EFFECT OF PROFITABILITY TOWARDS COMPANY VALUES: A STUDY ON COSMETIC AND HOUSEHOLD NEEDS SUB SECTOR

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ABSTRACT

This study aims to determine the effect of profitability on firm value in the Cosmetics and Household Utilities Sub-sector companies listed on the Indonesia Stock Exchange. The number of samples used were 4 companies. The location in this research is IDX. The type of data in this study is quantitative data. Data obtained through secondary sources, namely the issuance of issuer's financial statements on the Stock Exchange in 2007 to 2018 through the official website www.idx.co.id. The analysis technique used is descriptive statistical analysis, correlation coefficient, coefficient of determination, regression analysis and significance test t. The analysis shows that profitability has no effect on firm value. Which means that Ho was accepted and Ha was rejected. Based on the test results obtained the results of descriptive statistics ROA is 0.135196 or 13.51%, descriptive statistics PER is 16.394318, correlation coefficient r = 0.436, coefficient of determination KD = 3.61%, regression analysis 51.715 and t-test $0.002 < 0.05$
Keywords: stock price, price earnings ratio, return on assets, profitability, and company value

INTRODUCTION

The development of stock prices is one important information and become the hope of investors and the market for the company's future.

According to Tandelilin, (2010: 363), company analysis can provide investors with an overview of the value of the company, the company's internal characteristics, company quality, management performance and prospects for the company in the future. How to choose a company using financial statement data is to compare between several companies in the same industry. Investors can compare sales, net profit or growth among companies by using a ratio.

The value of a company is reflected in a stable share price, which in the long run experiences an increase, the higher the stock price, the higher the value of the company (Harmono 2015: 50). According to Weston and Copelan (2008: 244), there are several approaches to the analysis of corporate value ratios, one of

which is used in this study is the profit approach called Price Earnings Ratio (PER). The PER approach is the most popular and widely used approach because it is easier to use it.

Price Earnings Ratio (PER) compares the share price with its earnings profit (Jogiyanto, 2014: 204). The value of Price Earnings Ratio will go up or down because the stock price and its earnings profit will change. If the market price of a stock goes up but 1 per share of the stock is constant, the company's PER will go up, so does the reverse (Aji, 2012). A large EPS indicates that the company can provide a level of prosperity to shareholders. Good or bad EPS can be known by calculating Price Earnings Ratio (PER). According to Filbert and Prasetya (2017) the higher EPS will reduce the value of PER and the stock price is predicted to rise.

Companies that have growth prospects generally have a high PER and vice versa in high-risk companies (Brigham and Houston, 2006: 110). If the PER of a company has a stable and high tendency to develop, then this also illustrates the company's stock price has a high growth rate as well. Like previous research conducted by Ayudya et al. (2017), Ademola et al. (2016) and Arif&Wagar (2016) that Earning per share (EPS) has a positive and significant effect on stock prices while according to Anita and Pavitra (2014), Earning per Share (EPS) does not have a significant effect on stock prices.

An interesting phenomenon is also shown by the movement of ROA of companies in the Cosmetics and Household Utilities Sub-sectorwhich indicates that in 2019 that with the declining share price of PT MustikaRatuTbk (MRAT), it has an impact on the value of the company. ROA performance experienced fluctuations and was followed by changes in the value of company.

According to Sunariyah (2006), "If a company is deemed to lack prospects, the share price will be low" (p. 21). With the case found in PT MustikaRatuTbk (MRAT) Reported from the Daily Balance Sheet, Thursday (4/25/2019), the company's net sales were recorded at Rp300.57 billion, down 12.80% from net sales in 2017 amounting to Rp344.68 billion. Sales expenses also dropped 13% to Rp126.24 billion in 2018. Thus, the company's gross profit recorded at Rp174.34 billion in 2018 or decreased 12.64% on an annual basis.

Profitability can be measured by return on assets (ROA). ROA shows the company's ability to use all assets owned to generate profits. In other words, ROA is a measure of the company's effectiveness in generating profits by utilizing its assets (Kasmir, 2016: 201). Increased value of ROA shows the better performance of the company and reflects that companies use their assets more efficiently in generating profits (Brigham and Houston, 2011) Increased ROA can increase the value of the company which will have an impact on increasing share prices and rising PER.

In investing in the capital market, many sectors can be chosen by investors to invest their capital. One promising sector that has good prospects is the manufacturing sector, especially in cosmetics companies and household appliances. Based on Government Regulation No. 14 of 2015 concerning the National Industrial Development Master Plan (RIPIN) for 2015-2035, the cosmetics industry is one of the mainstay industries, priority industries that play a major role in the economy.

Many previous studies have been conducted to observe how Return on Assets generate corporate price earnings ratio which can be explained based on the influence of the value company. Some researchers show interesting results due to the diversity of their findings. According to Ayu and Suarjaya (2017: 1134) in their research through the journal argued that profitability (ROA) has a relationship to the value of the company to generate profits. Tenaya, Chandranithi. and Diantini, (2016), Garmayuni (2015), and Dwi, M. et al. (2014), found that Return on Assets (ROA) had a significant positive effect on firm value. Whereas in Tamrin's research, Mus &Arfah (2017) shows that profitability has a significant negative effect on firm value. Herawati (2012) found that the ROA variable had a negative and not significant effect on the value of the company which means that the higher the value of ROA would not affect the rise or fall in the value of the company.

The increase in ROA illustrates the company's improved performance and illustrates that companies are using their assets more efficiently to get profit (Brigham and Houston, 2011). Rising ROA can increase stock market prices and PER. Research done by Septadi and Wahyu Hidayat (2013) and Tenaya, et.al

(2016) concluded that ROA had a significant positive effect on PER. Similar results obtained by Hayati, N (2010), Sukamdani (2011) and Adam, E. (2015) concluded that ROA had a negative and significant effect on PER.

METHOD

This research uses descriptive verification research method. The data used are secondary data obtained from annual Financial Statement data published by the IDX from 2007-2018.

The population in this study were all cosmetics and household utilities companies listed on the Indonesia Stock Exchange which were 6 companies.

Sampling in this study uses a purposive sampling method with the criteria (1) Companies in the cosmetics subsector that are listed on the Indonesia Stock Exchange in the period 2007 to 2018. (2) The company has completed financial statement data from 2007 to 2018 (3) Companies the cosmetics sub-sector which has published a complete and consecutive annual financial report on the Indonesia Stock Exchange in the period 2007-2018.

After purposive sampling, a sample of 4 companies was obtained for 12 years to obtain 48 research data. The data analysis technique used in this study is the analysis of multiple linear regression analysis. The technique is used for the purpose of knowing the direction and magnitude of the effect of Return on Assets on Price Earning Ratio. So that the data can be processed efficiently, SPSS is used, and the type of data in this study is quantitative data.

The data source in this study is secondary data taken from the annual financial statements in the cosmetics sector companies and household needs for the period 2007-2018 through the Indonesia Stock Exchange (IDX).

Tabel 1. OpersionalisasiVariabel

| Variable	Variable Definition	Indicator	Scale
Profitability (X)	*Return On Asset* (ROA) Used to measure the ability of the companyin generating profits from normal	$ROA = \dfrac{Net\ Income}{Total\ Asset}$	Rasio

	activities usually.Management demanded to increase returns for the company owner.	(Hery, 2015)	
Value Company (Y)	The value of a company can be measured by the stock pricethat investors are willing to pay.Managementimpactful companypositive if the decision is mademanaged to increase the value of that companyseen from an increase in the company's stock price.	*Price Earning Ratio* $(PER) = \dfrac{Market\ price\ per\ share}{Earning\ per\ share}$ (Darmadji dan Fakhruddin (2011:156)	Rasio

RESULTS AND DISCUSSION

ROA is a very important ratio for company owners because this ratio shows the rate of return generated by management of the company's assets, Kasmir (2012: 2011). ROA is an indicator of the ability of a business unit to obtain a return on a number of assets owned by the business unit

Figure graphs the development of company ROA as a research sample.

Figure 1 Graph of ROA of Cosmetics and Household Utilities
Sector Companies 2007-2018
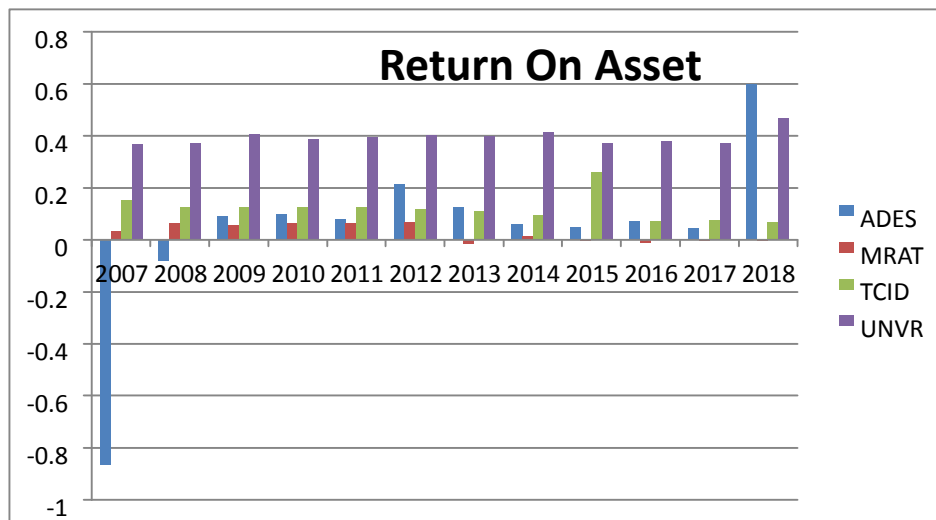
Based on the graph above, it can be seen that the average ROA development in companies listed on the IDX shows a pretty good value, however there are still some companies that show poor ROA development. The average Return on Assets of the cosmetics sector from 2007-2018 was 0.135196. This means that the average Return on Assets each year from 2007-2018 for cosmetics companies rose 13.51%.

UNVR is the best company in terms of ROA measurement. The performance of the UNVR company is the best in using all of its total assets to achieve revenue.The implications of increasing ROA means that the resources owned (total assets), the company is able to maximize it into net profit. By having assets owned by the company, the company is able to utilize its assets well, so that it can generate profits for the company. Moreover, if the company whose assets are down or stagnant, as shown in the graph but net income continues to rise, this could indicate that with a little asset, the company is still able to maximize its performance, so that it can generate large net income.Then found constant values obtained 9,403, regression coefficient values obtained 51,715 with Sig. 0.002. Thus, the regression equation can be written as follows:

PER = 9,403 + 51,715 ROA

**Figure 2 PER Graph in Cosmetics and Household Needs Subsector
Companies listed on the Indonesia Stock Exchange in 2007-2018.**

The equation can be interpreted if the company's value variable value is 51.715 then profitability is 9.403. If the variable return on assets (profitability) has no value or amounts to 0% then the value of the company has a value of 51,715. Figures generated from these tests can be concluded that return on assets (profitability) affects the value of the company, which means the higher the value of ROA, the higher the value of the company.

T test

The results of this study say that there is no influence between profitability on firm value. The results obtained 0.002 <0.05 then this shows that the results of the study had no significant effect. This research is supported by previous research by Mawar et al (2015) showing in his research that profitability (ROA) has no significant effect on firm value.

These results indicate that there is a moderate relationship between profitability and firm value

CONCLUSIONS AND SUGGESTIONS

Conclusion

Price Earning Ratio (PER) compares the share price with its earnings profit (Jogiyanto, 2014: 204). The value of Price Earning Ratio will go up or down due to the change in the price of the stock and its earnings. If the market price of a stock goes up but the earnings per share are constant, the PER of the

company will go up, so will the opposite (Aji, 2012). Companies that have growth prospects generally have a high PER and vice versa in high-risk companies (Brigham and Houston, 2006: 110).

Price Earning Ratio in the cosmetics sector from 2007-2018 has a Mean is 16.394318 or 16.39%. The highest price earning ratio value in the 2015 UNVR company was 60.8932 or 6089% and the lowest was in the 2007 ADES company with -0.0047.

The effect of Return on Assets on Price Earning Ratio in cosmetics subsector companies based on the Determination Coefficient Test of 0.436 and if presented at 44%, can be interpreted both in proxying or reflecting good stocks and good company value. Meanwhile the significance test results obtained value of 0.173> 0.05 which means that H_0 is accepted. Thus Ha rejected return on assets does not significantly influence the price earnings ratio.

Based on the discussion above by using a regression analysis tool in the Cosmetic and Household Appliances sectors listed on the Indonesia Stock Exchange in 2007 to 2018, a constant value of 9,403 is obtained, a regression coefficient value of 51,715 with a Sig. 0.002. Thus, the regression equation can be written as follows:

$$\textbf{PER = 9,403 + 51,715 ROA}$$

The equation can be interpreted if the company's value variable value is 51.715 then profitability is 9.403. It means if the variable return on assets (profitability) has no value or amounts to 0% then the value of the company has a value of 51,715. Figures generated from these tests can be concluded that return on assets (profitability) affects the value of the company, which means the higher the value of ROA, the higher the value of the company.

Based on the conclusions above, the advice given is that if investors want to invest in shares using PER, they should use the factors that influence it. For future researchers, it is better to use a longer period in order to get better results, not limited to shares in the Cosmetics and Home Appliances sector, but also to use all companies listed on the IDX and should add fundamental variables such as financial ratios and external factors that can be used to predict PER.

SUGGESTION

1. It is expected to pay attention to the PER ratio as a basis for investment decision making because the results of the study show that each return on asset variable (profitability) has no value or amounts to 0%, then the value of the company has a value of 51.715.So it can be concluded that return on assets (profitability) affects the value of the company, which means the higher the value of ROA, the higher the value of the company.

2. It is expected that the company can optimize the use of assets in order to continue to produce good performance so that it will affect the volume of shares, stock prices and PER.

3. It is expected that the company can provide information about the condition of the value of the shares so that investors can know the intrinsic value of the company's shares so that investors can better consider the decision

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