

CHAPTER 1

INTRODUCTION

1.1. Background of Study

In this business era that is increasingly competitive, profitability and company value are two very important aspects for the sustainability and growth of an entity. A company's purpose is to make sure that their business is prosper and can stand in the long run. The prosperity of a company can be a sign of investors as the signal to invest and the increase in investment can give impact to the company value. Profitability, indicated using Return on Asset (ROA), represent the capability of a company in earning profits from their operational activities. While company value, often represented by stock prices in the market, reflects the company's performance and future prospects that investors will view.

Businesses with strong financial results frequently draw in investors and increase confidence in the market. According to Nur Utami & Widati (2022), high-profitability businesses are a sign of strong business performance and bright future prospects. Businesses with high profitability measures also create higher profits. A company that consistently makes good profits appears to be less risky and more likely to generate significant gains in the future, which raises the market value of the company. To optimize company value, it must be strengthened by related company information, measurable decision-making, and significant control towards a company's performance in operational (Pradika & Dwiati, 2021).

Profitability is implied as a fundamental indicator for the financial well-being and operational effectiveness of a company. They have to effectively and efficiently utilize its resources while managing capital, debt, and assets, which will increase a company's prosperity and give an impact to the company's value. (Harsono & Susanto, 2023).

A higher rate of profitability frequently increases investor confidence as investors expect a high return from the company, thereby potentially improving the market value of a company. Furthermore, profitability are able to influence investor's perception regarding a company's prosperity and stability in the long run. Company value is related to stock price that can fluctuate, either increase or decrease (Saddam et al., 2021) due to various factors such as supply and demand, company performance, and market condition. Those fluctuations can impact investors' confidence and the overall market perception toward the company.

Table 1.1 Company Value (PBV) Based on Several Manufacturing Companies Listed on the Indonesia Stock Exchange

Company Name	Company Value			Profitability		
	2023	2022		2022	2021	
PT. Astra Otoparts (AUTO)	0.84	0.59	+	7%	4%	+
PT. Darya Varia Laboratoria (GGRM)	0.33	0.89	-	13%	17%	-
PT. Indofood Sukses Makmur (INDF)	0.96	1.07	-	3.5%	4%	-
PT. Budi Starch & Sweetener (BUDI)	0.85	0.76	+	2.8%	2.7%	+
PT. Campina Ice Cream Industry (CAMP)	2.64	1.91	+	11%	9%	+

Source: Prepared by Writer, 2025

Afinindy et al. (2021) stated that business with high rate of profitability attract investors, meaning the more profit earned, the more the company value will increase. The manufacturing companies' value shown above is impacted by the increase in

profitability. In 2021, PT Astra Otoparts has the profitability of 4% and in 2022, it increased to 7%. Therefore, in 2023, the company value increased to 0.84 from the previous year, which was 0.59. It is also the case for PT Budi Starch & Sweetener and PT Campina, which increases from 2.7% to 2.8% and 9% to 11%, where the increase of profitability gives an impact to the company value of the companies, which are 0.76 to 0.85 and 1.91 to 2.64 in 2023.

On the contrary, the decrease in profitability also causes decrease in companies' value as happened in PT Darya Varia Laboratoria and PT Indofood Sukses Makmur, which profitability decrease from 0.06 to 0.03 and 0.04 to 0.035, and cause decrease in company value, which is from 0.86 to 0.63 and 1.04 to 0.95. From the data shown above, it proves the theory of Afinindy et al. where the higher profitability increases the value of a company.

Another case can be seen from one of the airlines, PT Garuda Indonesia, and PT Prima Alloy Indonesia, where its profitability has declined year by year, resulting in the decrease in company's value as well. High rate of profitability attracts investors because it means a company's financial is healthy and the decline in the profitability of these two companies has been happening for several years and has caused a drop in stock prices from year to year.

Table 1.2 Profitability and Company Value of Company Experiencing Loss over Years

Company	Year	Company Value	Profitability
PT Garuda Indonesia	2020	-2886	-23%
	2021	-878	-58%
	2022	-3700	60%
	2023	-6600	4%
PT Prima Alloy Indonesia	2020	0.23	-0.3%
	2021	0.34	-0.04%
	2022	0.29	-6%
	2023	0.29	-15%

Source: Prepared by writer

The table shows the profitability ratio of ROA of PT Garuda Indonesia in 2020 to 2021 which decreased from -23% to -58% and resulted in the low company value in 2022 which decreased from -878 in 2021 to -3700 in 2022. The number of profitability then drops again in 2022 and caused the company value to drop more, which is valued at -6600. The profitability rate that deteriorates year by year reflects the company's poor financial health and thereby reduces investors' confidence in investing in their company. The statement goes the same for PT Prima Alloy Indonesia, where the company is experiencing loss from year to year. The ratio started going down from 2021 with the value of -0.04% to -6% and decreased to -15% in 2023. It resulted in a decreased company value from 0.34 in 2021 to 0.29 in 2023. The phenomenon above proves the theory of Afinindy et al. (2021) that stated high rates of profitability attract investors, meaning the increase in profitability can increase investors' confidence in making investment decisions in a company.

Nur Utami & Widati (2022) on their research in studying how company value is influenced by profitability resulted in profitability having positive significance towards company value. While the study of Saddam et al. (2021) on their research "*Pengaruh Profitabilitas terhadap Nilai Perusahaan*", resulted in profitability, having negative significance towards company value.

The research studied above indicated that enhanced profitability could improve the value of a company. This study is done by the writer to research whether companies can manage their financial effectiveness to increase the value of the company in the market. Therefore, the title conducted is: "The Influence of Profitability on Company Value".

1.2. Problem Formulation

Does Profitability have an influence on Company Value?

1.3. Objective of Research

To identify the influence of Profitability towards Company Value in manufacturing companies listed in Indonesia Stock Exchange during 2019 – 2023.

1.4. Benefits of Research

1.4.1. Theoretical Benefits

The result of the study can strengthen the reliability and usefulness of the theories that are used in the study, mainly regarding the influence of profitability on company value in manufacturing companies listed in Indonesia Stock Exchange (IDX)

1.4.2. Practical Benefits

1. For readers

The writer hopes that the research can be used for the understanding of variables, on how profitability gives an impact to company value in companies.

2. For Manufacturing Companies

The writer expects the companies listed in this study can utilize the study's result to make a better valuation in managing financial effectiveness to enhance company value.

3. For Writer

From the research done, the writer gained experiences on doing the research and can know also do better research in the future.

4. For Future Researcher

Future researchers can use this study result as their reference of previous research and can obtain more detailed understanding of the variables used in this paper to make their research more detailed and in-depth.

1.5. Problem Limitations

The research is limited by the writer with the purpose of focusing on the main objective of how profitability influences company value in manufacturing companies.

1. This research uses financial statements of manufacturing companies listed in Indonesia Stock Exchange, which are secondary data.
2. The research period is 2019 – 2023.
3. The independent variable (X) is limited to Profitability, and the dependent variable (Y) is Company Value, with the control variables of Leverage, Liquidity, Sales Growth, and Company Size.

