

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of Study**

The mining industry in Indonesia holds a critical position in the national economy, contributing significantly to Gross Domestic Product (GDP) and state revenues. As one of the largest contributors to Indonesia's export earnings, the sector is vital for economic growth and development. However, the mining industry is also subject to various challenges, such as global economic fluctuations, volatile commodity prices, and increasingly stringent regulatory frameworks. These factors directly impact the financial performance and value of mining companies, which is often reflected in their stock prices on the Indonesia Stock Exchange (IDX).

One of the key metrics used to assess the value of a company is profitability, which measures a company's ability to generate profits relative to its revenue, assets, or equity. Profitability not only reflects operational efficiency but also influences investor perceptions and confidence. Companies with higher profitability are more attractive to investors, as they are generally perceived to have stronger management, operational efficiency, and a higher capacity for distributing dividends and reinvesting in growth opportunities. Consequently, profitability tends to have a positive correlation with stock prices and overall firm value.

To illustrate this relationship, we can examine the financial performance and firm value of selected mining companies listed on the IDX from 2019 to 2023. The following table provides an overview of how profitability, firm value and

external factors such as economic conditions and regulatory changes have impacted the mining sector over this period.

**Table 1.1 Research Phenomenon**

Company	Company Code	Year	Profitability (%)	Firm Value (PBV)
PT Adaro Energy Tbk	ADRO	2019	6.03	0.89
		2020	2.48	0.79
		2021	13.56	1.26
		2022	26.26	2.07
		2023	17.71	1.26
PT Bayan Resources Tbk	BYAN	2019	18.33	0.61
		2020	21.27	5.73
		2021	52.02	10.16
		2022	58.34	75.86
		2023	37.15	70.50
PT Golden Eney Mines Tbk	GEMS	2019	8.55	2.97
		2020	11.78	2.88
		2021	42.70	9.12
		2022	61.63	7.77
		2023	40.30	6.27

Sources: Indonesia Stock Exchange  
Prepared by Writer, 2024

Based on the research phenomena in Table 1.1, in general, the increase in profitability, as measured by Return on Assets (ROA), correlates directly with the rise in the Price to Book Value (PBV), reflecting the firm's value in the eyes of investors. For instance, PT Adaro Energy Tbk (ADRO) exhibited a consistent increase in ROA from 6.3% in 2019 to 17.71% in 2022. This increase in profitability was accompanied by a rise in PBV, from 0.89 to 2.07 over the same period. A similar trend was observed for PT Bayan Resources Tbk (BYAN) and PT Golden Eney Mines Tbk (GEMS), where the increase in each company's ROA was in line with the rise in their respective PER, indicating that higher profitability tends to drive up the firm value. Overall, these findings indicate that the increase in profitability in the mining sector contributes to the growth of firm value, as reflected in the PER ratio. Although the mining sector tends to be influenced by various

external factors such as commodity price volatility and government policies, companies that are able to maintain and improve operational efficiency and profitability generally receive a positive response from the market. Thus, it can be concluded that higher profitability has the potential to enhance firm value and strengthen investor confidence in the performance of mining companies in the long term.

Several previous studies have examined the relationship between profitability and firm value. For instance, Bintari et al. (2024) found a negative, weak relationship between profitability (ROA) and firm value (PBV) in the property and real estate sector on the Indonesia Stock Exchange. This is also supported by studies conducted by Nabila et al. (2024) and Mollu (2024), which similarly showed that profitability does not affect firm value. However, previous research differs from studies by Handayani and Arifin (2024) and Fatimah and Idayati (2024), which indicated that profitability does influence firm value.

Based on the phenomena described above, the researcher wants to analyze the influence of profitability towards firm value, thus write it in this research entitled “The Influence of Profitability Towards Firm Value”.

## **1.2 Problem Formulation**

Based on the background that has been outlined above, the researcher formulates the problem and seeks its solutions. The problem to be examined is does profitability have a positive influence on firm value?

### **1.3 Objectives of The Research**

This research is conducted by the researcher with the aim to determine and analyze whether profitability have a positive influence towards firm value.

### **1.4 Benefit of The Research**

The research conducted by researchers has benefits that can provide advantages to several parties, namely:

#### **1. Theoretical Benefits:**

##### **a. For readers:**

This study provides readers with an understanding of the relationship between profitability and firm value in the mining sector companies listed on the Indonesia Stock Exchange (IDX). It offers insights into how profitability impacts investor perceptions and company valuation.

##### **b. For the writer:**

This research enhances the writer's comprehension of the financial performance of mining companies, especially in terms of profitability and its influence on firm value. It contributes to the writer's experience in conducting financial analysis in real-life contexts.

##### **c. For other researchers:**

The findings of this study serve as a reference point for future researchers interested in studying the effects of profitability on firm value, particularly in the mining sector. It provides data and insights that can be built upon in future research efforts.

#### **2. Practical benefits:**

- a. For Mining Companies Listed on the IDX:

The results of this research can assist mining companies in understanding the impact of profitability on their stock prices and overall value. This knowledge can guide corporate strategies aimed at improving profitability and operational efficiency, leading to enhanced firm value.

- b. For the writer:

Through this study, the writer gains a deeper understanding of the strategic importance of profitability in determining firm value, helping to sharpen their skills in financial analysis and decision-making.

- c. For future research:

The study's findings provide a valuable framework for future research focused on profitability and its effect on firm value in different industries or under varying economic conditions. The results contribute to the existing body of literature and offer a benchmark for further investigations in related areas.

## **1.5 Problem Limitation**

For the problem limitation, writer will focus on variable which are:

1. Profitability as independent variable while firm value as dependent variable and leverage, liquidity, company size, and solvency as control variable.
2. This thesis aims to investigate on mining sector companies listed in Indonesia Stock Exchange.
3. The data used in this research is only limited from 2019 to 2023.