

CHAPTER I

INTRODUCTION

1.1 Background of the Study

In the relationship between profitability and firm value is a crucial area of this study, particularly within the context of Indonesia's diverse economic landscape. Over recent years, companies in Indonesia have significantly impacted the national economy by contributing to job creation within local communities, providing employment opportunities that enhance the livelihoods of many individuals and families, followed by driving growth in the Gross Domestic Product (GDP). The consumer sector, which is divided into non-cyclical and cyclical categories, plays a vital role in this economic framework, which has become one of the reasons for selecting the sectors.

Consumer cyclical companies, which produce goods and services are tend to be sensitive with the economic fluctuation (Callista & Lukma, 2024). This sector is a non-defensive sector, when the economy picks up, the demand for goods or services of the cyclical sector will be directly proportional. This company's performance generally increases during the times of economic growth, when consumers have more disposable income and are more inclined to spend on non-essential goods and services. In contrast during economic downturns, spending on these discretionary items usually decreases, resulting in a notable decline on the company performance.

The consumer non-cyclical sector are economic stability and a promising future, because in the non-cyclical consumer sector tends to have more stable profits. The consumer non-cyclical sector is a sector that creates and distributes products or services for fundamental and primary goods. Companies in this sector produce products or services that are always in demand and needed by consumers, this sector typically experiences stable performance regardless of economic conditions due to the constant demand for their products. Even during the downturn periods of economic, consumers continue to buy essential items, leading to more reliable revenue streams for non-cyclical firms. Therefore, attractive prospects for investors seeking consistent returns (Kanisa, 2023).

Firm value is a fundamental factor that can be used as a reference for investors to choose the right company for making investments. Each company has a goal to obtain high corporate value to provide welfare for investors and stakeholders of the company (Yasminawati et al., 2024). The high value of the company is also the result of the implementation of a good stock price within the company. The reason for using Firm value is because it reflects the company's performance where high firm value indicates good company performance, as the firm value obtained by the company will attract investors, firm value can also indicate that shareholder prosperity is high and firm value means maximizing the present value of all profits that will be received by shareholders in the future.

Profitability has a causal relationship with firm value, which shows that the high profitability of the company has a positive impact on investor decisions in the capital market, which is reflected in stock prices. If the company's ability to

generate high profits will show good financial performance and fundamental performance of company, therefore it responded positively by investors (Tui et al., 2017). Then, the firm's value will also increase. Profitability is important to choose because it shows the company's good performance and prospects, attracts investors to invest in the company, measures how efficiently the business generates profits and expenses.

Based on research conducted by (Simanjuntak & Siahaan, 2024) that profitability has a positive impact on firm value. However, different results were found by (Ardianto, 2023), profitability has a negative impact on firm value. Another result was found by (Nur & Widati, 2022), profitability does not impact toward firm value.

Here are some of the Consumer Non-Cyclicals and Consumer Cyclical Sector with the value of profitability and firm value that can be seen in Table 1.1.

Table 1.1 Phenomenon Data of Profitability and Firm Value of Consumer Non-Cyclicals and Consumer Cyclical Sector Listed in Indonesia Stock Exchange 2019 to 2023

Company	Year	Profitability	Firm Value
ACES	2019	0,1532	5,472335
	2020	0,1012	5,622387
	2021	0,0963	3,927976
	2022	0,0916	1,431029
	2023	0,0985	1,992546
AMRT	2019	0,0464	5,307951
	2020	0,0409	4,350206
	2021	0,0704	5,351446
	2022	0,0929	9,593138
	2023	0,0994	7,746911
BMTR	2019	0,0466	0,300078
	2020	0,0283	0,228164
	2021	0,0407	0,178057
	2022	0,0328	0,170588
	2023	0,0192	0,158498

Sources: Prepared by the writer (2024)

From Table 1.1, it can be indicated that the company of ACES has the profitability rate increased from 0,0916 in 2022 to 0,0985 in 2023. However, the firm value for ACES has increased from 1,431029 in 2022 to 1,992546 in 2023. As the company's profitability increases, investors respond positively to this situation, which causes an increase in stock prices, resulting an increase in firm value.

The company of AMRT has the profitability rate increased from 0,0929 in 2022 to 0,0994 in 2023. However, the firm value for AMRT has decreased from 9,593138 in 2022 to 7,746911 in 2023. Companies that get high profitability tend to prioritize these profits for retained earnings, not to be distributed to shareholders through dividends. If the net profit earned by the company is higher, the company's retained earnings will also be higher, which results in less profit being distributed to shareholders. Due to the lack of profits distributed to investors, investors will tend to assume that the company is not making maximum efforts to prosper shareholders so that in this case it reduces the value of the company.

The company of BMTR has the profitability rate decreased from 0,0328 in 2022 to 0,0192 in 2023. However, the firm value for BMTR has decreased from 0,170588 in 2022 to 0,158498 in 2023. This company obtained a decreased profitability value, so this can indicate that the company's management performance is not good that it has an impact on the company's value which has decreased.

As stated from the explanation above, in order to analyze the impact of profitability on firm value, the writer decides to conduct research entitled “**The Impact of Profitability towards the Firm Value.**”

1.2 Problem Formulation

Based on the background of research, the authors formulate a question, namely does Profitability has an impact towards the Firm Value in Consumer Non-Cyclicals and Consumer Cyclical Sector Listed in Indonesia Stock Exchange?

1.3 Objectives of the Research

Based on the problem formulation, the objectives of this research are to analyze whether Profitability has an impact towards the Firm Value in Consumer Non-Cyclicals and Consumer Cyclical Sector Listed in Indonesia Stock Exchange.

1.4 Benefits of the Research

The writer expects that this research can give benefits both theoretically and practically as follows:

1.4.1 Theoretical Benefit

The research results can be used to expand, improve and develop the relevant theories, especially in the impact of profitability towards firm value on consumer non-cyclicals and consumer cyclical sector and hopefully the information provided may be useful for the readers and future researchers.

1.4.2 Practical Benefit

1. For the Writer

The writer as a basis for increasing knowledge and give insight for researchers in the field of accounting, especially those related to the impact of profitability toward the firm value on consumer non-cyclicals and consumer cyclical sector listed in Indonesia Stock Exchange period 2019-2023.

2. For the Investors

The results of this study are expected to provide information for the potential investors to assess a company so that it can be used as a reference and help investors in considering decision making to invest in a company through factors that impact firm value.

3. For the Other Researchers

This research can be an additional reference material for further researchers as well as information for interested parties in assessing the similar topic in the future.

1.5 Problem Limitation

Based on the background study above, the problem limitations found in this research are:

1. The object research in this paper is the consumer non-cyclicals and consumer cyclical sector listed on the Indonesia Stock Exchange.
2. The data for observation is from the year 2019 to 2023.

3. The dependent variable that became the test material in this study is firm value.
4. The research Model is limited to examining only the independent variables in the form of profitability. In addition, there are control variables namely leverage, liquidity, sales growth, and firm size.

