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The Effect of Liquidity and Profitability on Firm Values in Telecommunication Subsector Companies

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Abstract
The background of this research is how to make investors have a good perception of the company that can be determined through the results of the company's valuation. This research aims to examine the partial and simultaneous relationship between liquidity using the current ratio (CR), and profitability using Return on Assets (ROA) to the company's value of companies using Tobins'Q in telecommunications companies related to IDX (Indonesia Stock Exchange), in 2015-2018. The data get it from financial statements on the Indonesia Stock Exchange with 5 companies as samples. The independent variables of this study are liquidity, profitability and the dependent variable in this study is firm value. This study uses several linear regression methods. the results showing a significant effect between current ratio and Return on Total Assets on firm value and the same results show that there is a significant effect between Return on Total Assets and firm value.

Keywords: Current Ratio; Return on Asset; Tobin's Q

1.0 INTRODUCTION

In this day and age technology is increasingly sophisticated and this is supported by the rapid development of telecommunications and also the increasing need for data and information in the community. This shows that telecommunications companies are needed by the community. Many telecommunications companies operating in Indonesia are listed on the Indonesia Stock Exchange (IDX), including PT. Bali Towerindo Sentra Tbk (BALI), PT. Tower with Infrastructure Tbk (TBIG), PT. INOVISI Infocom (INVS), PT. Indosat (ISAT), PT. Telekomunikasi Indonesia Tbk (TLKM), PT. XL Axiata Tbk (EXCL), PT. Smartfren Telecom Tbk (FREN), PT. Trikomsel Oke Tbk (TRIO), and PT. Bakrie Telecom Tbk (BTEL). "The competition of competitive telecommunications companies is very tight. Thus every company must have the ability to survive and compete. Therefore, increasing the value of the company is one way for the company to survive and, increasing the value of the company will be able to attract investors so that it will automatically increase the company's stock price. "Company value, according to Noerirawan and Muid (2012)," is a condition that has been achieved by the company as an illustration of public trust in the company after going through a process of activities for several years, ie since the company was founded until now. "

Liquidity is the company's ability to meet its short-term obligations. The ratio used is the current ratio, by comparing total current assets with current liabilities, it can also be said as a measure of the company's safety level (margin of safety). Liquidity Ratios related to the problem of a company's ability to meet its financial obligations that must be met immediately (Riyanto, 2010). Companies that have a high level of liquidity will be directly proportional to the growth of a company.

The profitability ratio, according to Sartono (2010), is "the company's ability to generate profits from sales, total assets, and own capital." The ratio used is Return On Assets (ROA) by comparing net income with total assets, calculating how much profit a company can make from total assets owned. "

The phenomenon that occurs in the TELKOM company found in the "okefinance" titled Telkom Company Value translucent to Rp 300 trillion. TELKOM's company in 2015 had shares reaching Rp 300.04 Trliun this figure shot up from October 2014 where the market cap of the issuer Halo-halo around Rp 280 trillion The market cap usually shows the value of a company as indicated by the share price times the number of shares outstanding in exchange so that TELKOM's company has the biggest market cap of other competitors (Kusuma, 2015). The research period starts from 2015-2018 with a period of 4 years, researchers hope to get some research samples that are accurate enough to be generalized. This year also shows the condition of telecommunications companies during the reign of Indonesian President Joko Widodo. The reason for using telecommunications companies is because during the Corona pandemic in 2020 it was found that telecommunications companies were categorized as companies that were not affected by the pandemic. After all, these companies still had good customers and sales. Based on the description above, the authors conducted a study entitled "The Effect of Liquidity and Profitability on Corporate Values in Telecommunication Sub Sector Companies."

2.0 LITERATURE REVIEW

Liquidity

Liquidity, according to Syamsudin (2013) is the company's ability to pay its financial responsibilities/obligations in the short term by using current assets. Liquidity is important for companies to pay their obligations, short-term financial payments such as operational costs and debts that are past due (Saleem & Rehman, 2011). The purpose and benefits of the liquidity ratio according to Kasmir (2013) are to measure the company's ability to pay its obligations and trigger management to improve its performance by looking at the liquidity ratio.

Companies that can pay off short-term debt, the company can be declared liquid, if the company has good liquidity, the investor will also have a good view of the company, but the company must also be able to make a balance between liquidity goals and different profitability goals because if too high a company's liquidity will affect its profitability and vice versa if profitability is too high it will reduce the company's liquidity (Niresh, 2012).

Current Ratio (CR)

With this ratio, it can be seen the extent to which the ability of current assets can be used to pay off corporate obligations in the short term. A large current ratio will indicate excess cash, this can be known as high corporate profits or the use of corporate finance is not effectively used to invest. (Sudana, 2011). Thus the current ratio is a ratio to measure the ability of a company to pay its short-term liabilities using current assets.

$$\text{Current Ratio} = \frac{Current\ Asset}{Current\ Liability}$$

Profitability

According to Hery (2015), that profitability provides many benefits for the parties concerned. Profitability is a business activity in obtaining profits from company performance (Sartono, 2011). In practice, many benefits can be obtained from profitability ratios, both for company owners, company management, and other stakeholders associated with the company. The purpose and benefits of the overall profitability ratio is to measure the company's ability to generate profits during a certain period and assess the company's profit position the previous year with the current year.

Return on Assets (ROA)

ROA is a part of profitability to measure and find out the company's achievements in obtaining profits from the use of assets owned. Asset return is a ratio that shows how much the contribution of assets in creating net income (Sudana, 2011). The company will be good at managing its assets if ROA increases from its standards. In this study, the authors use Return On Assets as a measure to find out how much influence the value of the company.

$$\text{Return On aset} = \frac{Laba\ bersih}{Total\ Aset}$$

Firm Value

Company value can be measured using a ratio called the valuation ratio. Sudana (2011) states that this ratio relates to the assessment of the performance of shares of companies traded on the capital market (go public) so that companies that can be investigated are companies listed on the Indonesia Stock Exchange (IDX).

According to Sugiono & Untung (2016) explains the company's value ratio is also called the valuation ratio which aims "to be a benchmark that connects the relationship between common stock prices with company earnings and a book value of shares or reflects the company's overall performance." Provides information about how much value is given by the public or what percentage of risk in a company so that the value of the company will affect the public in buying shares at a price more than the book value. Some methods that can be used to measure the value of a company are the ratio of earnings price (PER), price to book value (PBV), and Tobin, Q. The ratio of Q is better than other ratios because it focuses on how much the company is currently valued. The method used in this study to measure the value of the company is. Tobin's Q = (share price x number of shares outstanding) / Total Assets.

Effect of Liquidity on Firm Value

The liquidity ratio is an important ratio for the company because this ratio can pay the short-term debt which will determine the merits of the company's value. According to research by Mulyani (2017), Wijaya & Purnawati (2014), Pasaribu (2008), Rompas (2013), Putra (2016) and Cheung Mingyan (2015), Mahendra et al (2012), show that liquidity has a significant effect on Company value is caused by a high level of liquidity which will make the company only focus on paying short-term debt and increase the company's current assets not focus on dividend payments. to invest funds, so the higher the liquidity will be able to reduce the value of the company because of the lack of investor interest in investing.

However, according to research by Nurhayati (2013), Lumoly (2018)) and Du Jinmin (2016) state that the effect of liquidity on firm value is not significant

H1: Liquidity has a significant positive effect on firm value.

Effect of Profitability on Firm Value

Profitability is using resources to generate income. According to Husnan and Pudjiastuti (2015) Profitability is a ratio to measure the extent of a company's ability to generate profits from sales, from assets owned, or from the equity it has. Company value is the result of a company's operations in increasing profits in each period. By looking at the definition above, it can be concluded that the value of the company will increase if the results of the company's workforce in increasing profits run well. Thus, it can trigger investors to participate in increasing demand for company shares. The better the profitability of the company means the value of the company in the future will be better in the eyes of investors.

According to research by Lumoly (2018), Putra (2016), Mery (2017), Hamidy et al (2015), Rizqia ayu Dwita (2013), and Osazuwa (2015) stated that profitability has a significant effect on firm value. Profitability is the net income that a company can obtain at the time of its operation. The higher the company's revenue, the greater the company's expertise to pay obligations so that it will have a good effect on increasing the company's value.

However, according to Moniaga (2013), Thaib Ilham (2017), Susilowati (2011), and Sondakh (2019) found that profitability had no significant effect on firm value.

H2: Profitability has a significant negative effect on firm value.

3.0 METHODOLOGY

Analysis of the data in this study uses statistical analysis, namely: descriptive statistics, correlation analysis, classic assumption tests, and regression analysis. The regression model in this study is descriptive associative research. Associative research shows that there is a relationship between variables used in research studies. The variables used in this study are independent current ratio and asset return ratios. The current ratio is one of the liquidity ratios that shows the ability of cash to pay short-term liabilities. The asset return ratio is one of the profitability ratios that shows the level of a company's assets and compares the use of net income and total assets. The dependent variable in this study is Tobin's Q. Tobin's Q is a measurement that describes the value of a company as a form of combined value between tangible assets and intangible assets. The sample data of this study uses ratios in the telecommunications sub-sector of the company's financial statements are FREN, ISAT, BTEL, EXCEL, and TLKM from 2015-2018. Thus found a research sample of 20 samples. Data analysis in this study uses statistical analysis that is descriptive statistics, correlation analysis, classic assumption test, and regression analysis. The regression model in this study is Q = a + b1CR + b2ROA.

3.0 RESULTS AND DISCUSSION

Descriptive Statistics

Based on the descriptive statistics in Table 1 using SPSS version 17 for sample (N) 20, it is known that the Current Ratio variable shows an average value of 0.3920 (39.20%) and a standard deviation of 0.43277 (43.27%). The ROA variable shows an average value of -0.1666 (-16.66%), and the standard deviation is 0.52678 (52.668%). The Tobin Q variable shows an average value of 0.8581 (85.81%) and a standard deviation of 1.15851 (115.851%). In essence, telecommunications companies as a whole have low liquidity, moreover, they have negative profitability even though there are big names like Telkom with high profits, and the value of the company in terms of Tobin's Q is undervalued because the average yield is below 1.

Table 1. Descriptive Statistics

	M	SD
CR	.3920	.43277
ROA	-.1666	.52678
Q	.8581	1.15851
N	20	

Correlation Matrix

The correlation matrix in this study was used to see whether there were multicollienarity problems in this study. The hypothesis for multicollienarity is as follows:
Ho: There is no multicollinearity (r <0.90)
Ha: There is multicollienarity (r> 0.90)

Tabel 2. Correlation Matrix

	CR	ROA	Q
CR	1	.257	.622**
ROA	.257	1	-.213
Q	.622**	-.213	1

The table above shows the correlation between the variables associated with several tests. Statistical results show that the R value is below 0.9, this means that there is no multicollinearity in the independent variables in this study. Between the current ratio and ROA, a correlation is found with r = 0.257. And find the correlation between ROA and Tobin's Q with r = 0.622. Related to the relationship between variables found a positive relationship between liquidity with a CR proxy with profitability (r = 0.257), CR and Q (r = 0.622). And found a negative relationship between ROA and Q (r = -0.213).

Regression

Table 3. Regression

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.048	.189		-.255	.800
	CR	1.938	.310	.724	6.245	.000
	ROA	-.878	.255	-.399	-3.444	.001

The t-test results show that there is a significant influence between CR and ROA on Company Value seen from the value of 0.0000 <0.05 for CR and Company Value. The same results indicate that there is a significant effect between ROA and the value of the company with sig. 0.001 at a significant level of 5%. The regression models found in this study are:
Q = -0,048 + 1,938 CR - 0,878 ROA

Based on this model, it shows that an increase in the Current Ratio will increase the value of the company, on the other hand, an increase in asset returns will decrease the value of the company and vice versa.

Significant Test

Table 4 shows that simultaneously, there is a significant influence between the current ratio and return of assets to the value of the company with Tobin's Q as a proxy, as seen in sig. 0,000 at a significant level of 5% or 0.05. This shows that the regression model in this study is acceptable and that changes in current ratios and asset returns can have an impact on changes in firm value.

Table 4. Significant Tests

Model	F	Sig.
1	21.311	.000b

Hypothesis Testing

The t-test was used to test the effect of the independent variable whether it had a significant effect on the dependent variable partially with a confidence level of 95% or at a significant level α = 5%. If the independent variable is significant to the dependent variable, there is an influence between the dependent and independent variables and vice versa.

In the t-test, the research is used to test whether the hypothesis proposed in this study is accepted or not by knowing whether the independent variable partially influences the independent variable. In the t-test, the calculated t value will be compared with the t table value of each variable and or can be seen from the significant value as shown in Table 5.

Tabel 5. T-Test

	T-count	Significant	Test level	Keterangan
X1 → Y	6.245	.000	5%	Significance
X2 → Y	-3.444	.001	5%	Significance

Source: Data Olahan SPSS, 2018

Discussion

H1: Liquidity and Company Value

In this discussion, we can see what is written in hypothesis 1 which says that liquidity has a significant effect on firm value. The results of the study alone showed that there was a significant influence between liquidity and company value with a t-count value of 6,245 and sig. 0.0000 at α = 0.05. The positive value of the t-count indicates that an increase in the level of company liquidity can increase the value of the company itself. The results of this study are supported by previous research by Pasaribu (2008), Rompas (2013), and Cheung Mingyan (2015) who say liquidity has a significant effect on firm value.

H2: Profitability and Company Value

In this discussion, we can see what is written in hypothesis 2 which says that profitability has a significant effect on firm value. The results of the study alone showed that there was a significant effect between profitability and company value with a t-count value of -3444 and sig. 0.001 at α = 0.05. The negative value of the t-count indicates that increasing the level of profitability of the company can reduce the value of the company itself. The results of this study are supported by previous research by Mery (2017), Rizqia ayu Dwita (2013), and Osazuwa (2015) who say profitability has a significant effect on firm value.

4.0 CONCLUSION

The results of the above analysis discuss and determine the effect of liquidity with Current Ratios and profitability with the ratio of Return On Assets to the value of the company with Tobins'Q measured in the Telecommunications subsector listed on the Exchange during the period 2015-2018, the study can conclude that there is a significant influence positive between liquidity (CR) on firm value and the significant negative effect between profitability (ROA) and firm value. Increasing the Current Ratio will increase the value of the company, on the other hand, an increase in Return On Assets will decrease the value of the company. This study found that simultaneously there is a significant effect between the current ratio and Return On Assets to firm value. Therefore, changes in Current Ratios and Return On Assets can have an impact on changes in firm value.

From the conclusions above, recommendations that can be given by the author through the results of research to various aspects such as for investors, to always analyze financial ratios, especially ratios that affect the value of the company before investing in a company. And for management, to increase shareholder confidence. Companies must be able to balance the Current Ratio and Return On Assets properly, and always convey information about the company's development to investors. For researchers, to use a variety of samples, extend the study period, and add variables used so that it will get more accurate results.

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