criteria	Conclusion
Average Path Coefficient	0.401	0.021		fit
Average R-Square	0.613	0.001		fit
Average Adj. R-Square	0.510	0.006		fit
Average Block VIF	1.404		≤ 5	fit
Average Full Collinearity VIF	1,979		≤ 5	fit
Tenenhaus GoF	0.783		≥ 0.1	fit
Simpson's Paradox Ratio	0.800		≥ 0.7	fit
R-Squared Contribution Ratio	0.952		≥ 0.9	fit
Statistical Suppression Ratio	1,000		≥ 0.7	fit
Nonlinear Bivariate Casuality	0.700		≥ 0.1	fit
Direction Ratio				

Source: Data Processing 2022

The coefficient of determination shows the contribution of all exogenous to endogenous. The coefficient of determination can be seen from the value of R Square. This value ranges from 0 - 1 or can also be interpreted in the form of a percentage (0 - 100%). The greater the coefficient of determination, the greater the endogenous variance explained by the exogenes, while the small coefficient of determination indicates the low influence of the exogen on the endogen, this is because there are still quite a number of external factors that can affect the endogen.

Table 7. Coefficient of Determination

Variable	R-Square	Adj. R-Square
PBV	0.769	0.682
ROE	0.458	0.337

Source: Data Processing 2022

The first endogen, namely ROE, has an Adjusted R Square value of 0.337, which means that the magnitude of the influence of CR and DER on the company's ROE is 33.7%, while the remaining 66.3% variance ROE is influenced by other factors besides CR and DER. Furthermore, the second endogenous, namely Price to Book Value, the R square value obtained is 0.682, meaning that 68.2% of PT Indofood Sukses Makmur Tbk's PBV variance is influenced by CR, DER and company ROE, while the remaining 31.8% PBV variance is influenced by factors other than CR. , DER and ROE. In the PLS analysis, after the model is proven fit, it can be tested for the effect between variables. Influence testing includes direct influence testing, indirect influence testing and total influence testing.

Table 8. Path Coefficient

Dependent Variable	Path Coefficient	P Value	Conclusion
CR→ROE	0.420	0.034	Support
DER→ROE	0.429	0.031	Support
CR→PBV	-0.455	0.023	Support
DER→PBV	-0.527	0.009	Support
ROE→PBV	0.175	0.251	Does not support
CR→ROE→PBV	0.073	0.355	Does not support
DER→ROE→PBV	0.075	0.352	Does not support

Source: Data Processing 2022

The results of this study found that as follows:

1. It is proven that the influence of liquidity is positive and significant on profitability.
2. It is proven that leverage has a positive and significant effect on profitability.
3. It is proven that the influence of liquidity is negative and significant on firm value.
4. It is proven that the effect of leverage is negative and significant on firm value.
5. Not proven the effect of profitability on firm value.
6. It is not proven that the effect of liquidity on firm value is mediated by profitability.
7. It is not proven that the effect of leverage on firm value is mediated by profitability.

Discussion

On the path that shows the effect of the Current Ratio on Return On Equity, a significant P value (0.034) is obtained with a positive path coefficient of 0.420, because the p value < 0.05 and the path coefficient is positive, it is concluded that the Current Ratio has a positive and significant effect on Return on company

equity. This result means that liquidity affects the company's profit growth, if the company's ability to generate profits increases, then the ability to pay short-term debt will increase. The implication of this research is that the better the value of the liquidity ratio above the optimal point will increase the company's profitability, because it is considered a good signal by investors. In this case, investors will perceive the existence of assets/cash that function optimally and are utilized by the company's management in its operational activities. This study supports hypothesis 1 which means H1 is accepted.

On the path that shows the effect of the Debt Equity Ratio on Return On Equity, a significant P value (0.031) is obtained with a positive path coefficient of 0.429 because the P value < 0.05 and the path coefficient is positive, it is concluded that the Debt Equity Ratio has a positive and significant effect on Return on Equity of the company. The results of testing the path hypothesis show that leverage has a positive and significant effect on company profitability. This result means that the high or low value of the leverage ratio will affect the profitability of the company PT Indofood Sukses Makmur Tbk, high leverage has the potential to burden the company which causes the company's profits to decrease. Leverage is one of the important factors affecting profitability because leverage can be used by companies to increase company capital in order to increase profits. Leverage is used to measure how much the company is financed with loan capital, if the loan is used properly it can contribute to company profits. This study supports hypothesis 2 which means H2 is accepted.

On the path that shows the effect of the Current Ratio on Price to Book Value, a significant P value (0.023) is obtained with a negative path coefficient of -0.455, because the p value < 0.05 and the path coefficient is negative, it is concluded that the Current Ratio has a negative and significant effect on Price to book value of the company. The results of testing the path hypothesis indicate that liquidity has a negative and significant effect on firm value. This result means that if the current ratio is not liquid, the current assets consisting of cash, receivables, inventory will be higher, meaning that unused funds in the company will result in the company not being able to optimally utilize its current assets for the welfare of its shareholders. This study supports hypothesis 3 which means H3 is accepted.

On the path that shows the effect of the Debt Equity Ratio on Price to Book Value, the P value is significant (0.009) with a negative path coefficient of -0.527, because the p value < 0.05 and the path coefficient is negative, it is concluded that the Debt Equity Ratio has a negative and significant effect on Company's Price to Book Value. This result means that the higher the leverage will have an impact on increasing the value of the company, leverage that is too high has the potential to reduce the value of the company. High company leverage can indicate that the company is insolvable, meaning that the company does not have sufficient ability to pay off all of its obligations or in other words the total debt is greater than the total assets owned. This study supports hypothesis 4 which means H4 is accepted

On the path that shows the effect of Return on Equity on Price to Book Value, the P value is not significant (0.251) with a positive path coefficient of 0.175, because the P value > 0.05 and the path coefficient is positive, it is concluded that Return on Equity has a positive effect and is not significant to the company's Price to Book value. This result means that profitability has an influence on firm value but the high or low firm value is not influenced by the high or low profitability of the company. Investors do not use profitability as a benchmark for increasing company value, this is possible if the type of investor is a short-term investor who only takes advantage of the company's value in a certain time. This study does not support hypothesis 5 which means H5 does not support it.

On the path that shows the indirect effect of CR on PBV through ROE is not significant (p value = $0.355 > 0.05$) with a positive path coefficient of 0.073, this means that CR has no effect on PBV through ROE. The indirect effect of liquidity on firm value through profitability is still positive but not significant. Liquidity does not increase the value of the company caused by mediation of profitability. This means that profitability is also unable to mediate the effect of liquidity on firm value. This study does not support

hypothesis 6 which means H6 does not support it.

The path showing the indirect effect of DER on PBV through ROE is not significant (p value = 0.352 > 0.05) with a positive path coefficient of 0.075. meaning that DER has no effect on PBV through ROE. This result means that the indirect effect of leverage on firm value through profitability is still positive but not significant. Leverage does not increase the value of the company which is mediated by profitability. This means that profitability is also unable to mediate the influence of leverage on firm value. This study does not support hypothesis 7 which means H7 does not support it.

CONCLUSION

The results of this study found that liquidity and leverage have a negative effect on firm value, while profitability has no effect on firm value. In addition, liquidity and leverage can also affect profitability. Furthermore, profitability is not able to mediate the effect of liquidity and leverage. Investors need to look at the leverage and liquidity of the company before investing, because the research results show that leverage and liquidity have a significant influence on the level of company value and profitability of PT. Indofood Sukses Makmur Tbk. In addition, further research can be carried out by adding variables that have not been examined in this study or by taking research samples that are different from this study.

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