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By Amelia Firdauz

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¹ **The Influence of Capital Structure and Profitability on The Company Value of PT. Waskita Karya (Persero), TBK (Period 2016 To 2020)**

Amelia Firdauz¹, Tri Ningsih², Sana Sholihah³

¹ Sekolah Tinggi Ilmu Ekonomi Pasundan Bandung, Indonesia^{1,2,3}

Email: ameliafirdauz@gmail.com¹, tri@stiepas.ac.id², sana@stiepas.ac.id³

Abstract

This study focuses on the specific time period of 2016-2020 and ³ aims to ascertain and examine the impact of capital structure and profitability on the valuation of manufacturing companies listed on the Indonesia Stock Exchange. The independent variable X1 represents the capital structure, precisely measured by the debt-equity ratio (DER). The independent variable is the company PT. Waskita Karya (Persero), Tbk, a prominent manufacturing company, throughout the period of 2016-2020.

The study population consisted of 12 years' worth of financial reports from PT Waskita Karya (Persero), Tbk, encompassing quarters 1-4. This totaled 48 financial reports. The sample for analysis was selected using the time series approach, resulting in 20 financial reports from 2016 to 2020. The data testing strategy employs several linear regression analysis methods, utilizing an alpha significance level of 5%.

The findings of ¹ this study demonstrate that the capital structure has a notable adverse impact on the firm's value, reducing it by 22.4%. Conversely, profitability substantially positively influences the company's value, increasing it by 30.8%. Both capital structure and profitability have a 53.2% impact on firm value at the same time.

Keywords: Capital Structure, Profitability, Company Value

Introduction

Within the framework of Indonesia's burgeoning economy, the construction industry assumes a crucial function in bolstering economic expansion and fostering sustainable development. PT. Waskita Karya has participated in numerous national strategic projects, encompassing the development of toll highways, bridges, and high-rise structures. Nevertheless, as competition in this business intensifies, companies have the obstacle of sustaining and augmenting the worth of their company. ⁴ One strategy that can be implemented is to effectively control internal aspects that impact the value of a firm, such as its capital structure and profitability.

Capital structure pertains to the equilibrium between the utilization of debt and equity in the financing of ⁴ corporation. Effective capital structure management is crucial as it has the potential to impact the financial risk and cost of capital for a company. Capital structure theory encompasses several methodologies for determining the most advantageous capital structure, such as trade-off theory, pecking order theory, and market timing theory. The trade-off argument suggests that corporations need to carefully consider the advantages of using debt for tax purposes against the potential drawbacks of facing bankruptcy. As the level of debt increases, the tax benefits earned also increase, but so does the chance of bankruptcy. ¹³ The pecking order theory posits that corporations have a preference for internal investment over external funding due to the presence of knowledge

asymmetry. When corporations need outside funding, they tend to favor borrowing money rather than selling ownership shares. This condition is because borrowing money is generally seen as more cost-effective and does not decrease the company's ownership of shares. The market timing theory posits that corporations strategically select the optimal timing to issue debt or stock, considering prevailing market conditions. For instance, they may issue equity when share prices are at their peak and debt when interest rates are at their lowest.

The valuation of PT Waskita Karya (Persero) Tbk. from 2016 to 2020 was determined using the **PBV (Price to Book Value) ratio**. The graphical data indicates fluctuations in values from the first quarter of 2016 to the fourth quarter of 2020, with both increases and decreases observed..

The second quarter of 2016 saw a growth of 5.86% compared to the previous quarter, and the third quarter of the same year saw a growth of 5.66%. However, the average growth declined consistently until the third quarter of 2020. From the second quarter of 2020, growth was resurgent, with a value of 5.56%. Due to the growth seen in the fourth quarter of 2020, investors will develop a favorable impression of this company. However, considering the numerous dips observed between 2016 and 2019, investors will form an unfavorable picture of this company, even upon closer examination. Several variables can contribute to the depreciation of this company's value.

PT Waskita Karya (Persero) Tbk's capital structure changed between 2016 and 2020. Its initial value was 4.77% in the first quarter of 2016 and increased to 6.75% in the fourth quarter of 2020.

Using statistics regarding the mean firm valuation, capital structure, and profitability

The relationship between capital structure, profitability, and company value exhibits an intriguing inconsistency, warranting further investigation. This research aims to determine the extent to which capital structure and profitability, individually and collectively influence the value of PT companies. Waskita Karya (Persero), Tbk, was a publicly traded company on the Indonesia Stock Exchange (IDX) from 2016 until 2020. Hence, the research aim is to determine and examine the combined impact of a company's capital structure and profitability on its value in PT companies. Waskita Karya (Persero), Tbk for the period of 2016-2020.

Profitability, conversely, quantifies a company's capacity to earn profits from its business activities. The company's high profitability demonstrates its adeptness and efficacy in resource management. Profitability is frequently assessed using financial ratios such as return on assets (ROA) and equity (ROE). Return on assets (ROA) quantifies the company's capacity to create profits from its owned assets, whereas return on equity (ROE) quantifies its capacity to generate profits from shareholder stock. High profitability is typically a sign of solid performance and has the potential to boost investor confidence, thereby increasing the company's value.

A firm's capital structure pertains to the arrangement of debt and equity employed to finance the company's activities and expansion. The optimal capital structure refers to arranging a company's financial resources to optimize its overall worth while minimizing the expenses of obtaining capital. Capital structure theory encompasses different methodologies, including trade-off, pecking order, and market timing theories. Trade-off theory posits that corporations must carefully manage the advantages of tax deductions from debt against the potential drawbacks of bankruptcy. The pecking order theory posits that corporations prefer internal finance over external financing. When external funding is necessary, companies tend to favor debt over stock due to concerns about information asymmetry. The market timing theory posits that corporations strategically determine the optimal timing to issue debt or equity by considering prevailing market circumstances.

Profitability, as assessed by ¹⁴ financial ratios like return on assets (ROA) and return on equity (ROE), is the primary gauge of a company's operational effectiveness. The company's high profitability demonstrates its adeptness in effectively utilizing its assets to make money. Investors and creditors view strong profitability as a favorable indication of a company's financial well-being and capacity to fulfill financial responsibilities. Consequently, a company's high profitability typically enhances its perceived value among investors.

³ This study aims to examine the impact of capital structure and profitability on PT's corporate valuation. Waskita Karya (Persero), Tbk from 2016 to 2020. By comprehending this correlation, it is anticipated that company leadership can make more astute fiscal choices to enhance company worth. In addition, this study is anticipated to contribute to the existing body of knowledge in corporate finance in Indonesia, particularly about construction businesses, which possess distinct characteristics and face unique issues.

The importance of company value lies in its direct correlation with shareholder wealth. A high company value is indicative of a prosperous future for shareholders.

As the share price increases, so does the company's worth. Company owners aim ⁶ to achieve a high company value since it signifies a corresponding high level of shareholder wealth. The market price of shares reflects investment decisions, financing, and asset management, representing the wealth of both shareholders and the corporation.

Capital structure theory, specifically ¹ trade-off theory, states that if a company's capital structure is below the optimal point, adding more debt will increase the company's value. Conversely, if the company's capital structure is at the optimal point, any further debt will diminish the company's worth. One of corporate management's primary responsibilities is determining the ideal capital structure aim.

Capital structure refers to the composition of a firm's financial resources, specifically the allocation between long-term obligations and shareholders' equity, which are the organization's primary funding sources. Profitability is crucial in a company as it indicates management's effectiveness in sustaining the company's long-term viability. Additionally, profitability can provide insights into the company's prospects.

Method

The research employed a quantitative methodology with a descriptive and verification orientation. It was carried out at PT Waskita Karya (Persero), Tbk, a prominent publicly traded corporation in Indonesia that plays a significant part in the nation's development. The research was conducted at the Indonesian Stock Exchange, which is known for its integrity and comprehensive financial report data for listed companies.

The research employed the meticulous documentation study technique to collect secondary data from financial report documentation. This technique involved the quantitative analysis of documents created by the subject or other individuals about the subject. The ² data extracted from these papers were then examined based on research requirements, namely the capital structure represented by the debt-to-equity ratio (DER), profitability represented by the return on equity (ROE), and firm value represented by the ¹ price-to-book value (PBV). This rigorous methodology ensures the reliability and accuracy of the research findings.

The population for this study comprises the complete set of financial report data from the company PT. Waskita Karya (Persero), Tbk, from 2016 to 2020. The research utilizes quarterly time series data from PT's financial reports as the sample. Waskita Karya (Persero), Tbk from 2016 to 2020. This study employs verification analysis to ascertain the extent to which capital structure (DER) and profitability (ROE) are associated with company value (PBV). The research employed the technique of multiple linear regression analysis. Before conducting an analysis, it is necessary to evaluate the data to determine classical assumptions. The objective is to acquire high-quality multiple linear data or the Best Linear Unbiased Estimator (BLUE).

Results and Discussion

The research employed a quantitative methodology with a descriptive and verification orientation. It was carried out at PT Waskita Karya (Persero), Tbk, a prominent publicly traded corporation in Indonesia that plays a significant part in the nation's development. The research was conducted at the Indonesian Stock Exchange, which is known for its integrity and comprehensive financial report data for listed companies.

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$$\text{Nilai Perusahaan (PBV)} = 7,948 - 0,541 \text{ DER} + 0,285 \text{ ROE} + \epsilon$$

The equation demonstrates that increasing one unit in DER will result in a drop of 0.541 units in PBV, providing all other variables remain the same. On the other hand, if all other factors stay the same, a rise of one unit in ROE will result in a 0.285 unit increase in PBV. A negative coefficient on DER signifies that an increase in debt compared to equity diminishes the company's value. This condition could be attributed to the market's belief that higher levels of debt lead to more financial risk and the possibility of bankruptcy, which in turn has a detrimental effect on the valuation of a company. Conversely, a positive coefficient on Return on Equity (ROE) suggests that more profitability increases the company's value. This condition demonstrates that the market values the company's capacity to earn substantial profits from its equity ownership.

The findings of this study have multiple significant ramifications for physical therapy administration. Waskita Karya. Initially, enterprises must exercise caution while acquiring debt to fund their projects. While debt can offer tax advantages and finance growth, excessive debt can heighten the likelihood

of insolvency and diminish a company's worth. Management must achieve optimal leverage by striking a suitable equilibrium between debt and equity to increase the company's value.

Additionally, management must prioritize implementing plans to enhance firm profitability. Enhancing return on equity (ROE) can be accomplished by implementing diverse strategies, including improving operational efficiency, implementing effective cost-control measures, and fostering product innovation. By enhancing profitability, organizations can bolster investor trust and augment the company's market worth.

Furthermore, this study underscores the importance of establishing transparent communication with investors. Management should ensure clarity on the company's financial and operational strategies, as well as their approach to managing capital structure and enhancing profitability. This commitment to transparency not only mitigates ambiguity but also strengthens investor trust, potentially augmenting the overall worth of the organization.

Moreover, this research stands as a significant intellectual achievement. It adds to the existing literature by examining the impact of capital structure and profitability on firm value within the construction industry in Indonesia. This study could serve as a valuable reference for future research in this field. Importantly, it underscores the role of internal elements in determining the value of a company, a finding that has implications beyond the construction industry.

It is essential to take into account the limitations of this research. Primarily, this research relies solely on data obtained from PT. Waskita Karya, namely from the years 2016 to 2020. The generalizability of research findings to other companies or different historical periods may be limited. Furthermore, this research solely examines two independent variables, DER and ROE. Additional variables, such as the size of the firm, its rate of growth, and the overall macroeconomic conditions, can also impact a company's value. These elements should be taken into account in future studies.

To enhance future research, it is advisable to broaden the research sample by incorporating additional organizations from diverse industrial sectors and extending the time frame. Research can encompass additional factors influencing company value, such as firm size, growth rate, and macroeconomic conditions. By broadening the research's scope, it is anticipated that more extensive and universally applicable findings will be achieved, offering a more profound understanding of the aspects that impact a company's worth.

The research findings demonstrate a substantial correlation between the capital structure, profitability, and the firm value of PT. Waskita Karya (Persero), Tbk. The coefficient of determination study offers a comprehensive insight into the extent to which the independent variables, capital structure (DER) and profitability (ROE), may account for the fluctuations observed in the dependent variable, firm value (PBV). The R-Square value of 53.2% signifies that over 50% of the variability in firm value can be accounted for by the combination of capital structure and profitability. Nevertheless, an additional 46.8% variation remains unaccounted for by the model, highlighting the intricate nature and multitude of elements that contribute to establishing the value of a company.

The F test, conducted concurrently, reinforces these findings by demonstrating the overall importance of the regression model. The test results validate that capital structure (DER) and profitability (ROE) jointly exert a substantial impact on the company's value (PBV). The computed F value of 9.667 significantly exceeds the critical F value of 3.55 at a significance level of 5%. Consequently, the null hypothesis is refuted, and the alternative hypothesis is embraced, asserting a substantial correlation between capital structure, profitability, and company value with a confidence level of 95%.

In addition, the significance of the F Test results ($0.002 < 0.05$) further supports the conclusion that the combination of capital structure and profitability has a considerable impact on the value of a company. Put, there is evidence to suggest that these variables significantly affect a firm's valuation. This is because making intelligent changes to the company's capital structure and improving profitability can increase its overall value.

The analysis of these findings highlights the significance of proficient administration of capital structure and strategy to enhance corporate profitability in the PT setting. Waskita Karya. The prudent selection of funding sources and the implementation of strategies to enhance operational efficiency and financial performance will directly influence the firm's valuation. These findings offer practical guidance for management in implementing suitable financial policies and operational strategies to enhance firm performance and value.

Conclusion

To summarize, this study emphasizes the significance of effectively managing capital structure and achieving profitability as crucial elements that impact the value of a firm in the construction industry, specifically focusing on PT. Waskita Karya (Persero), Tbk. The analysis reveals that the capital structure, as shown by the debt-equity ratio (DER), and the profitability, as evaluated by Return on Equity (ROE), jointly exert a substantial impact on the company's worth, as assessed by Price-to-book worth (PBV). These findings enhance comprehension of the significance of prudent financial decision-making and efficient operational tactics in augmenting firm valuation.

The R-Square value of 53.2% signifies that over 50% of the variability in firm value can be accounted for by capital structure and performance. This condition suggests that the efficient handling of these two aspects can significantly influence the value of a company. The simultaneous F test also verifies that the combination of capital structure and profitability substantially impacts company value. The test findings reject the null hypothesis and accept the alternative hypothesis at a 95% significance level.

The significance of these findings is highly pertinent for both PT management, namely Waskita Karya, and the construction industry as a whole. Organization management can utilize the acquired insights to optimize the allocation of its financial resources, mitigate financial risks, and enhance operational effectiveness to augment the organization's overall worth. A comprehensive grasp of the aspects that impact firm valuation can offer a substantial edge in a dynamic and competitive sector.

Nevertheless, this study also highlights the need for additional research in several areas, such as investigating the impact of external factors on firm value, developing a more comprehensive methodology, and conducting a more profound analysis of the mechanisms by which the variables analyzed affect firm value. By furthering study in this field, we may enhance our comprehension of corporate valuation and offer more extensive perspectives to corporate management for strategic decision-making.

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