CORPORATE VALUE IMPACT OF RETURN ON EQUITY, NET PROFIT MARGIN, DEBT TO EQUITY AND DEBT TO ASSETS

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ABSTRACT

This study aims to determine the effect of Return on Equity, Net Profit Margin, Debt to Equity, Debt to Assets on firm value. The population of this study is the pharmaceutical subsector consumer goods industry companies listed on the Indonesia Stock Exchange in 2012-2017. The sample selection technique used purposive sampling in order to obtain 7 sample companies within 6 years. This research uses descriptive verification method to analyze the variables used and test the hypotheses that have been set. The data analysis method used panel data regression analysis. The results of this study indicate that partially: Return on Equity and Debt to Equity have a positive effect on firm value, while Net Profit Margin and Debt to Assets have a negative effect on firm value. Simultaneously, Return on Equity, Net Profit Margin, Debt to Equity, and Debt to Assets simultaneously affect the company value of the Consumer Goods Industry in the Pharmaceutical Sub-Sector Listed on the Indonesia Stock Exchange for the period 2012-2017.

Keywords: Return on Equity, Net Profit Margin, Debt to Equity, Debt to Assets, Price Book Value

I. INTRODUCTION

The capital market is a place that connects investors and issuers. The capital market has an important role for the economy of a country because it carries out two functions, namely as a means for issuers to get funds from the investor community and a means for people to invest in financial instruments. The global economic slowdown has certainly affected the performance of world capital markets, however, the Indonesian capital market is showing optimistic developments amidst global economic pressure. This is driven by the return of foreign investors to emerging markets, one of which is the Indonesian capital market and the strengthening of the rupiah exchange rate. At the end of 2018 there was a world economic slowdown, the performance of the Indonesian capital market was ranked first in Southeast Asia and the eighth best in the world. This optimism towards the capital market has made PT. The Indonesia Stock Exchange and the Financial Services Authority are targeting 75-100 companies to enter the capital market by 2019 to seek funding through various instruments. Managers say that the goal of the company is to maximize profits, but actually the goal of the company is more than that. Brealy et al. (2008) argue that the main objective of the company is to maximize the current market value of the shareholder's investment in the company. The company's goal is to maximize value and prosper its owners by achieving maximum profit, which can be done by making efficient use of funds obtained from internal and external sources. According to the theory of the Agency Cost / Tax Shield Trade-Off Model, managers are considered not always acting in the interests of shareholders, so a mechanism is needed to overcome this problem. One of the mechanisms proposed by Jensen and Meckling (1976) is to increase the share of debt. The greater the debt of the company, the company must provide cash to pay interest and principal debt. This mechanism is considered to reduce the company's free cash flow and is classified as a bonding mechanism by Jensen (1986). The Signaling Model of Financial Structure was built because of the presence of asymmetric information, where managers try to signal to investors that the company has a reliable performance by using a large portion of debt, because only strong companies are willing to bear the risk of experiencing financial difficulties so that investors value the company higher. This study chooses the pharmaceutical sub-sector as the research sample, supported by the fact that Indonesia is one of the potential pharmaceutical markets in the world with a population of 265 million people. The 2015-2035 National Industrial Development Master Plan also states that the pharmaceutical industry is one of the mainstay manufacturing sectors that receive development priority because it plays a large role as the main driver of the national economy. Average Return on Equity in 2012-2017 pharmaceutical companies experienced a decline, the decline
in Return on Equity should have resulted in a decrease in company value because it showed poor performance in managing the funds obtained. However, company data shows that the average price book value in 2012-2017 seems to fluctuate, but tends to increase even though Return on Equity has decreased. The average Net Profit Margin of pharmaceutical companies has decreased from 2012-2017 in the range of 6% -7%, tending to experience a fairly stable movement. Based on the theory, a decreasing profitability ratio should be able to affect the decline in firm value, but it is different from the average price book value of a company which seems to be fluctuating, it tends to increase from 2012-2017. The average Debt to Equity of pharmaceutical companies has fluctuated, tending to increase from 2012-2017. Based on the theory, the more debt should increase, the company value should increase. When compared with the average Price Book Value, the increase in the portion of debt does not always increase the value of the company, as in 2015 when the portion of debt increased, the Price Book Value was seen to decrease. The average Debt to Assets of pharmaceutical companies has fluctuated, tending to increase from 2012-2017 in the range of 29% - 38%. When compared with the average Price Book Value, not always an increase in the portion of debt to assets increases firm value. In 2014 when Debt to Assets decreased to 32.52%, the Price Book Value increased to 60.94 and in 2015 when Debt to Assets increased to 35.30%, the Price Book Value fell to 27.21. Previous research has linked financial ratios to firm value, including by: ANguraham Dharma Adi Putra and PutuVivi Lestari (2016); TisnaAmijaya, Irene Rini Demi Pangestuti, WisnuMawardi (2016); ZuhriaHasania, Sri Murni, YunitaMandagie (2016); and others. Research by Amijaya et. al (2016) shows that profitability as measured using Return on Equity does not affect firm value, while the leverage ratio as measured by Debt to Equity has a positive effect on firm value. Research Dhani, et. al (2017) shows that profitability measured using Return on Assets has a positive effect on firm value, while leverage measured using Debt to Equity has no effect on firm value. Research by Dewi and Wirajaya (2013) states that profitability (Return on Equity) and leverage (Debt to Equity) have a positive effect on firm value.

II. LITERATURE REVIEW

The Value of the Company

Sartono (2010: 487) argues that firm value is the selling value of the company as an operating business. Any excess in the selling value above the liquidation value is the value of the management organization that runs the company. Noerirawan (2012) Company value is a condition that has been achieved by a company as an illustration of public trust in the company after going through a process of activity for several years, namely from the time the company was founded to the present.

Measurement of Firm Value

1. Price Earning Ratio shows how much money investors are willing to spend to pay for every dollar of reported profit. This ratio is used to measure how much the ratio between the company's share price and the profits obtained by shareholders. Price earning ratio serves to measure changes in the ability of earnings expected in the future. The greater the price earning ratio, the more likely the company will grow so that it can increase company value.

2. Price to Book Value is a ratio that shows whether the price of the shares being traded is overvalued or undervalued to the book value of the shares. The greater the ratio of Price to Book Value, the higher the company is assessed by investors relative to the funds that have been invested in the company.

3. Tobin's Q calculated by comparing the ratio of the market value of the company's stock to the book value of the company's equity.

Effect of Return on Equity, Net Profit Margin, Debt to Equity, and Debt to Assets on Firm Value

Increasing company value is the main goal of the company which of course must be supported by the performance of financial managers to get funds and maximize the results of the funds obtained. For managers, company value acts as a measure of its performance. The increase in the value of the company will increase the prosperity of shareholders and be a positive signal that indicates how the market assesses the company to the market regarding the company's future growth prospects and the prosperity of shareholders. The company signal can be obtained from the analysis of financial ratios where in this study the profitability and leverage ratios are used as independent variables and firm value as the dependent variable. Profitability ratios are used to measure the company's ability to generate profits in a certain period from its operational activities (Hery, 2016: 7). The company's operational objective is generally to maximize profit. An increase in profit is one of the positive signals that companies can use to attract investors. The more the company's ability to earn profits, the greater the return expected by investors, so that the company's value increases. The leverage ratio aims to measure how much of the
The debt portion is used in the company's capital structure. The use of debt indicates a good company prospect, so that it can encourage an increase in company value. Shareholders want a larger debt management ratio to increase the expected profit (Pudjiastuti and Husnan, 2015).

Effect of Return on Equity on Firm Value

Return on Equity is often referred to as the rate of return on net worth, which is a ratio that measures the company's ability to generate net profit from its own capital used by the company, so that Return on Equity is called its own capital profitability. Return on Equity is very useful for investors to assess the company's financial performance. This ratio is included in the category of profitability ratios, which shows the net profit a company receives from investments made by investors. The higher this ratio, the more optimal the company is in utilizing the capital it obtains. The greater the Return on Equity value, the higher the investor's assessment of the company because it indicates the company has a good performance in managing its capital. The results of research conducted by ZuhriaHasania et al. (2016), Ayu Sri Mahatma Dewi and AryWirajaya (2013), Sri Ayem and RagilNugroho (2016), GinanjarIndraKusuma et al. (2013), MirryYuniyantiPasaribu et al. (2016), FebbyNurauditaSuryana and Sri Rahayu (2018) show that Return on Equity has a positive effect on firm value.

The Effect of Net Profit Margin on Firm Value

Net Profit Margin is a ratio that measures the company's ability to generate net profit from the company's net sales and is calculated by dividing net income by sales. Net Profit Margin is the profitability ratio that measures the net profit earned by the sales generated. The higher this ratio, the higher the net profit earned from each sale. The net income in this calculation is free from all operating expenses. Investors will see that the company's performance is good and value companies with high value, so that investors are increasingly interested in investing. However, this is different from the research of HevenManoppo and Fitty ValdiArie (2016) which states that profitability as measured by Net Profit Margin does not have a significant effect on company value.

Effect of Debt to Equity on Firm Value

Debt to Equity Ratio is a leverage ratio that measures the size of the debt portion used by a company in its capital structure. Debt to Equity Ratio also shows the company's ability to use its own capital to fulfill all of its obligations. In the long term, companies need debt to invest for expansion purposes. The trade-off theory expressed by Myers (2001: 81), managers will consider the use of debt at a certain level in which the savings in tax shields on the cost of financial distress in determining the capital structure. Companies with a high level of profitability will try to reduce taxes by increasing the debt ratio. The use of debt is used as a positive signal by managers to shareholders. Companies that use more debt are seen as credible companies and have good prospects in the future so that the company value will increase. The findings of research conducted by TisnaAmijaya et al. (2016), ZuhriaHasania et al. (2016), Ayu Sri Mahatma Dewi and AryWirajaya (2013), FernandesMoniaga (2013), HevenManoppo and Fitty ValdiArie (2016) found that the Debt to Equity Ratio has a positive effect on firm value.

The Effect of Debt to Assets on Firm Value

Debt to Assets is included in the leverage ratio category which measures how much the company's overall assets are financed from debt. The higher the Debt to Assets, the higher the use of debt. This will affect companies that are experiencing financial difficulties, where the company may not be able to repay the entire loan. If the amount of debt that can be used properly and generates profits for the company, then the company has the funds to repay the loan. With optimal use of debt, the company's financial performance will improve so that investors are interested in investing in the company. Research conducted by Setiawan Ari Cahyanto et al. (2014) show that the value of Debt to Assets has a positive and significant effect on firm value.
Hypothesis

H₁: Return on Equity, Net Profit Margin, Debt to Equity and Debt to Assets simultaneously have a significant effect on firm value.

H₂: Return on Equity has a significant effect on firm value.

H₃: Net Profit Margin has a significant effect on firm value.

H₄: Debt to Equity has a significant effect on firm value.

H₅: Debt to Assets has a significant effect on firm value.

III. RESEARCH METHODS

This research uses descriptive research methods, associative causal, and verification. The population in this study is the pharmaceutical sub-sector consumer goods industry companies listed on the Indonesia Stock Exchange in the period 2012 to 2017, with a total sample of 10 companies. This study uses a nonprobability sampling method, namely the purposive sampling technique. Suliyanto (2009: 125) argues that purposive sampling is a method of determination based on certain criteria. These criteria aim to provide maximum information.

1. The criteria for determining the research sample:
   2. Pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange
   3. Shares of pharmaceutical sub-sector companies that are actively traded during the period 2012 to 2017.
   4. The company has complete data and publishes financial reports during the 2012 to 2017 research period.

IV. RESEARCH RESULTS AND ANALYSIS

Hypothesis Testing

Table 1. Fixed Effect Model Panel Data Regression Estimation
Multiple Linear Regression Equation

\[ Y = 158.3675 + 939.5036X_1 - 1572.788X_2 + 222.5658X_3 - 751.2707X_4 + e \]

Interpretation of Multiple Linear Regression results:

1. The amount of the X1 coefficient is 939.5036%. This means that if the independent variable Return on Equity has increased by 1%, it will increase the Price Book Value of the pharmaceutical company by 939.5036%.
2. The amount of the X2 coefficient is -1572.788%. This means that if the independent variable Net Profit Margin increases by 1%, it will decrease the Price Book Value of the pharmaceutical company by 1572.788%.
3. The amount of the X3 coefficient is 222.5658%. This means that if the independent variable Debt to Equity Ratio has increased by 1%, it will increase the Price Book Value of the pharmaceutical company by 222.5658%.
4. The amount of the X4 coefficient is -751.2707%. This means that if the independent variable Debt to Asset Ratio has increased by 1%, it will reduce the Price Book Value of the pharmaceutical company by 751.2707%.

V. RESEARCH DISCUSSION

The Effect of Return on Equity, Net Profit Margin, Debt to Equity, and Debt to Asset on the Company Value of the Consumer Goods Industry in the Pharmaceutical Subsector Listed on the Indonesia Stock Exchange in 2012-2017

The results of testing and analysis show that the financial ratios used in this study, namely Return on Equity, Net Profit Margin, Debt to Equity, and Debt to Asset simultaneously affect firm value as measured by Price Book Value. The value of Prob (F-statistic) is smaller than the coefficient of determination, namely 0.000001 <0.05, so H0 is rejected and H1 is accepted. So it can be concluded that the variables Return on Equity, Net Profit Margin, Debt to Equity Ratio, Debt to Asset Ratio together have an effect on the company's Price Book Value. This ratio explains that changes in firm value with a value of R² of 0.754588, which means that the ability of the independent variables (Return on Equity, Net Profit Margin, Debt to Equity Ratio, Debt to Asset Ratio) affects the dependent variable (Price Book Value) of 75, 46%, while the remaining 24.54% is influenced by other variables outside of this study.

The effect of Return on Equity on the value of consumer goods industry companies in the pharmaceutical subsector listed on the Indonesia Stock Exchange in 2012-2017

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The results of hypothesis testing state that the Return on Equity variable is 939.5036, with a t-statistic of 2.845551, and a Prob t-statistic value of 0.0078. The value of Prob t-statistic is smaller than the coefficient of determination, namely 0.0078 < 0.05, then H0 is rejected and H1 is accepted, it is concluded that Return on Equity has a significant effect on firm value as measured by Price Book Value. The effect is positive, meaning that the greater the Return on Equity ratio will affect the value of the company, and vice versa. The results of this study are in line with the results of research conducted by Hasania et al. (2016), Ayu Sri Mahatma Dewi and AryWirajaya (2013), Sri Ayem and RagilNugroho (2013), Pasaribu et al. (2016), Cahyanto et al. (2014), FebbyNurauditaSuryana and Sri Rahayu (2018) who state that Return on Equity has a significant and positive effect on firm value. However, the results of this study are not in line with the results of research conducted by Amijaya et al. (2016) which show that Return on Equity has a negative effect on company value. Meanwhile, the research results of HevenManoppo and Fitty ValdiArie (2016) show that Return on Equity does not have a significant effect on firm value.


This study states that the Net Profit Margin ratio has a significant effect on firm value. The effect is negative, meaning that the greater the Net Profit Margin ratio, the smaller the firm value, and vice versa. However, the results of this study contradict the results of research conducted by HevenManoppo and Fitty ValdiArie (2016) which show that Net Profit Margin does not have a significant effect on firm value.

The Effect of Debt to Equity on the Company Value of the Consumer Goods Industry in the Pharmaceutical Subsector Listed on the IDX in 2012-2017

This study states that the Debt to Equity ratio has a significant effect on firm value. The effect is positive, meaning that the greater the Debt to Equity ratio will have an effect on the increase in firm value, and vice versa. These results are in line with the results of research conducted by Amijaya et al. (2016), Hasania et al. (2016), Ayu Sri Mahatma Dewi and AryWirajaya (2013), FernandesMoniaga (2013), HevenManoppo and Fitty ValdiArie (2016), Cahyanto et al. (2014) stated that the Debt to Equity ratio has a significant effect on firm value. However, the results of this study are different from the results of research conducted by A.A. AyuKemaraDewi and Ida BagusBadjra (2017), Isabella PermataDhani and AA GdeSatiaUtama (2017), Sri Ayem and RagilNugroho (2016), NilaUstiani (2015), Pasaribu et al. (2016), FebbyNurauditaSuryana and Sri Rahayu (2016) which shows that the Debt to Equity ratio has no effect on firm value.


The results of this study state that the Debt to Assets Ratio has a significant effect on firm value. The effect is negative, which means that the greater the ratio of Debt to Assets will have an effect on the decline in firm value, and vice versa. However, the results of this study are different from previous research conducted by Cahyanto et al. (2014) where in their research they showed a significant positive influence between Debt to Assets and firm value.

VI. CONCLUSION

1. Return on Equity, Net Profit Margin, Debt to Equity, and Debt to Assets affect the value of consumer goods industry companies in the pharmaceutical subsector listed on the Indonesia Stock Exchange in 2012-2017.
2. Return on Equity has a positive effect on firm value, meaning that each increase in Return on Equity will increase the value of the pharmaceutical sub-sector consumer goods industry companies listed on the IDX in 2012-2017.
3. Net Profit Margin has a negative effect on the value of consumer goods industry companies in the pharmaceutical subsector which are listed on the IDX in 2012-2017, meaning that each increase in Net Profit Margin will decrease the value of pharmaceutical companies.
4. Debt to Equity has a positive effect on the value of consumer goods industry companies in the pharmaceutical subsector listed on the IDX in 2012-2017, meaning that any increase in Debt to Equity will increase the value of pharmaceutical companies.
5. Debt to Assets has a partial effect in a negative direction on the value of the pharmaceutical subsector consumer goods industry companies listed on the IDX in 2012-2017, meaning that each increase in Debt to Assets will reduce the value of pharmaceutical companies.
REFERENCES