

# **CHAPTER I**

## **INTRODUCTION**

### **1.1. Background of Study**

In the dynamic economic landscape of Indonesia, where competition is fierce, companies face the imperative of maintaining and enhancing their firm value to sustain their market position and ensure long-term viability. Companies in Indonesia must generally maintain their firm value in order to compete in an increasingly competitive business environment. Increasing firm value is a key objective for any organization, serving as an important indicator of management performance and attracting investor interest. The ultimate goal of any company is to increase shareholder wealth and this can often be achieved through increasing the share price. Every decision made in financial management is with this objective in mind. One of the most effective ways to achieve this is by increasing the company's income or the profits that go to the shareholders (Harmono, 2011). Investors rely heavily on firm value as a determining factor in making investment decisions, because firm value signifies the growth potential and overall health of the company. A company with an increasing valuation is often seen as performing well, making it an attractive prospect for investment (Berzkalne & Zelgalve, 2014).

Profitability is one of the important determinants of the value of their companies, reflecting their financial health and operational efficiency (Hofstrand, 2019). Profitability, provides insight into company's capacity to earn profits relative

to their assets and equity. High profitability not only indicates efficient management and a successful business strategy, but also attracts investors who are seeking stable and profitable investment opportunities. In real estate companies, profitability can be affected by various factors including market demand, property prices, cost management, and the broader economic environment.

The real estate sector plays a role in Indonesia's economic growth with its various contributions. (Acting) Head of BPS, stated that real estate activities are not only building houses but there are other activities such as selling, renting, or exchanging, or buying from people who already have a house. In addition to being a direct contributor to Gross Domestic Product (GDP) through construction activities and property sales. The property industry also provides a multiplier effect for 174 property-related industries such as construction, labour, and building supplies. Supportive government policies, such as property credit incentives and regulatory changes to improve the investment landscape, also strengthen the sector's role in driving sustainable national economic growth (Perekonomian, 2023).

The performance of a number of real estate and property entities in Indonesia has significantly improved. This has been evidenced by data from the Central Statistics Agency, which indicates an increase in domestic investment in these sectors from 2018 to 2023. The data indicates a tendency for the property and real estate sector project units to rise between 2018 and 2023.

**Table 1. 1 Table of Realization of Domestic Investment by Economic Sector**

Realization of Domestic Investment by Economic Sector (Million US\$) (Housing, Industrial Estates, and Offices)					
2018	2019	2020	2021	2022	2023
15.471,71	27.796,52	44.852,80	85.497,80	66.167,80	77.099,20

Source: (BPS, 2024)

Indonesia's property and real estate markets are highly sensitive to economic cycles, regulatory changes, and market trends. For example, fluctuations in property prices, changes in interest rates, and government policies regarding property ownership and investment can affect profitability and, consequently, firm value. In addition, the capital-intensive nature of the sector means that efficient capital management and maintaining healthy profit margins are critical to maintaining and enhancing firm value. Companies that manage to achieve high profitability while effectively managing their assets and liabilities are likely to see a positive impact on their firm value (Nurdin et al., 2023).

**Table 1. 2 Table of Phenomenon**

Company Name	Year	Return on Assets	Price to Book Value
PT Ciputra Development Tbk (CTRA)	2018	0,03457	1,30244
	2019	0,03199	1,23753
	2020	0,03365	1,19081
	2021	0,04267	1,05946
	2022	0,04431	0,93978
PT. Lippo Karawaci Tbk (LPKR)	2018	0,01467	0,25932
	2019	-0,03601	0,56915
	2020	-0,17143	0,77693

Source: Prepared by Author (2024)

According to table 1.2, PT. Lippo Karawaci Tbk (LPKR)'s profitability declined consecutively from 2018 to 2020, with an increasingly negative ROA, indicating financial pressure and possibly internal issues that reduced the company's profits. However, PBV shows a pattern that is not in line with ROA. In 2020, PBV actually reached its highest value even though ROA was at its lowest which was - 0.17143.

Another phenomenon is that although ROA of PT. Ciputra Development Tbk (CTRA) experienced consecutive increases from year 2019 to 2022, indicating improved profitability and efficiency in the use of assets to generate profits, PBV actually decreased during the same period. This could be due to declining investor confidence, external market conditions, or declining valuations of non-core assets.

These phenomena suggest that PBV as a firm value proxy is not always directly proportional to Return on Assets (ROA). In some cases, a rise in profitability is not reflected into a rise in the firm's value, while a decrease or fluctuation in profitability does not always mean a decrease in firm value. This phenomenon may be due to the reason that PBV reflects the market's perception of the company's value, which includes not only current earnings, but also unrealized gains or losses reported in Other Comprehensive Income. For example, asset revaluations or changes in financial instruments may increase PBV even if profitability, as measured by ROA, decreases.

Since there are phenomenon differences in each sample, the author would like to attempt to conduct research to determine whether profitability (ROA) has a significant effect or not on firm value (PBV) in this study. According to the description provided, the title of this can be defined as “THE IMPACT OF PROFITABILITY TOWARDS FIRM VALUE ”.

## **1.2. Problem Formulation**

From the description of the background of study above, the problem in this study that can be identified is:

Does profitability have a significant influence towards firm value in the property and real estate sector companies listed on the Indonesia Stock Exchange?

## **1.3. Objective of Research**

Based on the background of study and problem formulation, the research objective is:

To determine the impact of profitability on firm value in property and real estate sector companies listed on the Indonesia Stock Exchange.

## **1.4. Benefits of Research**

This study is likely to offer significant advantages to multiple parties:

### **1. Theoretical Benefits**

This study makes a valuable addition to the current understanding in the areas of property and real estates. By focusing on the Indonesian market, it provides unique insights that can be compared with studies from other regions, thereby enhancing the global understanding of how profitability influences firm value. Additionally, the findings and methodologies employed in this research can serve as a valuable reference for future researcher. Scholars can build upon this work to

explore similar phenomena in different sectors or time periods, or to investigate other factors that might influence firm value. Furthermore, this research deepens the understanding of financial ratios, specifically profitability, and their importance in assessing a company's performance. It clarifies how profitability metrics can be interpreted and utilized to predict the value of a firm, offering a more comprehensive perspective on financial analysis.

## 2. Practical Benefits

### a. For Managers and Executives of the Companies

Managers and executives of property and real estate companies can gain valuable information on how profitability affects their firm's market value. This knowledge can guide strategic decisions, such as resource allocation, cost management, and revenue enhancement initiatives.

### b. For Property and Real Estate Companies

Companies can improve their financial reporting practices based on the insights from this study. By highlighting the importance of profitability, firms may prioritize transparency and accuracy in their financial statements, leading to better stakeholder trust and engagement.

### c. For Future researchers

Future researchers interested in the topic of profitability towards firm value can gain a solid foundation. By focusing on the Indonesian market from 2018 to 2023, this research offers a detailed

case study that can be used as a benchmark for similar research in other regions or time periods. Future researchers can build on the methodology and findings presented here to explore new variables or conduct comparative studies in different markets. This research also enhances the understanding of financial metrics, particularly profitability, and their implications for firm value, guiding future academic inquiries and hypotheses.

### **1.5. Problem Limitation**

This paper emphasizes the impact of independent variables, which is profitability towards the dependent variable, which is firm value. The scope of this research is limited to property and real estate companies listed on IDX from 2018 to 2023.