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ANALYSIS OF THE INFLUENCES OF DIVIDEND PAYOUT RATIO, RETURN ON EQUITY, GROWTH AND FIRM SIZE ON STOCK VALUE WITH LEVERAGE AS MEDIATING VARIABLE

Novia Utami^{1*}

ABSTRACT

This study aims to examine the internal factors that influence the value of a company's shares mediated by the leverage. The sample of this research is the firms listed in the Indonesia Stock Exchange (IDX) during the period 2017 - 2019. Data collected with the purposive method and obtained 102 companies in the year observed. This study uses multiple regression analysis and regression analysis with interaction. Based on the results of multiple regression analyses, this study found that return on equity and total assets influence the value of shares with positive direction, while debt to equity, dividend payout ratio and growth sales do not affect share value. While based on the results regression analysis with interactions, this study found that leverage strengthens the effect of dividend payout ratio and sales growth on share value, and weaken the impact of return on equity and total assets on share value.

KEYWORDS: Dividend Payout Ratio; Growth; Leverage; Return on Equity; Total Assets.

ABSTRAK

Penelitian ini bertujuan untuk menguji faktor-faktor internal yang mempengaruhi nilai saham perusahaan yang dimediasi oleh leverage. Sampel penelitian ini adalah perusahaan yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2017 - 2019. Data dikumpulkan dengan metode purposive dan diperoleh 102 perusahaan pada tahun yang diamati. Penelitian ini menggunakan analisis regresi berganda dan analisis regresi dengan interaksi. Berdasarkan hasil analisis regresi berganda, penelitian ini menemukan bahwa return on equity dan total aset mempengaruhi nilai saham dengan arah positif, sedangkan debt to equity, dividend payout ratio dan pertumbuhan penjualan tidak mempengaruhi nilai saham. Sementara berdasarkan hasil analisis regresi dengan interaksi, penelitian ini menemukan bahwa leverage memperkuat pengaruh dividend payout ratio dan pertumbuhan penjualan pada nilai saham, dan melemahkan dampak return on equity dan total aset pada nilai saham.

KATA KUNCI: Dividend Payout Ratio; Leverage; Pertumbuhan Penjualan; Return on Equity; Total Assets



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INTRODUCTION

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From management's perspectives, the goal of a company is to maximize company's value or, in other words, to maximize company's share price. It is therefore necessary to ask question about what a company's management should do to maximize its share price. To find answers to the question, a more detailed question should be asked: what factors can determine a company's share price? ([Brigham & Houston, 2018](#)). Factors mentioned here refer to company's internal factors or factors within a business that can still be controlled by the company including profitability, sales growth, and dividend payout ratio. On the other hand, external factors such as government policy, interest rate, inflation, and many more are beyond company's control.

In order to achieve maximum share price, one consideration a company should take into account includes decisions on how management finances its assets, which includes what debt-equity mix should be adopted. Every financial decision made will influence size, timing, risk of cash flows of the company, and eventually share price ([Brigham & Houston, 2018](#)). In short, it can be inferred that company's leverage (the use of debt) affects share price of the company.

The following researches were carried out to study factors determining companies' share price. [Marlina \(2013\)](#) stated that sales, total assets, return on equity, dividend payout ratio, debt equity ratio, earning growth, and return on asset simultaneously and significantly influence price earning ratio; however, partially, only total asset, return on equity, dividend payout ratio, and return on asset significantly influence price earning ratio. Other research conducted by [Rosikah, et al. \(2018\)](#) revealed that return on asset positively and significantly influenced stock return the upcoming period. [Sitorus \(2016\)](#) concluded that debt to equity ratio, price to book value, return on assets, earning per share, and net profit margin simultaneously and significantly influence share price; meanwhile, partially, only debt to equity ratio and price to book value influence share price.

All those researches have demonstrated the influence of several variables on value or price of share, wherein leverage (debt to equity ratio) was among all those variables. This variable, however, received no special treatment. A research conducted by [Barakat \(2014\)](#) raised concerns over leverage position as mediating variable for other variables that influence companies' share price. Results of the study indicated that policy concerning dividend, profitability, and growth of total assets mediated by company's leverage influence value of the company, meanwhile, sales had no influence on either leverage or value of the company.

In 1984, Myers introduced the pecking order theory. This theory states that changes in debt ratio is caused by demand for external financing instead of optimal capital structure targeting. Some studies involving Indonesian-based companies found that companies in Indonesia had the tendency to hold the pecking order theory. A research conducted by [Kadim and Sunardi \(2019\)](#) concluded that profitability negatively influenced leverage while dividend payout positively and significantly influenced leverage and firm size positively influences leverage. As to correlation between variables and value of the company, [Kadim and Sunardi \(2019\)](#) discovered that market growth, dividend payout, and firm size influenced share price positively whereas leverage influences share price negatively. Other study conducted by [Rizqia, et al. \(2013\)](#) highlighted that, in general, managers in Indonesian companies were more likely to follow a financing hierarchy (pecking order theory).

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Considering: (1) the primary goal of management that is to maximize shareholder wealth; (2) decisions on investment financing (debt to equity ratio), or, in other words, leverage

used by managers that is going to affect share price; (3) a number of researches that support the notion that Indonesian-based companies adopt the pecking order theory, a theory stating that changes in debt ratio are caused by demand for external financing, allowing companies with great opportunities for investment to continuously seek for debt; and (4) the fact that questions relating to factors determining share price are critical questions management needs to answer in order to achieve maximum share price.

LITERATURE REVIEW AND RESEARCH HYPOTHESIS

Stock

Stock refers to shareholders' investment in particular company. By buying shares, shareholders invest their money to be used by management for funding company's operations (Tambunan, 2010). Considering the fact that shareholders' primary objective when purchasing stocks is to gain financial advantage, decisions relating to financial management will be considered good if they aim to increase value of the stock and bad if they potentially harm value of the stock. In short, it can be said that the objective of financial management is to maximize stock price.

Stock Valuation

Stock usually provides expected cash flows for the future. Value of stock is determined in the same manner as determining the value of other financial assets that is present value of expected cash flows in the future. The expected cash flows consist of two sources: (1) dividends expected to be distributed annually; and (2) higher prices when selling the stocks. The expected final price of stock consist of return of initial investment plus expected profit from the investment (Enekwe, et al., 2015).

Dividend Discounted Model

Stock price is determined by present value of future cash flows. When purchasing stock, it is assumed that an investor aims to keep the stock for a lifetime. Therefore, with this assumption, investors will make money from dividends. Present value of stock is calculated as present value of infinite dividends and, therefore, value of stock is formulated as follow:

$$P_0 = \frac{D_1}{(1+Ks)^1} + \frac{D_2}{(1+Ks)^2} + \dots + \frac{D_n}{(1+Ks)^n}$$

Price to Earnings (P/E) Ratio

In addition to using Dividend Discounted Model, stock is generally assessed using Price/Earning (P/E) ratio wherein market price and earning per share are compared. This ratio reflects investors' valuation of profit growth, risks, and efficiency, as well as financial conditions of a company in one simple package of ratio. P/E ratio also demonstrates the amount investors are willing to pay for a share whose price is "several times higher than" its earning per share.

Price to Book Value

Price to Book Value (PBV) ratio compares stock price to book value per share. Book value per share here is determined by dividing total equity by the number of outstanding shares as explained below:

$$P/BV = \frac{\text{Price per Share}}{\text{Book Value per Share}}$$

Pecking Order Theory

One key element in pecking order theory is that most companies display preference to finance themselves using internal sources if available. It is simply caused by the fact that issuing equity to raise money is extremely costly and it makes a good sense for companies to avoid doing it, if possible. A highly profitable company often needs no external financing and, hence, has only small amount, even zero debt.

Leverage

One of measurements to evaluate companies' capital structure is financial leverage. In doing business and along with its growth, a company always needs additional funding. When first established, owners are able to decide company's sources of capital from either common stock or long-term debt. The primary goal of financial manager is to formulate combination of capital that is able to minimize cost, maintain the policy of dividend and income, as well as maximize the wealth of shareholders. In essence, an optimal capital structure minimizes WACC by maintaining debt of the company at certain level that is able to stimulate a new stream of income.

Hypothesis Formulation

Leverage and Its Influence on Stock Value

The use of debt will raise value of the company but only up to certain point. The use of debt more than that certain point will only decrease its value as profit generated from debt use is lower than increase in costs relating to bankruptcy. This turning point is called optimal capital structure and reflects the optimal amount of debt employed by a firm. Results of the study conducted by [Kadim and Sunardi \(2019\)](#) indicated that debt to equity ration negatively influenced company's stock price; meanwhile, [Ginting and Suriyany \(2013\)](#) discovered that the use of leverage in capital structure negatively influenced value of the company. This results have been opposed to cost of capital theory stating that debt is low cost external financing that will increase value of the company. This might be caused by the fact that many companies in Indonesia possibly use too much leverage that is over its optimal point.

H₁: Leverage negatively influences stock value

Dividend Payout Ratio and Its Influence on Stock Value

Dividend payout ratio determines the amount of retained earnings as financing source. Companies retain earnings for several reasons such as to pay off debt, to raise capital for existing operations, to finance expansion activities, to acquire other companies, and many more. [Sudaryanto and Nugraha \(2016\)](#) found that dividend payout ratio significantly influenced price earning ratio and stated in their analysis that most investoris in Jakarta Stock Exchange favor dividend payout over uncertain capital gains.

H₂: Dividend Payout Ratio positively influences stock value

3.1 Profitability and Its Influence on Stock Value

Prior to stock purchase, investors use several instruments including financial ratio to examine conditions of the company that issues the stocks ([Manoarfa, 2018](#)). Ratio analysis

provides great assistance in revealing financial conditions of a company comprehensively. One of ratios in financial analysis includes profitability ratio, a ratio that links profit generated from sales to investment ([Van Hourne & Wachowicz, 2009](#)). This ratio is also seen as operating performance ratio which measures how good the management is at operating its business ([Tambunan, 2010](#)). Of all ratios in this category, a profitability ratio namely Return on Equity (ROE) ratio will be used in this study. ROE is adopted to measure rate of return. The return assessed in ROE is the net income stated in the company's income statement. Results of the study conducted by [Sadiyah \(2018\)](#) revealed that company's return on equity significantly influenced company's price earning ratio.

H₃: Profitability positively influences stock value

Sales Growth and Its Influence on Stock Value

One of factors most determining company's ability to generate profit is sales. Sales are the end goal of producing goods/services as well as company's life source ([Tambunan, 2010](#)). No companies will survive without demand for their products. Each of them will always strive to increase sales year by year. [Husnan \(2015\)](#) proposed that high sales growth will increase profit and, eventually, dividend. As stock valuation includes the discounted sum of all of its dividend payments in the future, it is expected that increase in sales will lead to rise in profits, dividends, and stock price eventually ([Handoko, 2017](#)).

H₄: Sales growth positively influences stock value

Firm size and Its Influence on Stock Value

Firm size is a variable that pictures how big or small a company is as presented by how big or small its assets, total sales, average sales rate, and average total assets are. However, firm size in this study is determined by its total assets. Company's assets, as listed in one side of a company's balance sheet, indicate total resources or things of value owned by a company. Generally speaking, firm size shows company's ability to increase sales and income. With the total assets owned, a company can raise its ability to finance investment that will benefit itself. With greater amount of assets, it is expected that the company is able to generate more income and increase dividends eventually. Increased dividends will later cause stock price to increase ([Handoko, 2017](#)). [Putranto and Darmawan \(2018\)](#) highlighted that firm size (total assets) influenced price earning ratio significantly.

H₅: Firm size positively influences stock value

The Influence of Leverage on Other Variables in Influencing Stock Value

Financing policy is a critical and inevitable decision a growing and developing company should make. Leverage, one of independent variables in this study, is one of embodiments of financing policy. The above hypothesis mentions that independent variable, leverage, influences dependent variable, stock value, negatively. Other independent variables hypothesized as having influence on stock value include dividend payout ratio, profitability measured using return on equity, sales growth, and firm size. In view of the fact that leverage is an embodiment of financing policy a growing and developing company always faces, it can be argued that leverage is of great importance compared to other independent variables influencing stock value. Subsequently, the influence of leverage on amplyfing or

weakening the influence of each of other independent variables on stock value will also be assessed.

Considering that leverage negatively influences stock value (first hypothesis) while dividend payout ratio positively influences stock value (second hypothesis), therefore, the sixth hypothesis of the study will be:

H₆: Leverage weakens the positive influence of Dividend Payout Ratio on stock value

In view of the fact that leverage negatively influences stock value (first hypothesis) whereas profitability positively influences stock value (third hypothesis), therefore, the seventh hypothesis is stated as follows:

H₇: Leverage weakens the positive influence of Profitability on stock value

Given the fact that leverage negatively influences stock value (first hypothesis) whereas sales growth positively influences stock value (fourth hypothesis), therefore, the eighth hypothesis can be stated as follows:

H₈: Leverage weakens the positive influence of Sales Growth on stock value

In view of the fact that leverage negatively influences stock value (first hypothesis) whereas firm size positively influences stock value (fifth hypothesis), therefore, the ninth hypothesis will be as follows:

H₉: Leverage weakens the positive influence of Firm size on stock value

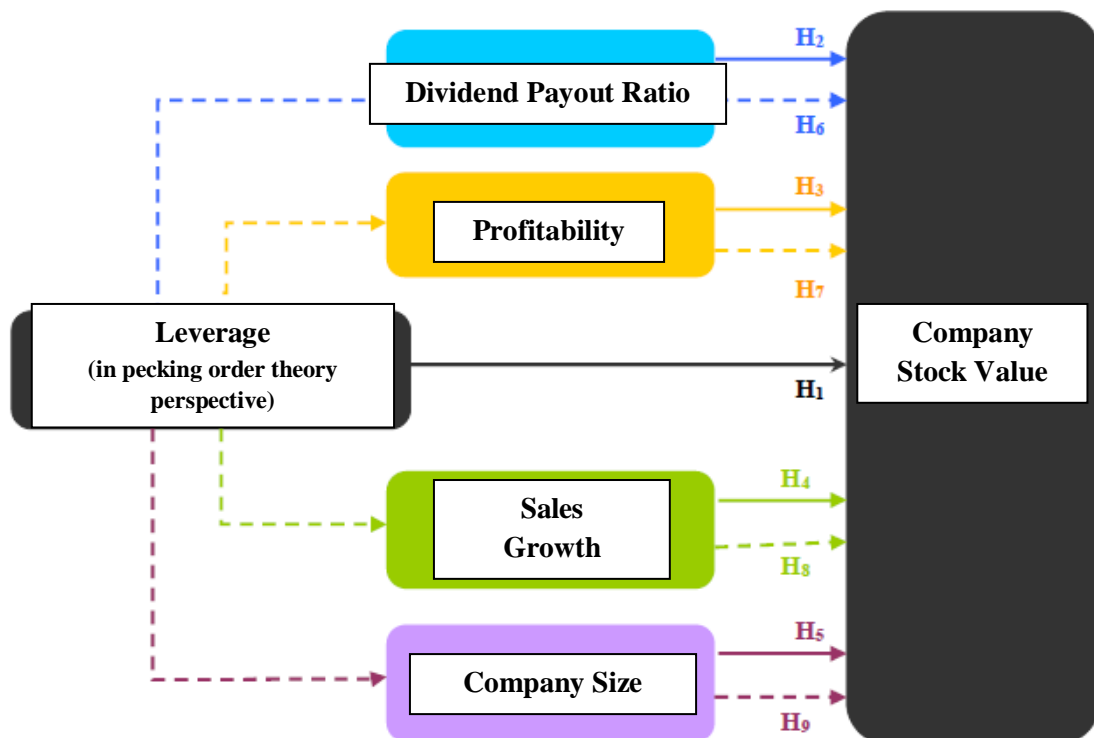


Figure 1. Research Model

METHOD

Population of this study was companies listed on Indonesia Stock Exchange and had their financial statements between 2017 and 2019 published. Samples were selected using purposive sampling method based on the following criteria: a) Listed on Indonesia Stock Exchange consecutively over observation period of 2017 to 2019; b) Companies issuing comprehensive financial statements and sound information relating to stock price over observation period; c) Companies paying out dividends for three consecutive years within observation period; d) Companies with data relating to long-term and short-term interest-bearing debt; and e) Companies with comprehensive sets of data available for analysis.

The commonly used market value ratio is the ratio of a firm's market price to its book value (price to book ratio) as follows:

$$\text{Price to Book Value (PBV)} = \frac{\text{Price per Share}}{\text{Book Value per Share}}$$

Leverage ratio applied in this study was a comparison of total debt (total interest-bearing debt either long-term or short-term) to stakeholders' equity. This ratio is to measure a firm's capital and, therefore, indirectly measures the ability of a firm to pay its debt (Tambunan, 2010).

$$\text{Debt to Equity Ratio (DER)} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Half of profits generated by a company will be distributed to its shareholders through dividend payout. The policy a company uses to determine the amount of dividend to be paid is known as dividend policy. Dividends are generally paid in cash (Sjahrial, 2007). This variable is included in dividend payout ratio which reflected percentage of earnings paid to shareholders in cash based on the following formula:

$$\text{Dividend Payout Ratio (DPR)} = \frac{\text{Dividend per Share}}{\text{Earnings per Share}}$$

The profitability ratio applied in this study was the ratio of net income to shareholders' equity used to measure returns on its shareholders investments in the company.

$$\text{Return on Equity (ROE)} = \frac{\text{Net Income}}{\text{Shareholders' Equity}}$$

Company growth variable in this study compares current year's increase (or decrease) in sales to previous year's sales. The formula is as follows:

$$\Delta \text{Sale} = \frac{\text{Sales} - \text{Sales}_{-1}}{\text{Sales}_{-1}}$$

Firm size reflects how big or small a company is as reflected by, for example, how big or small its assets are. The bigger its size, the higher the possibility for the firm to use external source to finance its big assets. Firm size variable in this study is represented by companies' total assets formulated as follows:

$$\text{Size} = \text{Ln}(\text{Total Assets})$$

Analysis Method

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Analysis method applied to test the nine hypotheses of the study was multiple regression model. Multiple regression model allows prediction of a single dependent variable from multiple independent variables. Multiple regression model in this study included:

1. Value A equation (with Price to Book Value as dependent variable and Leverage as one of independent variables)

$$\text{VALUE A} = a_1 + b_1\text{DER} + b_2\text{DPR} + b_3\text{ROE} + b_4\text{SALE} + b_5\text{SIZE} + e_1$$

2. Value B equation (with Price to Book Value as dependent variable and Leverage as one of independent variables interacting with other dependent variables):

$$\text{VALUE B} = a_2 + b_1\text{DER} + b_2\text{DPR} + b_3\text{ROE} + b_4\text{SALE} + b_5\text{SIZE} + b_6\text{DPRDER} + b_7\text{ROEDER} + b_8\text{SALEDER} + b_9\text{SIZEDER} + e_2$$

RESULTS AND DISCUSSION

Tests of Hypoteses 1, 2, 3, 4, and 5 on Company Stock Value using Value-A Regression Model

Regression analysis using Value-A model was to test hypothesis relating to the influence of leverage (measured using debt to equity), dividend payout ratio, profitability (measured using return on equity), sales growth, and firm size (measured using total assets) on company stock value (measured using price to book value) as illustrated below:

Based on results of the t-test presented in the table 1, no linear correlation is found between leverage and price to book value variables. In other words, leverage does not influence stock value although results of the test indicate negative insignificant influence on stock value. From the test, it can be determined that the first hypothesis in which leverage negatively influences stock value is not supported although results of the test indicate negative insignificant influence of leverage on stock value.

Based on results of the t-test presented in the above table, no linear correlation is found between dividend payout ratio and price to book value variables. In other words, dividend payout ratio does not influence stock value although results of the test indicate positive insignificant influence on stock value. From the test, it can be determined that the second hypothesis wherein dividend payout ratio influences stock value is not supported, although results of the test indicate positive insignificant influence of dividend payout ratio on stock value.

Based on results of the t-test presented in the above table, a linear correlation between profitability and stock value is found. In other words, profitability, as measured using return on equity, positively and significantly influences company stock value. From the test, it can be determined that the third hypothesis declaring positive influence of profitability on stock value is supported.

Based on results of the t-test presented in the above table, no linear correlation is found between sales growth and stock value variables. In other words, sales growth does not influence stock value with results of the test indicating negative insignificant influence on stock value. From the test, it can be determined that the fourth hypothesis declaring positive influence of sales growth on stock value is not supported.

Based on results of the t-test presented in the above table, a linear correlation between firm size and stock value is found. In other words, profitability, as measured by company's total

assets, positively and significantly influences company stock value. From the test, it can be determined that the fifth hypothesis declaring positive influence of firm size on stock value is supported.

Variable	Coefficient Regression Value-A				
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-12,948	1,549		-	0,000
Debt to Equity	-0,084	0,234	-0,651	0,647	0,638
Dividend Payout Ratio	0,043	0,434	0,005	0,294	0,759
Return on Equity	5,986	1,984	0,037	4,892	0,000
Sales Growth	-0,232	0,837	-0,456	-	0,836
Total Assets	0,546	0,087	0,825	5,532	0,000
Predictors: (Constant), Debt to Equity, Dividend Payout, Return On Equity, Sales Growth, Total Assets					
Dependent Variable: Price to book value – A					
Significance level	= 0,05				
Df	= 102 – 6 – 1 = 95				
T _{table}	= 1,98				
Regression Model:					
VALUE-A = -0,651 LEVRE + 0,005 DIVIE + 0,037 PROFT – 0,456 GSALE + 0,825 SIZEA					
R ² = 0,526					
ANOVA:					
Df Regression = 5	F = 16,482	F _{table} = 2,29			
Df Residual = 96	Sig = 0.000				

Table 1.
Results of Regression Analysis using Value-A Model

Tests of Hypotheses 6, 7, 8, and 9 in Influencing Stock Value using Value-B Regression Model

Regression analysis using Value-B model is to test hypothesis saying that leverage variable influences the effect of dividend payout ratio, profitability (measured by return on equity), sales growth, and firm size on stock value (measured by using price to book value) as presented in the table below:

Coefficient Regression Value-B:

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-13,738	3,920		1,983	0,007
Debt to Equity (LEVRE)	-0,394	4,643	-0,219	0,173	0,976
Dividend Payout Ratio (DIVIE)	-1,372	0,592	-0,321	3,230	0,009
Return on Equity (PROFT)	4,282	2,019	0,480	4,938	0,003
Sales Growth (GSALE)	-0,502	2,101	-0,054	0,455	0,753
Total Assets (SIZEA)	0,729	0,321	0,552	4,202	0,002
LEVRE x DIVIE	2,080	0,532	0,632	4,930	0,001
LEVRE x PROFT	-0,623	2,301	-0,890	0,638	0,738
LEVRE x GSALE	0,821	1,650	0,086	0,724	0,562
LEVRE x SIZEA	-0,009	0,349	-0,224	0,175	0,978

Predictors: (Constant), LEVRE x SIZEA, Dividend Payout Ratio, Return on Equity, Sales Growth, Total Assets, LEVRE x GSALE, LEVRE x DIVIE, LEVRE x PROFT, Debt To Equity

Dependent Variable: Price to book value – B

Significance level = 0,05

Df = 102 – 11 – 1 = 90

T_{table} = 1,98

Regression Model:

VALUE-B = -0,219 LEVRE – 0,321 DIVIE + 0,480 PROFT – 0,054 GSALE + 0,552 SIZEA + 0,632 DIVLEV – 0,890 PROLEV + 0,724 GSALEV – 0,175 SIZLEV

R² = 0,559

ANOVA:

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Df Regression = 10 F = 10,765

Df Residual = 91 Sig = 0.000 F_{table} = 1,96

Table 2.
Results of Regression Analysis using Value-B Model

Referring to the above table, the following analyses are performed. Table 2 is revealing that leverage of the company amplifies the positive effect of dividend payout ratio on stock value. From the test, it is clear that the sixth hypothesis stating that leverage weakens the positive influence of dividend payout ratio on stock value is not supported.

Table 2 is revealing that leverage of the company weakens the effect of return on equity on stock value. From the test, it is clear that the seventh hypothesis stating that leverage weakens the positive influence of profitability, measured by using return on equity, on stock value, measured by using price to book value, is supported.

Table 2 is revealing that leverage of the company amplifies the effect of sales growth on stock value. From the test, it is clear that the eighth hypothesis stating that leverage weakens the positive influence of sales growth on stock value is not supported.

Table 2 is revealing that leverage of the company weakens the effect of firm size on stock value. From the test, it is clear that the ninth hypothesis stating that leverage weakens the effect of firm size on stock value is supported.

Discussions

The Influence of Leverage on Company Stock Value

Leverage (debt to equity ratio) does not influence company stock value (price to book value). This result, therefore, does not support prediction of H_1 stating that leverage has a negative influence on company stock value but, on the other hand, supports results of the study conducted by [Kadim and Sunardi \(2019\)](#). Nevertheless, despite being not significant, the influence of leverage on stock value is found to be negative. In a negative correlation, when leverage level is low, stock value increases. Conversely, when leverage level is high, stock value decreases.

Result of hypothesis testing indicating that leverage does not influence stock value of the companies signifies that leverage level the companies announce annually or quarterly through their financial statements is not considered relevant for shareholders to assist them in making investment decisions, particularly decisions relating to buying and selling stocks in Indonesia Stock Exchange.

The Influence of Dividend Payout Ratio on Company Stock Value

Dividend payout ratio has no influence on company stock value (price to book value). This finding, in other words, does not support prediction of H_2 stating that dividend payout ratio positively influences stock value and, similarly, contradicts the results of the study conducted by [Sudaryanto and Nugraha \(2016\)](#).

Even though dividend payout ratio has no significant influence on stock value, its influence remains positive. In such positive correlation, when dividend payout ratio is high, stock value tends to rise. Meanwhile, when dividend payout ratio is low, stock value is more likely to drop. Result of hypothesis testing which indicates that dividend payout ratio does not influence stock value of the company implies that shareholders do not consider the high or low ratio of dividends distributed to shareholders as a relevant information to make investment decisions, particularly relating to buying or selling stocks in Indonesia Stock

Exchange. Investors also realize that distribution or retention of dividends depends on policy of company' management.

The Influence of Profitability on Company Stock Value

Profitability (return on equity) positively influences company's stock value (price to book value). Thus, H₃ that profitability positively influences stock value and results of the study conducted by [Sadiyah \(2018\)](#) are supported. Additionally, the significant influence of return on equity on stock value is positive. Such positive correlation indicates that when return on equity is high, stock value rises while low return on equity will lead to decrease in stock value.

Result of hypothesis testing declaring the influence of return on equity on stock value demonstrates the high or low return on equity provides a relevant information for shareholders to make investment decisions, particularly relating to buying or selling stocks in Indonesia Stock Exchange. This is highly reasonable as return on equity measures the ability of a company to generate profit from the capital invested by shareholders. The higher the return on equity, the greater the opportunities for the company to grow. High return on equity indicates high profit generated by the company to be either distributed to shareholders through dividend payout or retained for further development of the company. The bigger a company grows, assuming that efficiency is well-maintained, the higher the profit it generates and the wealthier its shareholders will eventually be.

The Influence of Sales Growth on Stock Value

Sales growth has no influence on stock value (price to book value). Thus, H₄ that sales growth positively influences stock value is not supported. This result, however, is similar to that of [Handoko \(2017\)](#). A sound explanation for this is that growth of sales does not guarantee increase in earning, a variable that will influence stock returns. This is potentially caused by increase in cost of good sold and other operating cost that exceeds increase in sales. Eventually, sales growth, as seen in annual financial statement, is not a relevant information needed by shareholders to help them make investment decisions, particularly relating to buying or selling stocks listed on Indonesia Stock Exchange. Investors are more likely to consider factors other than sales growth in investing. They include profitability, expected profit from capital gain, firm size which is often seen as the reflection of company's wealth, economic conditions worldwide or in Indonesia, as well as other factors which are not the object of this study.

The Influence of Firm Size on Stock Value

Firm size positively influences stock value (price to book value). Thus, H₅ stating that firm size positively influences stock value and results of the study conducted by [Putranto and Darmawan \(2018\)](#) are supported. Firm size significantly and positively influences stock value. In a positive correlation, bigger firm size will lead to higher stock value. On the other hand, smaller firm size will result in lower stock value.

- 3.1** Testing result of hypothesis that firm size influences stock value demonstrates that, for shareholders, information relating to how big or small a company is remains relevant to help them make investment decision, particularly for buying or selling stocks listed on

Indonesia Stock Exchange. Investors believe that big companies are well-established, able to provide returns for their shareholders, and more capable of generating more income and investing in development of their business that will continuously raise shareholders' wealth.

The Influence of Leverage on Correlation between Dividend Payout Ratio and Stock Value

Leverage (debt to equity ratio) has no significant influence on stock value (price to book value). However, despite no significant influence, the influence of leverage on stock value is negative. This result is considered reasonable as it shows that, when leverage is low, stock value rises. Meanwhile, when leverage is high, stock value drops. Dividend payout ratio, similarly, has no significant influence on stock value. However, its influence remains positive. Positive correlation between dividend payout ratio and stock value makes a good sense as it indicates the fact that investors expect to earn profit through dividend payout. Therefore, when dividend payout ratio is high, stock value increases; meanwhile, when dividend payout ratio is low, stock value is more likely to drop.

Nevertheless, despite no individual influence found in the correlation between leverage and stock value, interaction between leverage and dividend payout ratio will enable leverage to amplify the positive influence of dividend payout ratio on stock value. It demonstrates the fact that investors see leverage as a factor that increases company's risks. In other words, when leverage is high, investors are more likely to take dividend payout ratio into account as relevant source of information in investment decision making. The amount of paid dividends is seen as compensation for the risks incurred as a result of company's leverage. If leverage level is high, investors will expect higher dividend payout in return.

The Influence of Leverage on Correlation between Profitability and Stock Value

Leverage (debt to equity ratio) has no significant influence on stock value (price to book value). However, despite no significant influence, the influence of leverage on stock value is negative. This result is considered reasonable as it shows that, when leverage is low, stock value rises. Meanwhile, when leverage is high, stock value drops. Despite no individual influence found in the correlation between leverage and stock value, interaction between leverage and return on equity will enable leverage to weaken the positive influence of return on equity on stock value. After its interaction with leverage, return on equity will demonstrate no significant influence on stock value. It signifies that investors see leverage as a factor that increases risks. In other words, when a company shows both high profitability and high leverage, investors are more likely to consider the high leverage in making investment decisions.

The Influence of Leverage on Correlation between Sales Growth and Stock Value

Leverage (debt to equity ratio) has no significant influence on stock value (price to book value). However, despite no significant influence, the influence of leverage on stock value is negative. This result is considered reasonable as it shows that, when leverage is low, stock value rises. On the contrary, when leverage is high, stock value drops.

Despite no individual influence found in the correlation between leverage and stock value, interaction between leverage and sales growth will enable leverage to amplify the influence

of sales growth on stock value, from negative and insignificant to positive and insignificant influence. It demonstrates that investors see leverage as a factor that increases company's risks. When leverage is high, investors will expect higher sales growth, which will lead to higher earnings available for shareholders. For investors, sales growth can be one of factors to compensate the risks incurred as a result of company's leverage. With high leverage comes demands for higher sales growth.

The Influence of Leverage on Correlation between Firm Size and Stock Value

Leverage (debt to equity ratio) has no significant influence on stock value (price to book value). However, despite no significant influence, the influence of leverage on stock value is negative. This result is considered reasonable as it shows that, when leverage is low, stock value rises. On the contrary, when leverage is high, stock value drops. Despite no individual influence found in the correlation between leverage and stock value, interaction between leverage and firm size will enable leverage to weaken the positive influence of firm size on stock value.

From investors' perspectives, big companies are able to increase their investment to develop businesses as companies with big assets are able to use their assets as collateral in securing a loan for business financing. Nevertheless, investors also see leverage level of these big companies. Higher financial leverage shows that companies have used many of their assets as collateral to secure lending from the banks and indicates only smaller portion of assets available. Investors see this as an indication of risks. Companies that use most of their assets to secure a loan from the banks no longer own the assets themselves. High leverage of a company causes investors' interest in the company to decrease and stock price to drop.

CONCLUSION

Profitability (return on equity) and firm size (total assets) positively influence stock value (price to book value); meanwhile, leverage (debt to equity), dividend payout ratio, and sales growth have no influence on stock value. Leverage (debt to equity) amplifies the influence of dividend payout ratio and sales growth on stock value but weakens the influence of profitability (return on equity) and firm size (total assets) on stock value.

In this research there are several limitations that can be developed by next researchers: 1) Internal factors examined in this research are limited to leverage (which takes a comparative measurement between interest-bearing debt and total capital), dividend payout ratio, profitability (which takes measurements to return on equity), sales growth, and company size (total assets). 2) This research does not cover publicly traded companies industries that have special accounting treatment in reporting finance, which includes the following industries: insurance, banks, securities companies, investment companies, financial institutions, and companies with unclear industrial classification.

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