

THE EFFECT OF PROFITABILITY AND DEBT TO EQUITY RATIO (DER) ON CORPORATE VALUES IN REGARDED TELECOMMUNICATION SECTORS IN INDONESIA STOCK EXCHANGE (BEI) 2012-2015

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ABSTRACT

The firm value considered by market value because firm value can give prosperity in maximum shareholder when firm stock price increased. The firm value is affected by many factors, include profit and debt. This study is performed to identify the influence of profitability and Debt to Equity Ratio (DER) on firm value of the telecommunication sector listed in the Indonesia Stock Exchange period of 2012-2015. The study is performed using descriptive and verificative methods with secondary data obtained from the company financial reports. The population includes 6 companies. The sampling method used is Purposive Sampling that includes 5 companies. The data analysis is performed using multiple linear regression analysis, correlation and determination coefficients, T-test and F-test. The result of this study indicates that 1) Partially, profitability has significant effects on firm value, as well as Debt to equity ratio (DER), have significant effects on the firm value. And 2) Simultaneously, profitability and Debt to Equity Ratio (DER) have significant effects on the firm value. Thus, it can be summed up the result of the calculation of the coefficient and determination that support profitability and Debt to Equity Ratio (DER) has relationships of firm value.

Keywords: Profitability, Debt to Equity Ratio (DER), Firm Value

INTRODUCTION

The existence of a capital market in a country can be a reference for looking at the business about how excited or dynamic the country's business is in moving various fiscal and monetary policies. In almost all countries in the world have capital markets except for countries that are still clean up and have not been able to escape the economic and political problems that are so severe. Stock prices are one indicator of the success of company management or company performance. If stock prices always increase, investors or prospective investors judge that the company is successful in managing its business. This trust is beneficial for issuers, the more they believe in an issuer, the stronger the desire to invest in the issuer. Profitability can reflect the benefits of financial investment, meaning that profitability affects the value of the company because of the internal resources are getting bigger

In financial statements, ROE (return on equity) describes the extent to which a company's ability to generate profits can be obtained by shareholders, whereas according to an increase in ROE is usually followed by an increase in the company's stock price. The higher ROE means the better the performance of the company in managing its capital to generate profit for shareholders. This has an impact on increasing the value of the company. One of the main reasons companies operate is to generate profits that are beneficial to shareholders. The measure of the success of achieving this reason is the number of ROE that was successfully achieved. The greater ROE reflects the company's ability to generate high returns for shareholders. But the different results obtained by which examined the effect of ROE on firm value in consumer goods manufacturing companies listed on the Indonesia Stock Exchange. The results of the study indicate that ROE has a negative effect on firm value.

The indicator that is usually used by investors is to pay attention to its profitability because of the higher the profit, the higher the return that investors will get. ROE variable taking as a sample of profitability indicators is because on the basis of ROE it has the strongest linkage to be associated with PBV variables which are a sample of company value indicators. Where ROE shows how much returns on capital or equity will be invested by investors. Another indicator that must be considered by investors aside from the level of return is debt policy which is one of the factors that influence the value of the company. According to Weston and Copeland in principle each company needs funds and the fulfillment of these funds can come from internal sources or external sources. Debt policy needs to be managed because the use of high debt will increase the value of the company because the use of debt can save taxes. The use of high debt can also reduce the value of the company because of the possibility of bankruptcy costs and agency costs. Debt policy itself is measured by Debt to Equity Ratio (DER).

Leverage Ratio aims to determine the company's ability to fulfill long-term obligations. The measure used to determine company leverage is to use Debt to Equity Ratio.

DER, which is the ratio between total liabilities (total debt) and total equity (equity). This ratio shows the extent to which own capital guarantees all debt. This ratio can also be read as a comparison between outside party funds and company owner funds that are entered into the company. If the DER value decreases, it means that the level of security of funds placed by creditors in this business will be guaranteed, because the company has a better level of financial risk.

The value of shares will increase if the value of the company increases which is marked by a high return on investment to shareholders. The value of the company is believed to not only reflect the company's current performance but also describe the company's prospects in the future.

Price to Book Value is a ratio that can be used to measure company value. PBV shows the ability of a company to create corporate value in the form of prices on available capital. With the higher PBV means the company can be said to have succeeded in creating value and prosperity of the owner. The greater the PBV value, the higher the company is valued by investors, relative to the funds invested in the company. The better the financial performance of a company, the better the value of the company. The higher the value of the company the higher the return obtained, and the higher the return on the more prosperous shareholders. Financial decisions taken by financial managers are intended to increase the prosperity of company owners, this is indicated by the increasing value of the company.

At present financial performance has fluctuated because it was caused by unstable financial conditions. So that by having good financial performance, a company will be the main consideration for investors. Company value is the result of the company's performance in one period. The better the financial performance of a company, the easier it is to attract investors to invest funds for the company. Because it is expected that the better the performance of a company, the value of shares will increase and provide the return expected by investors. The value of a company is strongly influenced by the profitability of the company. Where profitability is reflected in stock prices and shown in financial performance on how companies use their assets in order to obtain maximum profit. A good level of return shows good company performance, thus indirectly financial performance shows the value of the company itself.

With the existence of this theory indicates that there are several phenomena that occur in telecommunications sector companies that are listed on the Indonesia Stock Exchange (IDX).

In 2013 PT. Bakrie Telecom Tbk experienced an increase in ROE from the previous year but PBV declined. This shows the continuity of the theory which states that if the ROE increases it will be followed by an increase in PBV. In contrast, DER decreased from 2012 to the following year but was not followed by an increase in PBV. From 2014 to 2015 the ROE and DER of PT. Bakrie Telecom Tbk has decreased, while PBV has increased. Unlike PT. XL Axiata Tbk which shows that ROE has decreased but PBV has increased and DER has increased from 2013 to 2014 followed by an increase in PBV. PT. Smartfren Telecom Tbk from 2012 to 2013 for ROE and DER decreased while PBV experienced an increase. From 2014 to 2015 PT. Smartfren Telecom Tbk experienced an increase in ROE but was not followed by an increase in PBV with DER 2014 to 2015 experiencing a decline followed by a decrease in PBV that was not in accordance with the existing theory. PT. Indosat Tbk in 2013 to 2014 experienced an increase for DER and PBV. PT. Telekomunikasi Indonesia (Persero) Tbk from 2012 to 2013 ROE has decreased while DER 2012 to 2013 has decreased but not followed by PBV which has increased, and in 2014 to 2015 ROE PT. Telekomunikasi Indonesia (Persero) Tbk experienced an increase and was not followed by an increase in PBV. PT. Inovisi Infracom Tbk, the DER of this company experienced a decline from 2013 to 2014 also followed by a decline in PBV that did not fit the theory which said that if the DER decreased it would be followed by an increase in PBV. The absence of an explanation of the late submission of financial statements of PT. The IDX extended the suspension (temporary suspension) of PT. Inovisi Infracom for 2015, as stated by the head of the IDI group I company valuation division, I Gede Nyoman Yetna, that for the 2015 PT financial report data. Inovisi Infracom Tbk does not publish due to the shares of PT. Inovisi Infracom Tbk has been frozen since February 13, 2015, due to the late submission of 2014 audited financial statements. PT. Inovisi Infracom Tbk has also not paid for the late fees.

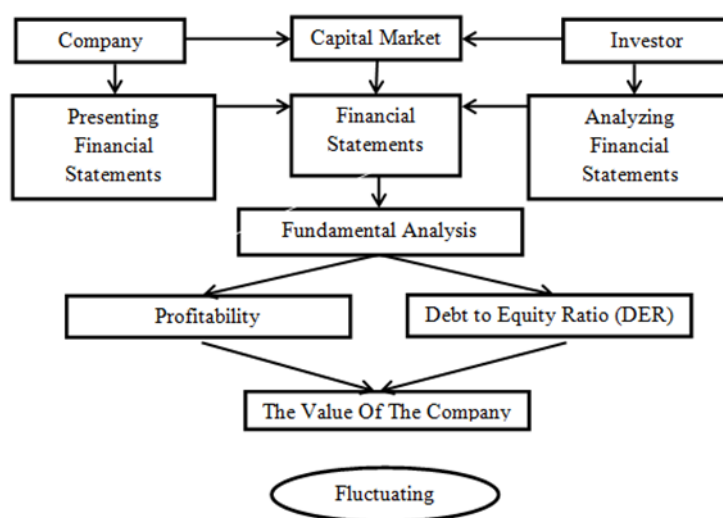


Figure 1. Framework

FRAMEWORK

Capital markets can be said to be the meeting place of parties who need funds (companies) with parties that are excess funds (investors) which are characterized by transactions of demand and supply between the two parties. Before investing, investors must know the condition of the company where he will invest his shares. In the capital market, investors are selective in assessing the companies that are used as investment goals for the future.

One analysis by investors to invest is fundamental analysis. In this analysis, determining the value of the company will use the basic fundamentals of the company as indicated by the

company's financial statements such as balance sheets, capital change reports, income statement, cash flow statement, and notes to financial statements.

Investors usually assess company performance more likely to see profits earned by the company, because many assume that profit is a value that can reflect the condition of the company, in addition, financial statements are also considered as parameters in measuring company performance. Stock prices are one indicator of the success of company management or company performance. If stock prices always increase, investors or prospective investors judge that the company is successful in managing its business. This trust is beneficial for issuers, the more they believe in an issuer, the stronger the desire to invest in the issuer.

Profitability can reflect the benefits of financial investment, meaning that profitability affects the value of the company because the internal resources are getting bigger. This means that the value of the company will also be judged to be better in the eyes of investors, for this reason, the company strives to maximize the resources that tone to achieve profits targeted by the company in order to maximize the prosperity of shareholders.

In financial statements, ROE describes the extent to which a company's ability to generate profits can be obtained by shareholders, whereas according to an increase in ROE is usually followed by an increase in the company's stock price. The higher ROE means the better the performance of the company in managing its capital to generate profit for shareholders. This has an impact on increasing the value of the company. The measure of the success of achieving this reason is the number of ROE that was successfully achieved. The greater ROE reflects the company's ability to generate high returns for shareholders. But the different results obtained by which examined the effect of ROE towards the value of the company in the type of consumer goods manufacturing companies listed on the Indonesia Stock Exchange. The results of the study indicate that ROE has a negative effect on firm value.

A financial report is a report that shows the company's financial condition at this time or in a certain period. Financial statements reflect the form of corporate management responsibility to internal and external parties regarding the company's performance for a period. Based on this financial report, the owners of capital can make an assessment of the company's shares. Some analytical method concepts are used to measure the financial performance of companies or issuers whose shares will be purchased using financial ratios, namely liquidity ratios, solvability ratios, activity ratios, growth ratios and profitability ratios.

DER, which is the ratio between total liabilities (total debt) and total equity (equity). This ratio shows the extent to which own capital guarantees all debt. This ratio can also be read as a comparison between outside party funds and company owner funds that are entered into the company. If the DER value decreases, it means that the level of security of funds placed by creditors in this business will be guaranteed, because the company has a better level of financial risk.

The value of shares will increase if the value of the company increases which is marked by a high return on investment to shareholders. The value of the company is believed to not only reflect the company's current performance but also describe the company's prospects in the future. According to said:

"There are several factors that influence a company's value, namely: funding decisions, dividend policy, investment decisions, capital structure, company growth, company size. Some of these factors have a relationship and influence on inconsistent corporate values."

Table 1. Operational Variable

| Variable | Variable Concept | Indicator | Scala |
|-------------------------|---|---|-----------|
| Profitability (X_1) | Profitability is a ratio to assess a company's ability to seek profits. [14] | $\text{Profitability} = \frac{\text{Earning After Tax}}{\text{Total Equity}}$ Source: [15] | (1) Ratio |
| DER (X_2) | DER is a ratio that shows the relationship between the number of long-term loans given by creditors with the amount of own capital provided by the owner of the company | $\text{DER} = \frac{\text{Total Amount of debt}}{\text{Equity}}$ Source: [14] | (2) Ratio |
| Company Value (Y) | Company value is a market value because the value of a company can provide maximum shareholder prosperity if the company's stock price increases. [15] | $\text{Company Value} = \frac{\text{Stock Price per Share Sheet}}{\text{Stock Price per Share Sheet}}$ Source: [16] | (3) Ratio |

Whereas according to the verification method is defined as research carried out on a particular population or sample with the aim of testing the predetermined hypothesis.

In this study, the descriptive verification method is used to test profitability and DER to firm value and test the theory by testing a hypothesis whether accepted or rejected.

Quantitative methods according to as follows research methods that are based on positivist philosophy, are used to examine certain populations or samples, data collection using research instruments, data analysis is quantitative statistical data, with the aim of testing predetermined hypotheses. Operational variable in this study is shown in Table 1.

ANALYSIS TECHNIQUES

The steps that have been carried out by the researcher in analyzing the data are as follows:

1. Classical assumptions: normality test, multicollinearity test, heteroscedasticity test, autocorrelation test.
2. Regression analysis is an analysis used to measure the influence of independent variables on related variables. If the measurement of influence involves two or more independent variables and one related variable then it is called multiple regression analysis.
3. Testing Hypotheses: coefficient of determination, testing of regression coefficients partially, testing with simultaneous regression coefficients.

DISCUSSION

The following are the results of research related to Profitability, DER and company Value for telecommunication communication companies listed on the Indonesia Stock Exchange 2012 to 2015.

Profitability Development in the Telecommunications Sector Registered on the IDX for 2012-2015.

The development of average profitability from 2012 to 2015 fluctuated, for 2013 decreased by -12.10% compared to 2012, in 2014 it increased by 13.72% compared to 2013. And in 2015 it decreased by - 81.36% compared to 2014.

The average value of profitability in 2012 was -35.02% and the highest value of profitability in 2012 of 27.41% was owned by PT. Telekomunikasi Indonesia (Persero) Tbk. While the lowest value of profitability in 2012 was -191.68% owned by PT. Bakrie Telecom Tbk. In 2013 the average profitability was 39.26% and the highest value of profitability in 2013 was 262.49% owned by PT. Bakrie Telecom Tbk. While the lowest value of profitability in 2013 was -83.1% owned by PT. Smartfren Telecom Tbk. In 2014 the average profitability was 44.65% and the highest value of profitability in 2014 was 74.03% owned by PT. Bakrie Telecom Tbk. While the lowest value of profitability in 2014 was -34.81% owned by PT. Smartfren Telecom Tbk. In 2015 the average profitability was 8.32% and the highest value of profitability in 2015 was 48.47% owned by PT. Bakrie Telecom Tbk. While the lowest value of profitability in 2015 was -22.86% owned by PT. Smartfren Telecom Tbk.

No company has experienced an increase in profitability in the period 2012-2015 because almost all companies fluctuate. And companies that experience a decrease in profitability each year for the period 2012-2015 are owned by PT. XL Axiata Tbk.

Development of DER in the Telecommunications Sector Registered in the IDX for 2012-2015.

The development of the average DER from 2012 to 2015 fluctuated, for 2013 it decreased by -112.19% compared to 2012, in 2014 it decreased -676% compared to 2013. And in the year 2015 increased by -1.38% compared to 2014.

The average value of DER in 2012 was 2.05 and the highest value of DER in 2012 of 4.58 was owned by PT. Bakrie Telecom Tbk. While the lowest value of DER in 2012 of 0.66 is owned by PT. Telekomunikasi Indonesia (Persero) Tbk. In 2013 the average DER was -0.25 and the highest value of DER in 2013 of 4.2 was owned by PT. Smartfren Telecom Tbk. While the lowest value of DER in 2013 of -10.06 was owned by PT. Bakrie Telecom Tbk. In 2014 the average DER was 1.44 and the highest value of DER in 2014 of 3.56 was owned by PT. XL Axiata Tbk. While the lowest value of DER in 2014 of -2.96 was owned by PT. Bakrie Telecom Tbk. In 2015 the average DER was 1.42 and the highest value of DER in 2015 of 3.18 was owned by PT. XL Axiata Tbk and PT. Indosat Tbk. While the lowest value of DER in 2015 amounted to -1.76 owned by PT. Bakrie Telecom Tbk.

Companies that experience an increase in DER each year for the period 2012-2015, namely PT. Indosat Tbk. Companies that experience a decrease in DER for the period 2012-2015 are owned by PT. Bakrie Telecom Tbk. Other companies have a fluctuating DER.

The Development of Company Values in the Telecommunications Sector Registered in the IDX for 2012-2015.

The development of average stock prices from 2012 to 2015 fluctuated, for 2013 decreased by -14.04% compared to 2012, in 2014 it increased -4.57% compared to 2013. And in 2015 it increased amounting to 10.27% compared to 2014.

The average value of the company in 2012 was 1.78% and the highest value of company value in 2012 was 3.16% owned by PT. XL Axiata Tbk. While the lowest value of company value in 2012 of 0.3% per share is owned by PT. Smartfren Telecom Tbk. The average value of company value in 2013 was 1.53% and the highest value of company value in 2013 was 2.9% owned by PT. XL Axiata Tbk. While the lowest value of company value in 2013 of 1.52% is owned by PT. Bakrie Telecom Tbk. The average value of company value in 2014 was 1.46% and the highest value of company value in 2014 was 3.57% owned by PT. Telekomunikasi Indonesia (Persero) Tbk. While the lowest value of the company in 2014 of 0.46% was owned by PT. Bakrie Telecom Tbk. The average value of the company in 2015 was 1.61% and the highest value of the company in 2015 was 3.35% owned by PT.

Telekomunikasi Indonesia (Persero) Tbk. While the lowest value of the company in 2015 of 0.2% is owned by PT. Bakrie Telecom Tbk. Companies that experience an increase in company value each year for the period 2012-2015, namely PT. Smartfren Telecom Tbk. Companies that experience a decrease in company value every year for the period 2012-2015 are owned by PT. XL Axiata Tbk. Other companies have fluctuating company values DER.

CONCLUSION

Based on the results of research, discussion and testing of hypotheses regarding the effect of profitability and DER on the firm value of 5 telecommunication companies listed on the IDX in 2012-2015, it can be concluded as follows:

1. The development of profitability in telecommunications companies listed on the Indonesia Stock Exchange in the period 2012-2015 shows that no company has experienced an increase in profitability for the period 2012-2015 because almost all companies fluctuate. And companies that experience a decrease in profitability each year for the period 2012-2015 are owned by PT. XL Axiata Tbk.
2. The development of DER in telecommunications companies listed on the Indonesia Stock Exchange for the period 2012-2015 shows that companies that experience an increase in DER for the period 2012-2015 are from PT. Indosat Tbk. And companies that experience a decrease in DER every year for the period 2012-2015 are owned by PT. Bakrie Telecom Tbk. And other companies have a fluctuating DER.
3. There is a significant influence between profitability and DER on firm value, with a coefficient of determination that shows an influence of 0.618%, which means that the contribution of profitability and DER to firm value is 61.8% while the remaining 38.2% is influenced by other factors not examined by the author. This indicates that profitability and DER have a strong relationship with firm value.

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