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The Effect of Profitability on Company Value in Banking Companies Listed on the Indonesia Stock Exchange

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ABSTRACT

This study aims to analyse the effect of profitability on firm value in banking companies listed on the Indonesia Stock Exchange from 2019 to 2023. Profitability is measured using three main indicators: return on assets (ROA), return on equity (ROE), and net profit margin (NPM). Meanwhile, firm value is measured by using the price to book value (PBV) ratio. The research adopts a quantitative approach with multiple linear regression analysis, using secondary data from the audited annual financial statements of 20 selected banking companies, based on purposive sampling criteria. The results show that ROA, ROE, and NPM have a positive and significant effect on firm value both partially and simultaneously.

Keywords: Profitability, firm value, banking, ROA, ROE, NPM

INTRODUCTION

Profitability is a key indicator in assessing a company's performance and is a major concern for investors. In the banking sector, good profitability indicates efficiency in the use of assets and capital to generate profits. A high company value reflects the market's positive perception of the company's performance and future prospects. However, there are differences in the results of previous studies regarding the effect of profitability on company value. Therefore, this study is important to re-examine the relationship between ROA, ROE, and NPM on the value of banking companies listed on the Indonesia Stock Exchange.

The banking sector plays a crucial role in the economic system as a trusted financial institution. Bank performance is very important to build a sense of public trust, one of the indicators assessed by the public and investors is profitability.[1] Trust from all parties involved is crucial for bank owners, managers, and the public as users of banking services. Therefore, the primary function of the banking sector in macroeconomic policy is to make money effective in enhancing economic value added.[2]

Company value is one of the key indicators that reflects how much profit a company can generate for investors. In the banking context, company value is often measured using various financial ratios, including return on assets (ROA), return on equity (ROE), and net profit margin (NPM). Data from the Indonesia Stock Exchange shows significant fluctuations in these ratios over

the past few years. For example, the average ROA of banking companies in 2021 reached 1.49%, while in 2023 it decreased to 0.89%. The ROA is an indicator that reflects a company's financial performance. The higher the ROA value, the better the company's performance.[3]

According to Wimidhati et al., profitability ratios are the comparison of profit (after tax) to capital (core capital) or profit (before tax) to total assets held by a bank during a specific period.[4] To ensure that the calculated ratios closely reflect actual conditions, the position of capital or assets is calculated as an average over a specific period. There are several profitability ratios that can be used, including the NPM, cash flow margin, ROA, and ROE and the profitability ratios in this study uses the three ratios.

The urgency of this study is very important because it can provide new insights into the relationship between profitability and company value in the context of Indonesian banking. Given the economic uncertainty and increasing competition in the banking sector, it is important for banks to understand the factors that influence company value in order to make appropriate financial decisions.[5] By conducting this study, it is hoped that factors that can be optimised by bank management to improve financial performance and, in turn, company value, would be identified.[6],[7]

Additionally, this study contributes to the existing literature by filling gaps in previous research. By considering various ratios and factors that influence company value, this research provides a more comprehensive and applicable model for bank management. This is particularly relevant in today's digital era, where technological innovations and changes in consumer behaviour can influence how banks operate and interact with their customers.[8]

MATERIALS & METHODS

This research is quantitative in nature with an associative approach. The population in this study consists of all banking companies listed on the Indonesia Stock Exchange from 2019 to 2023, with a total of 47 companies. The sample was taken using purposive sampling, and 20 companies that met the criteria were obtained. The data was taken from secondary data in the form of audited company financial reports. The data analysis technique used multiple linear regression with the help of SPSS software.

Return on Asset (ROA).

The ROA is used to assess how efficiently a company utilises its assets to generate profits and the ROA formula is written below: [9],[10],

$$ROA = \frac{Net\ Profit\ Before\ Interest\ and\ Taxes\ (EBIT)}{Total\ Assets}$$

Return on Equity (ROE)

According to Kasmir, ROE is the ratio between net income and equity.[11] This ratio is important for shareholders because it shows the rate of return on their investment. The higher the ROE, the more attractive the company is to investors.

$$ROE = \frac{Profit\ After\ Tax\ (EAT)}{Total\ Equity}$$

Net Profit Margin (NPM)

According to Kasmir, this ratio shows how much profit is earned from each sale made.[11] The higher the NPM value is, the better the company's profitability would be, and all this can attract investors.

$$NPM = \frac{EAT}{PE\ Sales\ Value}$$

RESULT AND DISCUSSION

1. ROA

Return on assets is a measure of profitability based on the use of assets, which reflects the growth of a banking company's profits, and which is analysed based on a sample of 20 companies during the period 2019-2023. Table 1 shows that the ROA of the 20 companies in the samples fluctuated, increasing in 2021, then decreasing in 2022, and increasing again in 2023.

Table 1. Return on Assets in the Banking Sector, 2019–2023

BANK	2023	2022	2021	2020	2019
BBCA	1,78	3,1	2,56	2,52	3,11
BBRI	1,64	2,76	2,76	1,23	2,43
BMRI	2,76	2,26	1,77	1,23	2,16
BBNI	1,01	1,79	1,14	0,37	1,83
MEGA	2,66	3,54	3,72	3,31	2,48
PNBN	1,14	1,92	1,22	1,87	2,17
BNGA	1,94	1,32	1,67	1,04	1,8
BDMN	1,16	2,22	1,18	1,02	2,83
BTPN	1,17	2,22	2,08	1,43	2,21
BTPS	5,04	1,07	10,12	6,83	12,2
BNII	1,37	1,26	1,3	0,1	1,53
NISP	1,64	1,76	1,49	1,34	2,15
BJBR	1,12	1,56	1,63	1,53	1,6
BJTM	1,81	1,97	1,51	1,8	2,42
BMAS	0,32	0,1	0,56	0,88	1,06
BBMD	3,33	4,04	3,25	2,96	2,56
SDRA	1,65	2,16	1,87	1,81	1,82
BRIS	0,47	1,39	1,14	0,43	0,17
BBTN	0,37	0,76	0,64	0,44	0,07
ARTO	0,21	0,09	0,7	-8,7	-9,23

Source: Secondary data analysis 2024

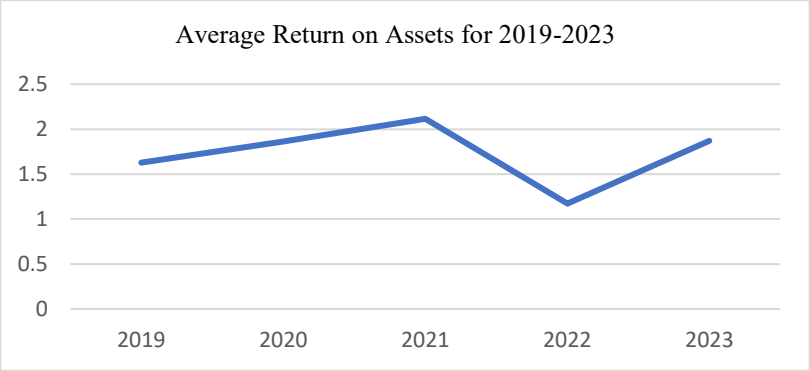

Figure 1. The ROA fluctuation from 2019-2023

2. ROE

Return on equity is the amount of profit achieved in relation to the use of equity, which shows the growth of a company's profits from the use of banking company equity, which has been analysed based on a sample of 20 companies during 2019-2023. Table 2 shows that the ROE of the 20 companies in the sample fluctuated, experiencing stable growth from 2019 to 2022, and then increased in 2023.

Table 2. The ROE Fluctuation of Selected Companies

BANK	2023	2022	2021	2020	2019
BBCA	10,77	18,43	15,5	14,5	16,41
BBRI	9,9	16,94	10,54	9,33	16,48
BMRI	20,89	17,82	21,43	9,11	13,61
BBNI	7,25	13,18	8,68	2,94	12,41
MEGA	16,14	19,64	20,93	16,5	12,89
PNBN	4,75	6,45	3,74	6,58	7,87
BNGA	13,12	9,45	9,44	0,71	1,32
BDMN	1,74	7,22	3,68	2,49	9,33
BTPN	5,71	9,2	7,87	6,13	9,5
BTPS	1231	21,16	20,64	14,53	26

BNII	5,9	5,19	5,88	4,71	7,21
NISP	10,96	9,72	7,79	7,04	10,6
BJBR	10,88	15,2	15,4	14	12,9
BJTM	12,09	13,47	13,96	14,88	15,25
BMAS	0,94	3,64	6,02	5,21	7,2
BBMD	8,5	11,49	12,11	8,12	7,11
SDRA	6,79	8,66	6,79	7,37	7,2
BRIS	4,17	17,21	12,11	4,56	1,45
BBTN	5,19	11,75	11,1	8,02	0,88
ARTO	0,49	0,19	1,04	-15,4	-17,9

Source: Secondary data analysis 2024

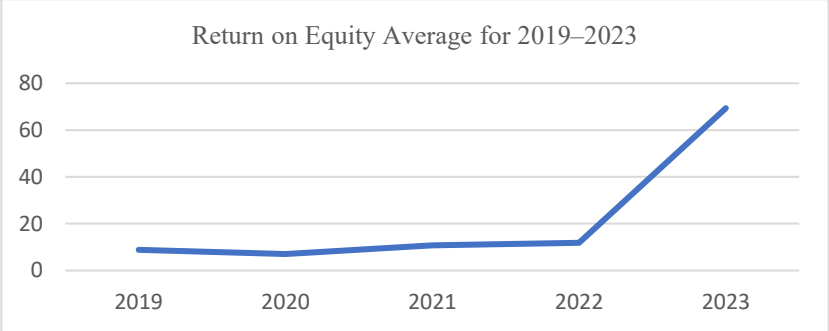

Figure 2. ROE fluctuation from 2019-2023

3. NPM

Net profit margin is the amount of net profit achieved, which shows the growth of a company's net profit from the use of all of its banking funds, which has been analysed based on a sample of 20 companies during 2019-2023. Table 3 shows that the net profit of the 20 companies in the sample grew steadily from 2019 to 2023.

Table 3. Net Profit Margin Banking Sector of the Year 2019-2023

BANK	2023	2022	2021	2020	2019
BBCA	56,83	56,42	47,91	41,51	44,75
BBRI	34,54	33,85	21,43	15,96	28,26
BMRI	45,31	45,31	31,25	20,21	31,09
BBNI	34,33	33,81	21,94	5,91	28,46
MEGA	35,1	69,05	82,79	76,8	55,88
PNBN	25,31	32,89	19,01	35,4	39
BNGA	64,74	4,1	31,31	16,1	28,9
BDMN	9,09	24,28	12,13	7,93	29
BTPN	23,58	31,07	27,85	18,8	27,2
BTPS	10,8	33,11	31,24	21,16	31,4
BNII	25,12	21,2	23,8	17,6	23,5
NISP	40,91	38	32,9	30,7	45,6
BJBR	23,8	26,7	25,5	26,01	25,7
BJTM	29,16	31,37	15,23	36,69	34,41
BMAS	63,3	27,3	80,2	29,2	37,1
BBMD	44,51	52,58	15,96	40,2	61,8
SDRA	43,36	45,45	41,57	232,66	222,71
BRIS	35,3	12,71	17	5,71	2,19
BBTN	12,5	13,11	10,15	6,98	0,9
ARTO	4,12	1,02	13,19	-10,46	-31,83

Source: Secondary data analysis 2024

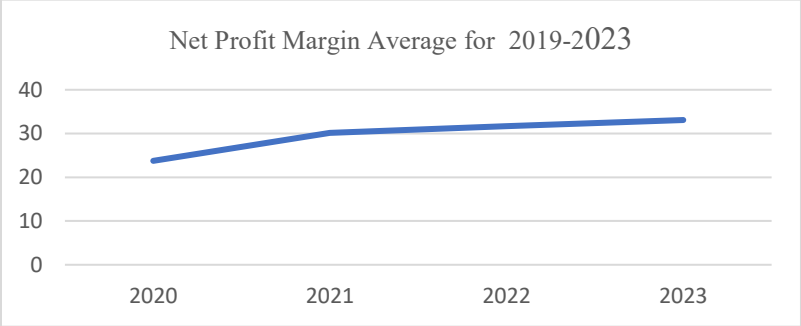

Figure 3. Description of NPM Movement in 2019-2023

4. Company Value (PBV)

The company value using the Price to Book Value proxy reflects the magnitude of stock price movements, which indicate market price trends and investor interest in banking sector stocks, as analysed based on a sample of 20 companies from 2019 to 2023. Table 4 shows that the Price to Book Value of the 20 companies in the sample fluctuated, increasing in 2021, then decreasing in 2022 until 2023.

Table 4. Price Book Value of the Banking Sector 2019-2023

BANK	2023	2022	2021	2020	2019
BBCA	4,78	4,03	20,37	4,42	3,64
BBRI	2,77	2,03	2,14	2,68	2,14
BMRI	2,11	1,29	2,22	1,51	1,7
BBNI	1,29	0,89	0,9	1,28	1,3
MEGA	2,62	3,15	3,49	3,37	2,7
PNBN	0,51	0,68	0,38	0,54	0,51
BNGA	1,04	0,58	0,59	0,58	0,45
BDMN	0,5	0,61	0,52	0,7	0,79
BTPN	0,51	0,51	0,59	0,72	0,48
BTPS	1,33	2,23	0,59	4,4	5,8
BNII	0,62	0,62	0,82	1,02	0,55
NISP	0,76	0,51	1,51	0,68	0,69
BJBR	0,8	0,96	1,08	1,23	0,77
BJTM	0,81	0,97	1,1	1,17	1,02
BMAS	1,43	3,55	4,44	2,24	0,89
BBMD	1,66	1,78	1,95	1,38	1,55
SDRA	6,5	0,5	2,22	3,53	0,7
BRIS	2,76	2,43	2,43	0,59	0,99
BBTN	0,66	0,85	0,85	1,11	1,12
ARTO	6,14	26,6	26,56	27,04	0,32

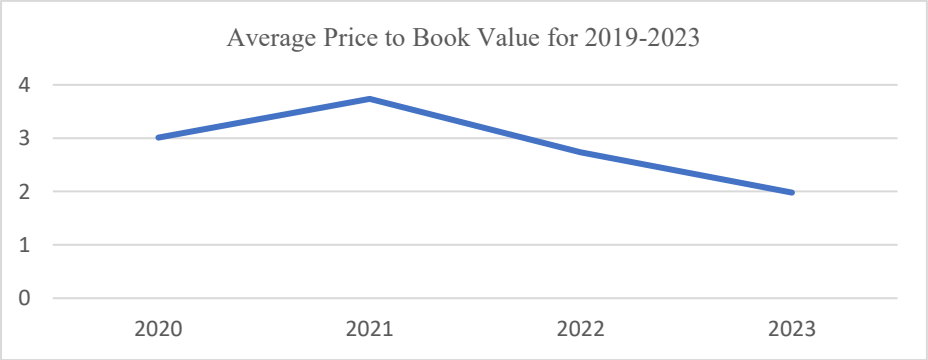

Figure 4. Description of PBV Movement in 2019-2023

5. Normality Test

Before the data is processed using multiple regression, classical assumption tests are conducted to ensure that the data obtained and the research variables are suitable for further processing. The classical assumption tests used in this study begin with a normality test to assess the normality of the residual distribution. A good regression model is the one where the data distribution is normal or close to normal. This test can be seen using the Kolmogorov Smirnov test. If the significance is > 0.05, then it is normally distributed, and the data is normally distributed. If the probability of the data is < 0.05, it means that the data is not normally distributed, so special treatment is needed to make it normal. Table 5 shows the results of the normality test.

Table 5. Normality Test Results with One Sample Kolmogorov-Smirnov Test

Model	ROA	ROE	NPM	Nilai Perusahaan
N	100,00	100,00	,00	100,00
Mean	160,40	746,42	1.944,26	232,54
Std. Deviation	179,59	690,14	4.897,22	486,00
Absolute	0,167	0,124	0,326	0,320
Positive	0,140	0,077	0,198	0,314
Negative	-0,167	-0,124	-0,326	-0,320
Test Statistic	0,167	0,124	0,326	0,320
Significance	0,000	0,001	0,000	0,000

Source: Secondary data analysis, SPSS 2024

Based on Ghozali's research),[12] the normality test conducted on the data variables of the ROA, ROE, NPM, and company value shows that all variables have very low significance values, that is, below 0.05 (see Table 5). This indicates that the data is not normally distributed, so researchers must consider using non-parametric statistical analysis methods or performing data transformation to ensure the accuracy and validity of the analysis results. This finding is important for determining the next steps in research and data processing.

6. Multicollinearity Test

Multicollinearity testing using the variance inflation factor (VIF) indicator aims to test whether there is correlation between independent variables in the regression model. A good regression model should not have correlation between independent variables. The criteria for testing multicollinearity involves examining the tolerance and VIF values. If the tolerance value is greater than 0.10, it indicates that there is no multicollinearity in the regression model. If the tolerance value is less than 0.10, meaning that multicollinearity is present in the regression model. If the VIF value is less than 10.00, it means there is no multicollinearity in the regression model. If the VIF value is greater than 10.00, it shows there is multicollinearity in the regression model. The Table 6 shows the results of the multicollinearity test.

Table 6. Variance Inflation Factor (VIF)

Item	Variables	VIF
VIF	ROA	1,653
	ROE	1,617
	NPM	1,426

Source: Secondary data analysis, SPSS 2024

Based on Ghozali's research,[12] the results of the VIF analysis show that all variables, namely the ROA, ROE, and NPM, have relatively low VIF values, namely 1.653, 1.617, and 1.426, respectively (see Table 6). The VIF values below 10 indicate that there is no significant multicollinearity among the independent variables in the research model. Therefore, it can be concluded that the relationships among these variables can be analysed validly without concern for the negative effects of multicollinearity, making the analysis results reliable and usable for drawing relevant conclusions.

7. Autocorrelation Test

The results of the autocorrelation test using the Durbin-Watson indicator indicate the existence of correlation between sample members or observation data sorted by time, such that one data point is influenced by the previous data point. This test aims to determine whether there is correlation between the errors that appear in the data sorted by time (time series). A good model should be free from autocorrelation. Autocorrelation testing using the Durbin-Watson model can be seen in Table 7.

Table 7. Results of the Durbin-Watson Test and Variance Inflation Factor (VIF)

Item	Value
Durbin-Watson	1,489

Source: Secondary data analysis, SPSS 2024

Based on Rizka's research,[13] the Durbin-Watson value obtained in this analysis is 1.489, indicating that there is no significant autocorrelation in the regression model used (see Table 7). The Durbin-Watson value ranges from 0 to 4, where a value close to 2 indicates that the residuals from the regression model are not correlated with each other. In this case, the value of 1.489 indicates that although it is close to the lower limit, there is no strong evidence to indicate a problem with autocorrelation, so the analysis results can be considered valid and reliable for further decision making.

8. Heteroscedasticity Test

The Glejser test for heteroscedasticity aims to determine the occurrence of heteroscedasticity, i.e., to test whether the regression model exhibits unequal variance and residuals from one observation to another. If the variance of the residuals from one observation to another remains constant, it is called homoscedasticity, and if it differs, it is called heteroscedasticity. A good regression model is homoscedasticity.[12] Table 8 shows the results of the heteroscedasticity test.

Table 8. Results of Heteroscedasticity Test Using Glejser Test

Model	B	Std. Error	Beta	T	Sig.
Constant	0,000	72,370		,000	1,000
ROA	0,000	,340	0,000	0,000	1,000
ROE	0,000	,087	0,000	0,000	1,000
NPM	0,000	,012	0,000	0,000	1,000

Source: Secondary data analysis, SPSS 2024

The Glejser test results show that the significance values for the three variables are less than 0.05, so it can be concluded that there is no clear pattern in the distribution of the data. This means that there is no heteroscedasticity in the regression equation model, so the regression model is suitable for predicting company value based on the variables that influence it.

9. The Effects of ROA, ROE, and NPM on Company Value

In the business world, understanding how a company's financial performance can affect its market value is crucial for investors and managers. Three key indicators commonly used to assess a company's performance are the ROA, ROE, and NPM. This study aims to analyse the simultaneous influence of these three variables on company value, measured by Price to Book Value (PBV). The findings provide valuable insights into the financial dynamics that influence market perception.[14]

The ROA measures how effectively a company uses its assets to generate profits. In this study, the ROA shows a coefficient of 0.084, with a t-value of 0.672 and significance of 0.503. Although there is a positive trend, these results indicate that the influence of the ROA on company value is not significant. In other words, even if a company has a good ROA, it is not strong enough to substantially influence market value.

These results are in line with several previous studies, for example, Sitanggang, et al.[15] who found that the effect of ROA can vary depending on the industry context. In certain industries, such as property and real estate, the ROA may have a greater effect on company value. These findings indicate that it is important to consider the context when evaluating the effect of ROA. However, the ROE shows more significant results in this analysis. ROE has a coefficient of 0.255, a t-value of 2.059, and a significance of 0.042. This indicates that the higher the ROE is, the greater the value of the company would be. The ROE reflects the efficiency of the company in generating profits from the capital invested by shareholders. These results send a positive signal to investors that the company is capable of providing a good return on their investment.

Research by Hidayah et al.[16] supports this finding, showing that ROE is a key indicator for investors in assessing the potential return on investment. When a company is able to maintain a high ROE, this can increase investor confidence and contribute to an increase in company value. The NPM measures how much net profit is generated from total revenue. In this study, the NPM shows a coefficient of 0.132, a t-value of 1.130, and a significance level of 0.261. These results indicate that while there is a positive relationship between the NPM and company value, the effect is not significant. This means that investors may be more inclined to focus on other indicators that are more directly related to capital returns, such as the ROE.

Research by Akbar et al.[17] shows that NPM is not always a strong indicator in determining company value compared to other ratios. This suggests that focusing on good cost management does not always directly correlate with an increase in company value. The analysis results also show an R value of 0.793, indicating a strong relationship between the independent variables (ROA, ROE, NPM) and company value (PBV)). An R^2 of 0.680 indicates that 68% of the variation in company value can be explained by these three variables. The significance of F, which is 0.034, shows that the regression model as a whole is significant, making it reliable for further analysis.

Based on the results of this analysis, it can be concluded that ROE is the most significant variable in influencing company value, followed by the ROA, which shows a positive but insignificant influence. The NPM, although it has a positive trend, does not have a strong enough influence to be used as a basis for investment decisions. The combination of these three variables provides a more comprehensive understanding of how a company's financial performance affects its market value. These findings emphasize the importance of the ROE as the primary indicator and highlight the need for further analysis of the ROA and NPM in different contexts. Further research is required to explore the interaction between these variables and external factors that may influence company value, enabling companies to formulate more effective strategies to enhance value and attract investor attention.

CONCLUSION

Based on the analysis of the simultaneous influence of the ROA, ROE, and NPM on company value as measured by PBV, the conclusions and recommendations drawn are:

(1) although the ROA shows a positive trend, its value is not significant and indicates that the influence of ROA on company value may be influenced by industry conditions and other factors;
(2) the ROE has been proven to have a positive and significant influence on company value, with a positive and significant coefficient value; this suggests that companies with high ROE tend to have better market value, making it a key indicator closely monitored by investors;
(3) the NPM shows that while there is a positive relationship, its impact on company value is not significant; this

suggests that investors may place greater emphasis on the ROE and other ratios more directly related to capital returns.

(4) The theoretical recommendation is that future research should consider other variables that may influence company value, such as liquidity, leverage, and external factors like market conditions and industry competition. A more in-depth analysis of profitability indicators like ROA and NPM is needed, taking into account the specific context of each industry. From a practical perspective, companies are advised to focus on improving the ROE through efficient capital management, cost reduction, and productivity improvement. Although NPM is not significant, efficient cost management remains important to maintain the company's competitiveness. In addition, transparency and clear communication to investors regarding financial strategies and performance need to be improved to strengthen market confidence and increase company value.

Declaration by Authors

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