

Original Research Article

Corporate Value: Impact of Sales Growth, Leverage, and Investment Opportunity Set

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Abstract: This study aims to analyze the effect of sales growth, leverage, and investment opportunity set on corporate value. Corporate value is a measure of how the sustainability of an entity is going, the high corporate value indicates that the company is in the good condition to carry out operations in the future and that can attract investors to make transactions on the entity's shares. Therefore it is very important for investors to know what factors affect the corporate value, and that they do not take the wrong steps in making transactions on the stock exchange. Using multiple regression analysis with the STATA software on mining companies listed on the Indonesia Stock Exchange, this study finds the effect of sales growth and investment opportunity set on corporate value, while leverage has no effect on corporate value. These results explain that investors give a positive reaction to the company's performance in increasing its turnover and investment opportunity set so that it has an impact on corporate value in the stock market. These results have implications for management to work hard in increasing sales to increase corporate value.

Keywords: Corporate Value, Sales Growth, Leverage, and Investment Opportunity Set.

INTRODUCTION

Indonesia has many sources of wealth, both from its natural resources and human resources. As a country overflowing with natural wealth, Indonesia is inseparable from the mining industry, which includes coal, gold, iron ore, asphalt, tin and nickel. Mining sector companies according to Law No. 4 of 2009 concerning mineral and coal mining, some or all phases of activities carried out to research, manage and exploit minerals or coal, including conducting general investigations, conducting exploration, studying feasibility or feasibility, construction or construction, aspects related to mining, managing and refining, transporting and selling as well as various activities after mining. The mining sector is experiencing a weakening performance, one of which is the decline in world crude oil prices. Even the price of oil hit a low of US \$ 30 in the last 12 years.

The capital market is a means for companies that have gone public, to help increase the value of the company with various activities that can create value or what is called value creation which is supported by comprehensive open information. Business efficiency that is supported by the transparency of various activities carried out will be very good and will affect the increase in profits. Meanwhile, the increase in share prices is a representation of the appreciation of stock investors who believe and believe in the company's performance that the company will be able to increase its achievements from year to year [1]. High company value will create a sense of trust from the market that the company is doing its job and duties well.

There are many factors that can affect a corporate value, several studies have found the effect of firm performance and the investment opportunity set on firm value. As a company listed on an exchange, the level of profitability is usually used as a measure of the company's performance over a certain period. The higher the level of profitability, the company's performance is considered good so that it is responded positively by investors and the

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company value increases. Some commonly used profitability ratios are sales growth. Some previous study in their research found the effect of sales growth on corporate value [2-4], while the others did not find the effect [5, 6].

In addition to sales growth that attracts investors, leverage is a company's debt ratio that many investors respond to positively and negatively depending on the perceptions of each investor. Some previous study found a positive effect of leverage on corporate value [7, 8]. Meanwhile the other study found a negative effect of leverage on corporate value [9].

The investment opportunity set (IOS) is also thought to have an impact on firm value. A high IOS is more promising a high return in the future. Some study found the effect of the investment opportunity set on corporate value [10, 11], while the other did not find the effect [12]. Based on this background and research gap, the researcher is interested in examining the value of the firm with the indicators of the level of profitability and the investment opportunity set of the entity.

LITERATURE

Signal Theory

Spence provides an illustration of the labor market (job market) and suggests that companies that have a good performance (superior performance) use financial information to send signals to the market. Spence also found that the cost of signals on bad news is higher than good news and that companies that have bad news send signals that are not credible. This motivates managers to disclose private information to reduce information asymmetry in the hope of sending good signals (good news) about company performance to the market [13]. Therefore, the relevance of delivering good information from various financial aspects of the company will be able to indicate fluctuations in the volume of stock trading and also the efficiency of the company's stock market.

Corporate Value

Corporate value defined as the selling price of the company which, according to the consideration of potential investors, is feasible [14]. Company value basically shows the net worth of the owner of Shareholder Wealth. For this reason, increasing firm value also means an increase in the value of the owner's wealth in the company. The creation of company value is carried out by managing the company's performance in such a way as to increase revenue and reduce risk. Companies that are able to increase their income and reduce their risk level will result in an increase in company value and vice versa for companies that experience a decrease in revenue or an increase in company risk.

Sales Growth

Sales Growth is a ratio used to measure and assess the company's sales growth from year to year. Sales growth is very important for a company, where sales turnover is the spearhead of the company. It could be said that business is sales, no sales means no business. Therefore, a healthy company must have positive sales from year to year and if sales growth is achieved to more than the average, then the market share in the industry is successfully achieved by the company [15]. Therefore it can be said that sales growth indicates the success of investing in the past period and can be used as a prediction in the future marked by an increase in stock prices so that they can attract investors and can increase the percentage growth in sales figures in the company [16].

Leverage

Leverage is the ratio to measure the extent to which the company's assets are financed from debt. By knowing the leverage ratio, it can be assessed about: (a) the position of the company against all of its obligations to other parties (b) the company's ability to meet fixed obligations (c) the balance between the value of fixed assets and capital [17].

Investment Opportunity Set

The Investment opportunity set is a graph depicting potential projects in an order based on the project's IRR (Internal rate of Return) ranking [18]. Investment Opportunity set or future investment opportunities can also show company growth, where companies that grow and have a ratio greater than the value of one, then this means the market believes that the value of the company is good [19].

Conceptual Frameworks and Development of Hypothesis

The success of the company's operations can be reflected in the sales growth in the past period and can be used as a prediction for future growth. By looking at past sales data, companies can optimize existing resources to develop existing company values. Investors can also use sales growth data to project the profits the company will reap in the future. Previous study found the effect of Sales Growth on Company Value [2]. Then the research hypothesis is:

H1. Sales Growth affects corporate value

Leverage is a funding policy related to the company's decision to finance the company. Thus, the use of debt needs to pay attention to the company's ability to generate profits. Leverage can be understood as an estimate of the risk inherent in a company. Some study found the effect of leverage on firm value [5, 7, 9], so the hypothesis of this study is:

H2. Leverage affects corporate value

The investment opportunity set is a combination of assets in place (real assets owned) with investment options in the future with a positive xnet presentx value. IOS provides a broader indication where the company's value as the main goal depends on the company's future expenditures with the value / return as a result of investment decisions. With a high IOS value, investors will be interested in buying entity shares because of the high return prospect in the future so that the company's value will also be high. Some studies found the effect of investment opportunity set on corporate value [10, 11], the hypothesis of this research is:

H3. Investment opprtunity set affects corporate value

METHODS

Population and Sample

The population of this research is mining companies listed on the Indonesia Stock Exchange consecutively from 2015 to 2018. Sampling of companies in this study used a purposive sampling method. There are 72 sample data which were analyzed after purposive sampling was carried out from 49 mining company populations.

Variables

Independent variable

Adopting previous studies, the independent variable in this study consisted of several variables, namely sales growth, leverage and the investment opportunity set variable. Sales growth is investment success in the past period and can be used as a prediction in the future marked by an increase in stock prices so that they can attract investors and can increase the percentage growth in sales figures in the company. Sales Growth in this study is measured using Δ Net Sales / Net Salest-1. Leverage is the amount of debt used to finance / buy company assets [1]. Leverage is measured by dividing total debt by total equity. Investment opportunity set or future investment opportunities can also show company growth, where companies that grow and have a ratio greater than the value of one, then this means the market believes that the value of the company is good [19]. This study measures the investment opportunity set (IOS) using a price-based proxy, namely MVBVA (market value of assets to book value of assets) with the following formula:

$$MVBVA = \frac{(Aset - Equity) + (Share \times Stock Price)}{Aset}$$

Dependent Variable

Corporate Value is the dependent variable in this study. Firm value is the comparison of the company's stock price with the valuation of the stock price according to investors on the stock exchange [20]. Corporate value is measured as follows:

$$Price \ Book \ Value = Stock \ Price / Book \ Value$$

Model and Analysis Techniques

The analytical method used is a quantitative method, which is a data processing approach collected from secondary data. It is expected that the conclusions obtained in a study are more measurable and comprehensive. The data were analyzed using the fixed effect model by STATA software.

Hypothesis Test

Table-2: Hypothesis Test Results

Variables	Coeff.	t	Sig
SG -> CV	0.26903	2.20	0.032**
LEV -> CV	0.10466	0.79	0.435
IOS -> CV	0.10361	1.71	0.094*
N	72		
R-Square	0.0845		
Prob. F	0.1221		
SG = Sales Growth, LEV = Leverage, IOS = Investment Opportunity Set, CV = Corporate Value			
* Significant 10%, ** Significant 5%, *** Significant 1%			

In table 2 it is known that with the fixed effect model the F value is 0.1221 which means that this research model is not significant, as well as the r-square value of 0.0845 which explains that all the independent variables in this study, namely sales growth, leverage, and investment opportunity set explain the dependent variable. That is, the corporate value of 8.45% means that there are many other variables outside this study that can explain corporate value as follow independent commissioner [21] or dividend policies [22].

Partially, sales growth has a significant positive effect on corporate value; this means that hypothesis 1 is accepted. Likewise, the investment opportunity set has a positive effect on corporate value, with a significance value of 0.094, which explains that hypothesis 3 is accepted. Different results were obtained on the effect of leverage on the investment opportunity set, namely with a significant value of 0.435, explaining that leverage has no effect on corporate value and hypothesis 2 is rejected.

ANALYSIS RESULT

The Impact of Sales Growth on Corporate Value

This study found a positive effect of sales growth on corporate value. These results explain that the information on the increase in sales of mining companies has been responded positively by the market, thereby increasing the value of the company's shares in the market. This is in line with the signal theory that company financial information is a company signal to the public to get a positive response in relation to investment policies in companies. Likewise, when the company experiences a decline in sales, investors or the public are suspected of giving a negative response because they do not want to bear losses.

The increase in sales is the performance of management in improving the company's operations, which can also provide information on predictions of future business turnover. Due to this result, management can be encouraged to increase turnover each period so as to increase the value of the company because of the positive response from investors who will get feedback on the increase in the value of investment in the company which supports the increase in the company's operational activities. This result is in line with [2] who in their research found the effect of sales growth on corporate value.

The Impact of Leverage on Corporate Value

Different results are found on the effect of leverage on firm value, where the level of corporate debt has no effect on firm value. These results explain that investors do not really care about the level of company debt so that it does not affect stock transactions in the market and does not have a significant impact on firm value. This is presumably due to differences in perceptions of investors, where some investors view debt levels positively because it can increase company operations, while some investors view negatively in relation to borrowing costs that must be borne by companies and reduce investor returns. The absence of leverage on firm value is not in line with [7] who found a positive effect of leverage on firm value and [9] who found a negative effect of leverage on corporate value.

The Impact of Investment Opportunity Set on Corporate Value

In line with the findings of sales growth, this study also finds a positive effect of the investment opportunity set on firm value. A high IOS value indicates high prospects in the future so that investors respond positively and have an impact on increasing company value in the market. This result is in line with [10, 11] who in their research found the effect of investment opportunity set on corporate value.

CONCLUSIONS AND SUGGEST

Sales Growth and Investment Opportunity Set has a positive impact on corporate value, while leverage has no impact on corporate value. The results of this study have implications so that management can increase sales each period and the investment opportunity set because it is proven to increase corporate value due to positive responses from investors.

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