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The Impact of Profitability on Stock Valuation and Its Impact on Corporate Value

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Abstract
This research aims to determine the influence of return on assets, return on equity, and net profit margin against stock valuation reflected with the price earning ratio and its impact on the price to book value of retail trade companies listed on the Indonesia Stock Exchange period 2009-2018. The method used in this research is a descriptive method of analysis with a quantitative approach. The type of data used in this study is secondary data. The population in this research is a trade retail company listed on the Indonesia Stock Exchange period 2009-2018, consisting of 31 retail trade companies. Sampling technique used in this research is purposive sampling technique, with certain predefined criteria, which obtained 11 trade retail companies that meet the criteria. The analytical technique that will be used in this study is a double linear regression analysis technique that expanded by a method of pathway analysis to obtain a thorough picture of the relationship between one variable and another variable, in addition research that uses stock valuation and its impact on the value of companies is still rarely implemented.The results found that a partial return on asset variable, return on equity, and net profit margin had a significant influence on the price earning ratio, and the price earning ratio also had a significant influence on price to book value.

Keywords: *return on asset; return on equity; net profit margin; price aarning ratio; price to book value*

JEL Classifications: *D25; D53*

Introduction

As a matter of fact, it is known that the world market has been experiencing a recession. It all started from the Subprime Mortgage crisis that took place in the United States. Which means that it is the change of regulation that gives permission to lend money to those who do not fit in a decent list/credit score. This is called subprime. Someone with a bad credit score can still get a loan from the bank with higher interest rate. Ownership credits with this interest are then known to the public as Subprime Mortgage. When The Fed raises interest rates many homeowners are giving up because they can no longer afford to pay their debts and the other cause is that the MORTGAGE interest is also increasing, and handed over the house to be seized by the bank/foreclosure. Bad credit should only shake the property sector only. But in the reality, what happened was the start of an economic crisis in the United States. This happened, because Subprime Mortgage is entered into Asset Backed Securities (securitization) which is where the MORTGAGE bill is used as the underlying asset for a globally traded debt (bond). With no paying for MORTGAGE installments by the homeowners, the interest payment of bonds has also become hampered, which results the value of the letter of the debt becomes a fall (www.qmfinancial.com).

Indonesia's capital market journey in recent years is quite varied. This includes positive-negative sentiment that accompanies both on a global and domestic scale. Global scale, investors are worried about the weaken global economy until The Central Bank of The United States (The Fed) raises its interest rate (Fed Fund Rate). From domestic, in addition to the political noise related to regional head elections, investors were also worried about the macroeconomic conditions of Indonesia mainly spread the position of the deficit of the current transaction (CAD). Despite, the confidence of investors in the capital market against the government in maintaining Indonesia's economic stability, investors tend to ignore those negative sentiments. That fact is evident from the investment grade of the international rating agency Standard & Poor's (S&P), which ranks Indonesia from BB + (double B Plus) to BBB-(triple B minus).

The rankings show a positive assessment of international rating agencies to the current prospects and economic conditions of Indonesia. Investment Grade also shows the risk of failing to pay a relatively low government debt. Investments from local investors continue to increase, based on Indonesian Central Securities Depository Data (KSEI), as of September 2017 the shares that owned by the local investors reached Rp 1,695.76 trillion, compared to 2016 that resulted in Rp 1.412,53 trillion. In addition to this, some other governemet programs also encourage confidence in the Indonesian capital, one of them is the tax amnesty, this policy has a big impact on the capital market is the tax remission program, considering the influence of the policy is quite positive towards the development of national economy. The global stock market conditions in each country experienced a remarkable decline due to Corona. Due to this pandemic the stock price index in several countries was briefly dropped. Where in the United States minus 26 percent. Philippines ranges from 31.5 percent, Thailand minus 27.65 percent, Singapore 25.5 percent, Malaysia 15.25 percent, China minus 9.38 percent, and Indonesia is weakening 26.61 percent by year to date.

Retail business is the sale of goods in retail way and in various types of outlets such as kiosks, markets, department stores, boutiques and others (also includes sales with delivery service system), which is generally to be used directly by the buyer concerned. Retail business in Indonesia can be distinguished into 2 large groups, which are traditional retail and modern retail. Retail industry, continues to grow rapidly, not only in Indonesia, but also in Asia. The disruption and shifting in the retail business has led some experts to argue that e-commerce affects the significant of offline business. In fact, new online sales reach 1 to 2% of the total retail turnover, but what is worth noting is that online transactions are as big as fashion products. It is important to re-promote the retail business, one of them through company value. The high value of the company has become the wishes of every company's owner, because the high value aldo indicates the high prosperity of shareholders (Widyasari, Paminto,and Judiarni, 2018). One ratio that can be used to measure the value of the company is Price to Book Value (PBV).

Price to Book Value is one type of ratio that is also often used by investors to assess the company. Price to Book Value (PBV) focuses on the company's equity, and is the internal factor of the company. Price to Book

Value (PBV) is defined as the stock market price that divided by the value of its book (BV), PBV also shows how far the company is able to create the value for the company. Companies that run well generally have PBV above 1, which shows the market value is higher than the value of the book. The higher the yield, the higher the PBV share will increase the company's revenue and increase the company's ability to distribute dividends (Kriswanto, 2016).

Stock valuation or share value can be determined through a modeling that can help to show how the value of the stock can be determined. The value of price earning ratio (PER) is the market appreciation of the value of the company, where the better the company is, the higher the price earning ratio is. Price earning ratio is used by various parties or investors to buy stocks. Price earning ratio is a ratio of comparison between market price Pershare and earning Pershare (Fahmi, 2018). Price earning ratios are essentially used to demonstrate the future earnings prospects, based on the relationship between ordinary stock market prices and profit (Duchac et al, 2015). According to Brigham & Houston (2014) Price earning ratio is a ratio that shows the amount of money investors pay for every cent of the running profit. Therefore, the explanation can be concluded that the high price earning ratio indicates a low revenue per share and a high share price. However, some retail companies listing on Indonesia Stock Exchange within the last 10 years have shown the valuation of stock price which is reflected in the value of price earning ratio that continues to decline. The factors used in this study to determine the influence of price earning ratio which are the financial factors of profitability that will be explained using the return on asset (ROA), Return on equity (ROE) and net profit margin (NPM) variables.

Return on asset is the ratio of profitability that shows the percentage of profit (net profit) acquired by the company in terms of overall resources or the average amount of the asset. Nurlia (2018) stated that return on asset demonstrated the company's ability to use all assets owned to generate profit after tax. In other words, return on asset is a ratio that measures how efficiently the company is in managing its assets to generate profits over a certain period. As mentioned earlier, return on asset is useful for measuring how efficiently the company is able to convert the money used to buy assets into net profit (Ilmiyono, 2019). d. Therefore, based on the explanation can be concluded that the greater the return on asset, means the more efficient use of company assets or in other words with the same amount of assets can be generated a greater profit and instead.

Return on equity is a ratio that indicates the company's ability to generate net profit with the use of its own capital and make available profit to the owner or investor (Kasmir, 2016). Return on equity is a comparison that measures how the level of return of the company on investment from ordinary shareholders (Brigham & Houston, 2014). This ratio demonstrates the power to generate profits on investments based on the value of shareholder book, and is often used in comparing two or more companies to determine good investment opportunities and effective management costs. According to Horne and Wachowicz (2012) Return on equity demonstrates the company's ability to generate net profits by using its own capital and generating profits available to owners or investors. Therefore, based on the explanation can be concluded that the greater the value of return on equity, the company has good performance in using the investment of ordinary shareholders.

Net profit margin is the amount of net income from the company on any income or sale that occurs. Net profit margin is an indicator in the company's financial performance pairing the net profit of a company with sales (Brigham & Houston, 2014). For investors, the net profit margin is usually used to measure how efficiently the management manages its company and also to estimate the future profitability based on sales forecasting made by its management. By comparing net profit to total sales, investors can see what percentage of revenue is used to pay for operational and non-operating costs as well as what percentage is left that can pay dividends to shareholders or invest back into their company. Therefore, based on the explanation can be concluded that the greater the net profit margin, then the better the profitability of the company against the sale of a company, in line with the opinion is discovered by Susanti & Restiana (2018).

Methodology

The research object is a scientific target for obtaining data with certain objectives and usability about something objective, valid, and reliable about a particular variable (Sugiyono, 2018). In this research the researched object is the profitability that is procated using return on asset (ROA), Return on equity (ROE) and net profit margin (NPM), and then the effect on the valuation of the stock price and its impact on the value of the company in the retail trade listed on the Indonesia Stock Exchange period 2009-2018 will be analyzed. The method used in this research is a descriptive method of analysis with a quantitative approach.

A quantitative approach is an approach that emphasizes the analysis on numeric data processed by statistical methods, so that the data obtained can be calculated using the numbers according to the data (Sugiyono, 2018). The type of data used in this research is secondary data, which is the source of research data acquired by indirect researchers or through intermediate media (Indriantoro & Supomo, 2013), in the form of annual report, retail trade companies listed on Indonesia Stock Exchange period 2009-2018. The Data required from each sample in the form of information is related to return on asset (ROA), Return on equity (ROE) and net profit margin (NPM), stock valuation and company value.

The population is a generalized region consisting of: objects/subjects that have certain qualities and characteristics set by researchers to learn and then pulled in conclusion (Sugiyono,2018). The population in this research is a trade retail company listed on the Indonesia Stock Exchange period 2009-2018, consisting of 31 retail trade companies. Therefore, for the samples taken from the population is really representative (Sugiyono,2018), then sampling technique uses the technique purposive sampling, with certain criteria that have been established, that obtained 11 retail trade companies that meet the criteria.

Sugiyono (2018) The method of research is essential and scientific way to get data with specific objectives and usability. In accordance with the research purpose, the analytical technique used in this research is a double linear regression analysis technique expanded by a method of pathway analysis to obtain a comprehensive picture of the relationship between on variable and another variable. The Software used to conduct testing in this research is with the help of the Eviews 10 program.

Research Design

Price Earning Ratio (PER) is a method of evaluation that is often used in conducting stock assessments. This analysis is to compare the stock prices with earnings per share which later becomes The basis of consideration of an investor to buy a company stock. Investors use this ratio to predict the ability of the company to generate future profits (earning power). The results of the research conducted by Mabruroh, Riswan, & Lestari (2014) which states the price earning ratio positively and significantly influences the company's value.

Return On Asset Indicates how well the company is in utilizing assets. High return On Assets, in addition to demonstrating the ability of the company to generate a high profit from the overall investment invested in the form of assets can also mean the need of funding for the company in the future operations. The greater the Return On Assets of a company, the greater the level of profit achieved and the better the use of assets. The results of the study conducted by Yusuf (201r) stated that Return On Asset has significant effect on the Price Earning Ratio (PER).

Return On Equity is a ratio to measure the company's ability to generate net profit based on certain stock capital. This ratio is also influenced by the large debt of the company. The increase of Return On Equity means the increase of net profit from the influenced bank. The results of the research conducted by Faezinia, Ohadi, and Janani (2012) stated that Return On Equity has significant effect on the Price Earning Ratio (PER).

Net profit Margin (NPM) is a ratio that measures the success rate of the company in generating net profit from all sales (Tambunan, 2013). This ratio measures the company's ability to generate net income for total sales achieved by the company. So the company's financial performance in generating net profit on sales is increasing then this will impact on the increase in revenue to be received by shareholders. The rapidly increased NPM is describing the company's better performance and the profits gained by shareholders will increase as well. The results of the research conducted by Zamzami dan Rahman (2013) Net profit margin has significant effect on the Price Earning Ratio (PER).

Path analysis is the relation between variable independent, variable intermediate, and dependent variable which is usually presented in diagram form. In the diagram there is an arrow arrow that shows the direction of influence between variables exogenous, intermediary, and dependent variables. Sometimes the magnitude is depicted with the thickness of the arrows. The analysis of the pathway is conducted to determine the pattern of the relationship between three or more variables and cannot be used to confirm or reject the hypotesis of the imaginary casuality (Ghozali, 2016). In this research the relationship between variables can be described in the Path Analysis equation model as follows:

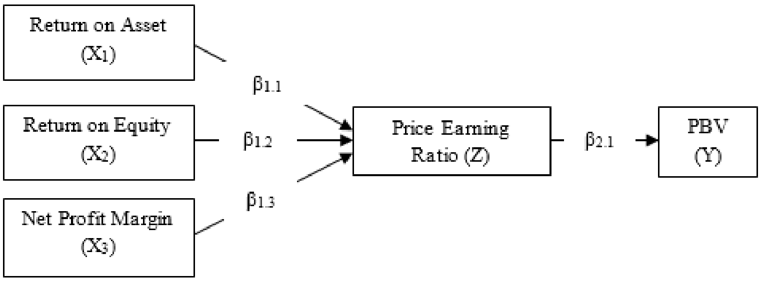

Figure 1: Path Analysis Estimation Model

Based on the foundation of theory, previous research, and Research Design then the hypothesis used in this research are as follows:

H_1 : Profitability has significant impact on bond ratings.
H_2 : Liquidity has a significant impact on bond ratings.
H_3 : Bond ratings have significant effect on Yield bonds

Results

The classic assumption test is used to determine whether the results of multiple linear regression analyses used to analyse in this study are free of classical assumption deviations including normality testing, multicolonicity, autocorrelation and heteroskedastisity. The test results of the instrument, proving that the indicators in the variable price to book value (Z), price earning ratio (Y), return on asset (X1), Return on equity (X2) and net profit margin (X3), have been declared valid and reliable, so that it can be used as a measuring instrument in subsequent tests. Data price to book value (Z), price earning ratio (Y), return on asset (X1), Return on equity (X2) and net profit margin (X3) In this study have also fulfilled the classic assumption test.

Table 1: Regression Results of Model I

Dependent Variable: PER
Method: Panel Least Squares
Date: 04/29/20 Time: 17:52
Sample: 2009 2018
Periods included: 10
Cross-sections included: 11
Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.886385	10.43271	0.276667	0.0026
ROA	0.655522	8.583171	2.627843	0.0010
ROE	0.791811	3.296986	1.756699	0.0019
NPM	0.426361	4.951448	0.691992	0.0005

R-squared	0.502976	Mean dependent var	0.857032
Adjusted R-squared	0.477589	S.D. dependent var	0.735263
S.E. of regression	37.79515	Akaike info criterion	3.183792
Sum squared resid	5.151418	Schwarz criterion	3.253612
Log likelihood	53.05859	Hannan-Quinn criter.	2.917775
F-statistic	14.56178	Durbin-Watson stat	2.731989
Prob(F-statistic)	0.000115		

The F hypothesis test result obtained the value of sig F 0.000115 < 0.05, meaning there is a significant influence between the return on asset variable, return on equity and net profit margin together with the price earning ratio in the trade retail company listed on the Indonesia Stock exchange period of 2009-2018. The Adjusted value of R-Square is 0477, meaning the price earning ratio can be explained by return on asset, return on equity and net profit margin of 47.7% while the remain of 52.3% is explained by other factors that are not included into this research. Based on the resulting coefficient values can be formed an equation of path analysis in the first Model, namely :

$$PER = 0.655ROA + 0.791ROE + 0.426NPM$$

From Table 1, there is a significant influence on the return on asset variable against the price earning ratio of 0655, due to the value of Sig t 0.0010 < α = 0.05. There is a significant effect of the return on equity variable on the price earning ratio of 0791, due to the value of Sig t 0.0019 < α = 0.05. There is a significant influence of the net profit margin variable against the price earning ratio of 0426, due to the value of Sig t 0.0005 < α = 0.05. This means that any increase in return on asset, return on equity, and net profit margins will result in increased/lowering price earning ratios, as otherwise. Path analysis on the first model as shown in Figure 2.

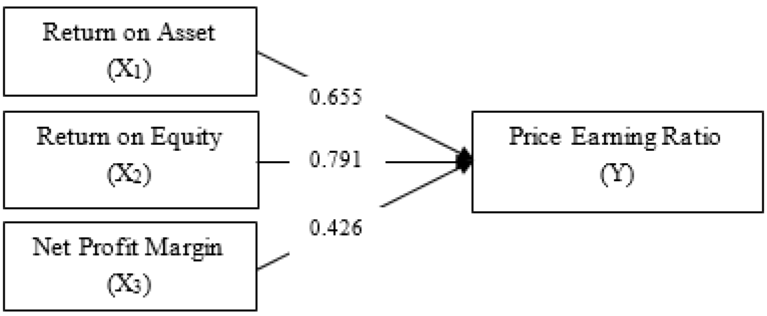

Figure 2: Result of Path Analysis First Model

Table 2: Regression Results of Model II

Dependent Variable: PBV
Method: Panel Least Squares
Date: 04/29/20 Time: 19:23
Sample: 2009 2018
Periods included: 10
Cross-sections included: 11
Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.056433	2.308118	0.457703	0.0081
ROA	0.338184	1.959100	0.172622	0.0633
ROE	0.837960	0.739695	1.132845	0.0399
NPM	1.228942	1.097527	1.119738	0.0054
PER	0.016158	0.021481	0.752184	0.0236

R-squared	0.738331	Mean dependent var	0.439874
Adjusted R-squared	0.651696	S.D. dependent var	0.365825
S.E. of regression	8.358728	Akaike info criterion	4.128879
Sum squared resid	3.536174	Schwarz criterion	4.251628
Log likelihood	67.08835	Hannan-Quinn criter.	3.178666
F-statistic	8.046297	Durbin-Watson stat	2.918343
Prob(F-statistic)	0.000037		

The F hypothesis test result is the sig F 0.000037 < 0.05, meaning there is a significant influence of return on asset, return on equity, net profit margin, and price earning ratio jointly against price to book value of retail trade companies listed on the Indonesia Stock exchange period of 2009-2018. The Adjusted value of R-Square is 0652, meaning the price to book value can be explained by return on asset, return on equity, net profit margin, and price earning ratio of 65.2%, while the remain of 34.8% is explained by other factors that are not included into this research. Based on the resulting coefficient value can be formed an equation of path analysis in the second Model, namely :

$$PBV = 0.338ROA + 0.838ROE + 1.229NPM + 0.016PER$$

From Table 2, it is known that there is no significant influence of the return on asset variable against price to book value, because the value of Sig t 0.0633 > α = 0.05. This means that any increase in return on asset will not result in an increased/lowering price to book value. The return on equity variable in this study has an influence on the price to book value of 0838, due to the value of Sig t 0.0399 < α = 0.05. The net profit margin variable in this study has an influence on the price to book value of 1,229, because the value of Sig t 0.0054 < α = 0.05. The price earning ratio variable affects the price to book value of 0.016, as the value of Sig t 0.0236 < α = 0.05. This means that any increase in return on equity, net profit margin, and price earning ratio will result in increasing/lowering the price to book value, as the opposite. Path analysis on the second model as shown in Figure 3.

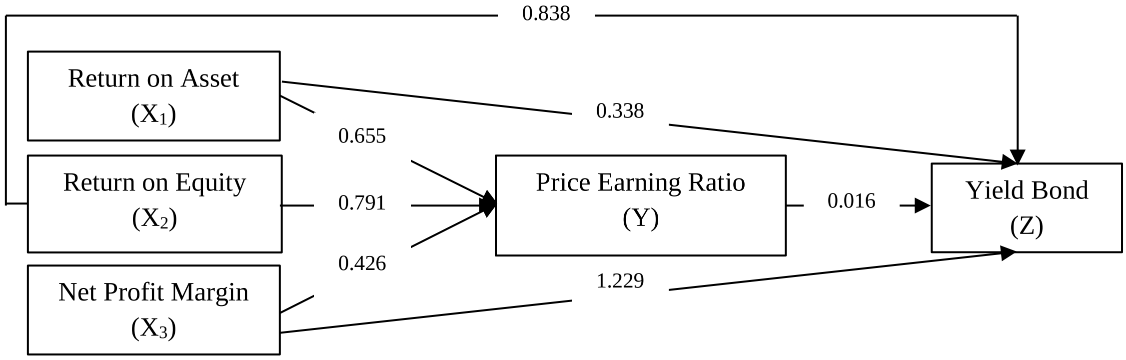

Figure 3: Result of Path Analysis Second Model

Discussions

Based on the results of the analysis shows that ROA variable has a significant influence on Price Earning Ratio (PER), the result shows that with the effectiveness of the company in managing the assets owned, the efforts to increase profits can be actualized. The condition shows that by increasing the company's ability to utilize the total assets owned, the company can provide maximum guarantee on the investment that has been done. The profits gained by the first company will be used to pay the interest rate, then the Preferent shares, only later (if there are residual) are given to ordinary shareholders. Thus the higher the ratio of ROA in itself, the greater the effort to maximize the level of profitability offered to investors. This conclusion in fact, is in line with the theory that says ROA is a measure to the effectiveness of the company getting profit by maximizing its assets. The increase of ROA reflects the improved performance of the company, and describes the company's use of an increasingly efficient way to earn profit, the increase of ROA will result in a hike. This finding was supported by a study conducted by Yusuf (2014) stating that Return On Asset has significant effect on Price Earning Ratio (PER) and contrary to research conducted by Sijabat and Suarjaya (2018).

Based on the results of the analysis shows that the ROE variable has a significant influence on the Price Earning Ratio (PER), the result shows that the more effective the company in managing its own capital owned, the greater increase of profits that will be given to investors could also be actualized. The condition shows that by increasing the company's ability to capitalize on its own capital owned, the company can provide maximum guarantee on the investment that has been done. On the other hand, the rate of return generated for ordinary shareholders with the average equity of ordinary shareholders will cause investors interested in buying stocks with this size of profitability. As it is known that, shareholders have a residual claim on the profits gained. The profits gained by the first company will be used to pay the interest rate, then the Preferent shares, only later (if there are residual) are given to ordinary shareholders. Thus the higher the ROE ratio in itself the greater increase of maximization the level of profitability offered to investors. These findings were supported by the research conducted by Faezinia, Ohadi, and Janani (2012) stating that Return On Equity significantly affects Price Earning Ratio (PER), inversely proportional to the research on (Sudaryanti and Sahroni, 2016; Mulyani and Pitaloka, 2017).

Based on the results of the analysis showed that the net profit margin variable has a significant influence on Price Earning Ratio (PER), the result shows that the greater the ratio of net profit margin, then it is considered the better ability of the company to get a high profit. The relationship between net profit and net sales demonstrates the management's ability to run the company sufficiently successfully enough to leave a certain margin as a reasonable compensation for the owner who has provided his or her capital for a risk. Capital market investors need to know the company's ability to generate profits. If the company has the ability to generate net profit, investors will be interested in buying the stock. This will cause the market price to increase. This research supported Zamzami and Rahman (2013) Net profit margin significantly affect the Price Earning Ratio (PER), inversely proportional to the research of Dewanti (2016).

Based on the results the analysis shows that the Price Earning Ratio variable has a significant influence on the value of the company. This indicates that the price earning ratio is an indicator of the company's financial strength. The higher investment that will be taken in action will take impact in the increasing value of the company. For investors the higher the price earning ratio, then the higher expected profit growth will increase, which means the welfare of shareholders is also increasingly higher (Languju, Mangantar, & Tasik, 2016). The Price earning ratio also shows an indication of the future of the company. Capital market participants are more concerned with the Price Earning Ratio (PER) which can be interpreted as a market confidence indicator of the company's growth prospects. The research is supported by (Mabruroh, Riswan, & Lestari, 2014) which states the price earning ratio is positively and significantly affected by the company's value, inversely proportional to the research of Henriansyah and Dharmayuni (2017).

Conclusion

Based on the results of the research conducted on the retail trade companies listed on the Indonesia Stock Exchange period 2009-2018 listed on the Indonesia Stock exchange with the title influence of return on asset, return on equity, and net profit margin against price earning ratio and its impact on the price to book value and the results of the research data, indicates that a partial return on asset variable, return on equity, and net profit margin have a significant influence on the price earning ratio, and the price earning ratio also affects the price to book value. After studying, analyzing and concluding the results of the research that has been done, the company is expected to maximize financial performance especially the ratio of profitability in order to increase the investor profit, and with the increase of performance, will directly affect the price of shares published. Investors should also observe the financial performance that affects the benefits offered by the company. Through the observation, the investor will get the complete information related to the achievement of the stock price of the company.

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