

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

For any business to flourish or expand in the current era of intense global competition, it is essential to have a clear vision, mission, and goals. Businesses who are unable to change with the times may find it difficult to prosper in a market that is becoming more and more competitive. Even more, the establishment of a company certainly has the intention and desire to obtain maximum profits, maximize company value, and make shareholders prosperous. To maintain its viability, a company may try to establish its own value. Businesses may be able to enhance their public image and draw in investors by raising their worth. The company requires investors to raise capital and funds to support operations and development. Businesses that are listed on the capital market are bound to experience changes (increase or decrease) in their share prices. Fluctuations are what these shifts are called. Regarding the issue of the increase and decrease in company value, share prices are considered to be an intriguing topic for discussion. Concerns relating to the company's performance or financial situation are raised by low share prices. Meanwhile, share prices constantly keep on increasing, indicating the company's good financial health and appeal as a possible share purchase. The existence of investment opportunities can increase a company's value by giving creditors, investors, and businessmen a good indication regarding the company's growth prospects and potential for economic growth. The company ought to be credible

and capable of making its investors wealthy. A company's owners desire to raise the value of their business because doing so will benefit the shareholders as well as the owners. The share value of a company is a useful metric for evaluating its performance. The company will be viewed with confidence given its accomplishments and potential, both now and in the future.

Companies in Indonesia are competing with one another to raise their company values, and they need to have the ability to simultaneously sustain and enhance their performance in the highly competitive world of the market. Another approach employed by business owners to increase the worth of their enterprise is profit maximization. Profitability is an essential variable when measuring a company's value since it can be used as a standard to assess its financial performance and because investors can use net profit to guide their investment choices. To provide stock returns proportionate to the shares invested by its shareholders and bring opulence, the company needs to be profitable. A profitable company will cause the company's share price to rise because it is considered that the company has a positive signal for distributing dividends. Yet, given that a company's share price may increase or fall, stock returns are not constantly positive. Hence, it can be derived that shareholders' investments have suffered a loss if the stock returns, they receive moves in a negative direction, resulting in a decline in its company value. On the contrary, it can be assumed that shareholders' investments are profitable and contribute to the company's value growth if the returns on their stock show an upward trajectory. Before settling on

whether or not to invest in a company, investors can use Price to Book Value (PBV) to evaluate the firm's performance and decide its worth.

The main focus of a company's sales efforts is to make profits; managers, investors, or other stakeholders can see how effectively a company's management utilizes its net asset to create revenue by utilizing the Return on Asset (ROA) Profitability ratio. Profitability can be a financial metric used by investors and market analysts to assess a business's probability of making money and take this ratio into account when evaluating the share price and expected dividends. Profitability as a benchmark in inspecting the alternative financing, but a way to analyze the Profitability of a firm are a broadened and highly dependent on income and assets or capital to be compared with the profits obtained from company operation or net profit after tax (Sarita & S, 2019).

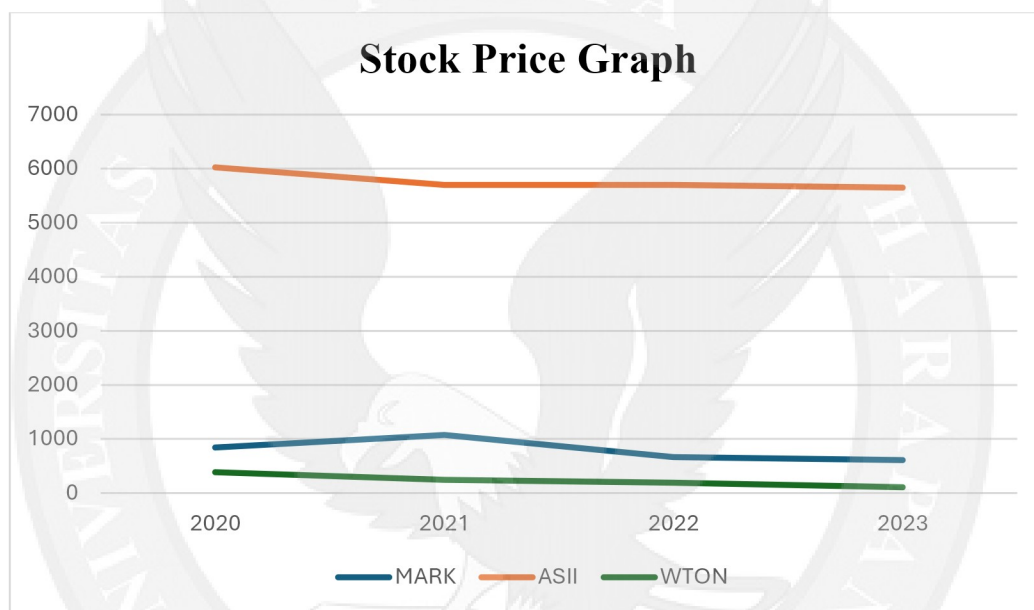
Companies in the manufacturing industry are among the main drivers and the core of the economy. The manufacturing sector is a sector that deals with turning raw materials into marketable finished or semi-finished goods. Besides, this industry helps to boost Indonesian exports by producing goods like automotives, electronics, textiles, and more. This industry also includes a variety of businesses that can be classified as large or medium-sized businesses, all of which generate a significant number of job opportunities.



Source: (S&P Global, 2024)

The table above is the Purchasing Manager Index (PMI) of manufacturing sectors in Indonesia. The PMI is a type of economic indicator used to assess how economic trends in the manufacturing and service sector are growing. Purchasing managers conduct surveys about the state of the business to determine PMI. There are 5 factors that influenced the PMI such as production levels, new orders, inventories, deliveries from suppliers, and labor absorption levels. As we already know, the COVID-19 pandemic is affecting the majority of nations worldwide. It is evident that the graphics have drastically declined in 2020. Manufacturing firms have seen a sharp drop in their capitalization value. The Indonesian economy and business sector development began to accelerate in 2022 and have continued to do so till the end of COVID-19. As the graph above illustrates, there has been a growth, or what is known as sector expansion, since 2022. When the PMI shows that the manufacturing sector is expanding, investors will be attracted to it.

The ratio used in this study to calculate company value is PBV, where investors use for gauging the value of an organization's stocks. Given the considerable supply and demand for the business's stock, the high price of shares hints that investors will value it more. Additionally, investors' capital expenditure will help the business reach higher Profitability levels.



**Figure 1.1 Graph of Prices for Stocks**

Graphic process by writer

Based on Figure 1.1 above, the graphic can be interpreted as follows:

Mark Dynamics Indonesia, Tbk (MARK)

The Mark Dynamics Indonesia (MARK) net profit increased rapidly in 2021 from Rp.144,026,946,000,000 in 2020 to Rp.392,150,711,000,000 in 2021. This is in line

with the increasing share prices from Rp.840 in 2020 to Rp.1,075 in 2021. However, the net profit earned by this company continues to decline until in 2023 it becomes Rp.156,015,736,000,000 and the share price is recorded to Rp.610.

#### Astra International, Tbk (ASII)

The profit obtained by the ASII company in 2020 was 16,164,000,000,000 with a share price of 6.025, in 2022 the recorded net profit was 28.944.000.000.000 with a share price of 5.700. There was an increase in profits at the ASII company over time until in 2023 it was recorded at 33.839.000.000.000, but in contrast to the increase in profits, the share price decreased until it was recorded at 5.650.

#### Wijaya Karya Beton, Tbk (WTON)

The WTON company made 128,052,500,000 in 2020, when its share price was 386. In 2021, it made 82,908,000,000, when its share price was 246. Later, it made 162,916,100,000, but the share price fell to 191.

For the years 2020–2023, attention must be taken to account for the potential for share prices of several manufacturing companies featured on the IDX to fluctuate. A company's financial health may have a bearing on share price fluctuations, which may also be a reflection of how the market views a company's worth and future prospects. When investing capital in a company, investors will take the fluctuations in share prices into account.

Numerous studies on the factors influencing company value have been carried out by earlier researchers, but the results of these studies differ from one another. According to a research conducted by (Sarita & S, 2019), (Puspitasari & Sunarto, 2024) and (Fatimah & Idayati, 2024), Profitability significantly and positively affects Company Value. However, according to other research results, Company Value is unaffected by Profitability (Ali et al., 2021) and (Gz & Lisiantara, 2022). A company's value is supported by its profitability. A company's potential to raise its value increases with its level of profitability. Profitability shows an organization's potential and ability to make money, which in turn advances its value to investors.

Given the context discussed above, the phenomena that have been identified, and the gaps of earlier research on Company Value, the researcher is eager to emphasize Profitability as a variable examined in this study under the title **“The Impact of Profitability on Company Value”**.

## **1.2 Problem Formulation**

The formulation of the issue that will be covered in this study is based on the background section's explanation and issues:

1. Does Profitability have a significant influence on Company Value?

### **1.3 Objectives of the Research**

According to the problem description, the goal objective of this investigations is to gather relevant claims and trustworthy empirical data about:

1. To determine and evaluate the impact of Profitability on Company Value of manufacturing sectors listed on Indonesia Stock Exchange (IDX).

### **1.4 Benefit of the Research**

#### **1.4.1 Theoretical Benefit**

Theoretical knowledge of the elements influencing a business's worth may be enhanced by this research. More thorough arguments and models that explain why a company may engage in increasing its Company Value may be constructed by looking at the effects of Profitability and Capital Structure, Liquidity, Sales Growth, and Firm Size as control factors on the value of a company.

#### **1.4.2 Practical Benefit**

The following are some actual events advantages of this research for various parties:

1. For Investor

It is expected that by analyzing the Company's Value, this research will provide information that investors may review and take into account when making investment decisions.



## 2. For Companies

It is projected that this research will help businesses better understand how to effectively use Profitability to raise their Company Value.

## 3. For Future Researcher

It is projected that this study will serve as a reference and source of comparative materials for future studies that use Company Value variables as a research topic.

### **1.5 Problem Limitations**

As a way to provide a more precise explanation of the results, the current research will restrict the range of the variables. The limits of the problem that will be employed are as follows to maintain the scope of this research:

1. This research will use secondary data to examine manufacturing sector on the IDX between 2020 and 2023.
2. The dependent variable which was tested in this research is Company Value.
3. The research model is limited to only examining the independent variable which is Profitability which is measured by Return on Asset (ROA). Apart from that there are several control variables, such as Capital Structure, Liquidity, Sales Growth, and Firm Size.