JURNAL INOVASI EKONOMI

Influence of profitability on firm value: Data from transportation sector

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Abstract
This study aimed to analyze and test the effect of stock returns, activity, profitability, and liquidity on firm value. We are using a sample of 14 companies obtained through the purposive sampling method on the transportation sub-sector companies listed on the Indonesia Stock Exchange. The results of this study indicate that stock returns, activity, profitability, and liquidity have a significant effect on firm value simultaneously. Partially, stock returns and profitability have a significant positive impact; activity has no significant positive impact, and liquidity has a significant negative effect on firm value.

Keywords: Firm value; stock returns; activity; profitability; liquidity

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Introduction

The current economic development requires each company to be more optimal in operating its resources. On a national, regional, and global scale, competition demands innovation and, on the other hand, efficiency (Nuryani, Wijayanti, and Masitoh, 2021). Therefore, companies must optimize their resources to not erode with the times, increasing company value (Insani et al., 2019). The financial management function must carry out correctly to achieve this financial goal, including optimizing assets and liquidity (Hendayana and Riyanti, 2020).

Firm value is the perception or view of investors regarding the company's condition. According to Nuryani, Wijayanti, and Masitoh (2021), companies with high achievement values will increase investors' desire to invest, making it easier for companies to increase production scale from legal aspects to financing. Therefore, it is not uncommon for a company's stock price to be associated with the value of the company itself (Siregar and Dalimunthe, 2019). In addition, company value can also be influenced by the company's activity ratio; we could see from the results of research conducted by Lumentut and Mangantar (2019) and Chairunnisa (2019), which show that activities affect increasing firm value.

Furthermore, research conducted by Yanti and Abundanti (2019); Dewi and Rahyuda (2020); Khairani (2019); Nurhidayah (2020); Supitriyani et al. (2020), Siregar and Dalimunthe (2019) and Devi, Budiasih, and Badera (2017) show that profitability positively affects firm value. Meanwhile, the liquidity ratio, which describes the company's financial performance in terms of liabilities, can influence the public's assessment, especially investors, for an investment decision. If the company still has an excellent ability to meet its short-term obligations using current assets, the company can be said to be liquid. Thus, investors do not have to worry about investing their funds if uncertainty happens. However, research conducted by Dewi and Rahyuda (2020) and Hendayana and Riyanti (2020) states that liquidity hurts firm value.

A previous study provided by Fatima (2020), Chairunnisa (2019), Supitriyani et al. (2020), and Hendayana and Riyanti (2020) have not discussed the firm value in the transportation sub-sector. This study contributes to the renewal of the literature, especially regarding the role of stock returns, activity, profitability, and liquidity on the firm value of the Transportation Sub-sector. This study can be an initial comparison, whether the role of exogenous variables in each sector has a different determination and magnitude from other industries or vice versa.

Method

The sampling technique in this study used a purposive sampling technique with a sample selection stage, as shown in Table 1. Tobin's Q ratio measured firm value; Tobin's Q has the advantage of Profit Margin, ROA, or other financial indicators based on historical accounting performance because it reflects market expectations and is relatively free from possible manipulation by company management.

Meanwhile, for exogenous variables, the stock return was measured by return at the end of December; activity is measured by total asset turnover; profitability is measured by return on assets, and the current ratio calculates liquidity. Then the data were analyzed using multiple linear regression analysis based on the fulfillment of classical assumptions. Firm value is an endogenous variable, and profitability is an exogenous variable, with activity and liquidity as control variables. The data used is the data listed in the annual financial statements for 2016 to 2019.

Tables. 1 Stage of sample selection

Sample Criteria	Number of Companies
Transportation Sub-Sector Companies listed on the Indonesia Stock Exchange as of December 31, 2016.	45
Incomplete Transportation Sub-Sector Companies publish audited financial reports for the 2016-2019 period.	(16)
Transportation Sub-Sector Company that has experienced a loss for 3 years during the 2016-2019 period.	(15)
Number of Research Samples	14

Empirical Result

Simultaneously the formed model can explain the endogenous variables by 54.6%. Furthermore, the regression results show that stock returns and profitability have a positive and significant impact, but the level of liquidity has the opposite effect, which is negative and significant. At the same time, the activity has a positive but not significant impact. These results indicate that during the observation period, the activity of the Sub-Transportation Company did not have an effect on firm value, and even liquidity suppressed firm value (See Table 2).

The higher the asset turnover ratio, the better the company's performance because a higher percentage implies that the company generates more revenue. We know that asset turnover ratios tend to be higher for firms in specific sectors than others. However, the data from the transportation sub-

sector company asset turnover did not impact the value of the company. Meanwhile, there are indications that companies in this sub-sector may experience liquidity problems even though their asset turnover ratios tend to be high.

Table 2. Regression result

Variable	Coefficient	Sig.
(Constant)	3.951	0.000
Stock Return	2,627	0.011
Activity	0.458	0.649
Profitability	6,825	0.000
Liquidity	-2.201	0.032
F-statistics	15,364	0.000
R^2	0.546	

Conclusions

This study shows that stock prices and profitability can affect the value of the transportation sub-sector companies listed on the Indonesian stock exchange. Meanwhile, the level of activity proxied by asset turnover has no effect, while liquidity reduces firm value significantly. Based on these findings, we argue that management in this sub-sector needs to evaluate asset turnover and liquidity management; this is related to company value and relates to the company's sustainability in the future.

Acknowledgment

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