

THE EFFECT OF FINANCIAL PERFORMANCE ON COMPANY VALUE IN TELECOMMUNICATION COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

The sample used in this study were 4 telecommunications sector companies listed on the Indonesian Stock Exchange for the period 2013-2017 with purposive sampling. The indicators used are ROA for Profitability, DER for Solvability, CR for Liquidity and PBV for Firm Value. Data collection techniques use financial statements originating from the Indonesia Stock Exchange. The analysis technique used is Multiple Linear Regression.

The results of this study indicate profitability has a positive and significant effect on firm value, solvency does not have a significant effect on firm value, liquidity has a positive and significant effect on firm value. Simultaneously profitability, solvency and liquidity affect the firm value.

Keywords: *profitability, solvency and liquidity*

1. INTRODUCTION

The development of telecommunications in Indonesia at this time has led to increasingly competitive competition, where telecommunications businesses are competing with each other to attract as many customers as possible by providing cheap internet prices and packages. Telecommunications Companies continuously strive to make what they produce and what they offer acceptable to customers, who will then be used at high levels of usage. In addition, the development of this business can be proven by the large number of investors who come to Indonesia to invest in Indonesia.

The need for telecommunication companies in the digital era cannot be denied where all activities are needed by the community to carry out the communication process. Currently telecommunications companies such as PT. Telekomunikasi Indonesia (Persero) Tbk, PT. XL Axiata Tbk and PT. Smartfren Telecom Tbk, is a leading telecommunication company in Indonesia and is a company listed on the Indonesia Stock Exchange, and has tens of millions of loyal customers each throughout Indonesia.

Firm Value is the value required by an investor to make an investment decision which is reflected in a market price. For this company value, they choose *Price to Book Value* because the *Price to Book Value ratio* is very suitable for use in companies that have tangible *assets*.

Where for investors there are 3 financial ratios that are most often used as a reference for financial conditions, namely Profitability Ratios, Solvability Ratios and Liquidity Ratios. In this study more emphasis on the variables *Return On Assets*, *Debt to Equity Ratio* and *Current Ratio* of Profitability, Solvency and Liquidity Ratios. Based on the problems that occur in telecommunications companies, research is conducted on the financial performance of the company's value.

2. LITERATURE REVIEW

2.1 . Financial Performance And Financial Statements

Financial performance is a description of the company's financial condition in a certain period both in terms of raising funds and channeling funds, which are usually measured by indicators of capital adequacy, liquidity and profitability (Jumingan, 2006). The company's financial performance is the achievements of the company in a certain period . which reflects the soundness of the company (Sutrisno, 2009)

Machfoedz and Mahmudi (2008) put forward the definition of financial reports as the end result of the accounting process. The accounting process starts from transaction evidence, then it is recorded in a daily journal called a journal, then periodically the journal is grouped into a ledger according to the transaction, and the final stage and the accounting process is the preparation of financial reports.

Harahap (2008) states that "Financial reports describe the financial condition and results of operations of a company at a certain time or a certain period of time. The types of financial reports that are commonly known are balance sheets, income statements, cash flow statements and reports on changes in financial position.

So from the above understanding, the authors can conclude that financial statements are an arrangement that describes the condition or financial condition of a company that can be used as a reference for companies to carry out investment or capital financial activities in the future.

2.2 .Purpose of Financial Statements

According to Sofyan S. Harahap, in the book *Critical Analysis of Financial Statements* (2006), one of the important tasks after the end of the year is to analyze the company's financial statements. This analysis is based on the financial statements that have been prepared. The purpose of financial statement analysis is as follows:

1. *screening*
2. *Understanding* .
3. *Forecasting* .
4. *Diagnosis* .
5. *Evaluation* .

2.3. Financial Ratios

According to Irawati (2005) financial ratios are an analytical technique in the field of financial management that is used as a tool to measure the financial condition of a company in a certain period, or the results of operations of a company in a certain period by comparing two variables taken from financial reports. company, both balance sheet and income statement.

For investors there are 3 most dominant financial ratios that are used as a reference to see the condition of a company's performance, namely:

1. Profitability ratio (*profitability ratio*)
According to Munawir (2010), profitability is showing the company's ability to generate profits over a certain period.
2. Solvency ratio (*solvability ratio*)
According to Kasmir (2014) the solvency ratio is the ratio used to measure the extent to which a company's activities are financed with debt.
3. Liquidity Ratio (*Liquidity Ratio*)
According to Hanafi and Halim (2014), the liquidity ratio measures a company's short-term liquidity capacity by looking at the company's current assets relative to its current debt (debt in this case is a company liability).

2.4 . Effect of ROA, DER and Current Ratio on Firm Value

A high ROA value will provide positive things for investors that the company can produce under favorable conditions, therefore it becomes an attraction for investors to own company shares and will increase share prices so that company value also increases.

The results of this study are the same as those of Dwi and Masodah (2013) who found that ROA has a positive effect on firm value. ROA shows better performance, because the rate of return is getting bigger. The low level of ROA depends on the management of the company's assets which reflects the efficiency and operations of the company, the higher the ROA, the higher the value of the company and vice versa.

There was research conducted by Durotun Nasehah in 2012 which stated that DER had a negative and significant effect on PBV with a significance value of 0.001. The reason underlying this result is that the higher the debt used by the company to finance the company's operations, the lower the PBV value because with a high level of debt, the burden borne by the company is also large.

In research conducted by Zuhria Hasania in 2016, it was stated that *the current ratio* has a significant effect on company value in pharmaceutical companies listed on the Indonesia Stock Exchange in the 2011-2014 period.

Table 1 Review of previous research

No.	Name And Year	Title	Variables	Results
1.	Nazir, 2018	Effect of Firm Size DER, ROA, and Current Assets on Price Value in Manufacturing Companies in the Textile Sub Sector in Indonesia	X1 = Firm Size X2 = DER X3 = ROA X4 = Current Assets Y = PriceValue	DER has a positive and significant effect on price book value as a company size. ROA and CR have no significant effect on the value of the textile manufacturing sector of companies listed on the IDX.
2.	Irma Farida Ika Damayanti, 2018	Effect of Financial Performance on Company Value in Food and Beverage Companies Listed on the Indonesia Stock Exchange in 2014-2016	X1=Profitability X2= Solvency X3= Liquidity Y = Company Value (Price Book Value)	Profitability has an effect on firm value with a significance value of 0.000, solvency has no effect on firm value with a significance value of 0.588, and liquidity has no effect on firm value with a significance value of 0.472. Then the regression estimation results show that the predictive ability of the 3 independent variables on firm value is 41% while the remaining 59% is influenced by other factors outside of this study.
3	Jasmine, 2018	Effect of <i>Economic Value Added (EVA)</i> , <i>Return On Assets (ROA)</i> , and Total Cash Flow on <i>Price Book Value</i> in Property, Real Estate, and Construction Companies Listed on the Indonesia Stock Exchange in 2011-2016	X1 = Economic Value Added X2=Return On Assets X3 = Total Cash Flow Y = Price Book Value	Economic Value Added (EVA) partially has no effect and is not significant on Price Book Value (PBV) in property, real estate and construction companies listed on the Indonesia Stock Exchange (IDX) in 2011-2016. Return on Assets (ROA) has partially and significantly affected Book Value Prices (PBV) of property, real estate and construction companies listed on the Indonesia Stock Exchange (IDX) in 2011-2016. Total Cash Flow has a partial and significant effect on Book Value Prices (PBV) in property, real estate and construction companies listed on the Indonesia Stock Exchange (IDX) in 2011-2016. Economic Value Added (EVA), Return on Assets (ROA) and total cash flows simultaneously and significantly affect Book Value Prices (PBV) in property, real estate and construction companies listed on the Indonesia Stock Exchange (IDX) in 2011- 2016

3. RESEARCH METHOD

The research method used is literature research. Review literature studies and review articles related to research and company financial reports issued by the Indonesia Stock Exchange through its official account, namely www.idx.co.id.

4. RESULTS AND DISCUSSION

4.1 THE EFFECT OF FINANCIAL PERFORMANCE ON COMPANY VALUE

a. Return On Assets

Based on the research results, the SPSS output shows a p-value of $0.000 < 0.05$, indicating a significant result because the result is less than 0.05, while the regression coefficient is 0.115, a positive implication so that H_a is accepted, H_o is rejected. The effect of *Return on Assets* is because the company can make a return on investment with the assets owned by the company. It can also show that the higher *the Return on Assets*, the higher the company's profit, thereby giving a good sign to investors that the company can generate profits and the value of the company is increasing.

b. Solvability (Debt to equity Ratio)

Based on the research results, the SPSS output shows a p-value of $0.076 > 0.05$, indicating that the result is not significant because it is more than 0.05, while the regression coefficient is 0.267, has positive implications for PBV, so H_o is accepted, H_a is rejected. There is no effect on *the Debt to Equity Ratio* because the company in carrying out its activities still depends on the burden on outsiders. The higher the company's expenses, the impact on the capital market will mean that the value of a company will also decrease.

This is in accordance with research conducted by Ika Damayanti (2018) which states that *the Debt to Equity Ratio* has no effect on *Price Book Value* but rejects the results conducted by Nazir (2018) which states that *the Debt to Equity Ratio* has an effect on Firm Value.

c. Liquidity (Current Ratio)

Based on the research results, the SPSS output shows a p-value of $0.049 < 0.05$, indicating a significant result because it is less than 0.05, while the regression coefficient is 0.008, which has positive implications for PBV, so that H_a is accepted, H_o is rejected. The influence of *the Current Ratio* is because the company can make regular payments of its short-term obligations or debt before maturity, thereby making investors interested in the company and increasing the value of the company they own.

This is consistent with research conducted by Hasania (2016) and Luthfiana which stated that the *Current Ratio* had an effect on *Price Book Value* and rejected the results conducted by Ika Damayanti (2018) which stated that there was no effect on *Price Book Value*.

4.2 Effect of Financial Performance on Company Value

The effect of profitability, solvency and liquidity on the value of a communications company is that the company maintains profits to get good profits and always pays attention to a good current ratio supported by debt reduction so that the company's value can be of good value to investors.

5. CONCLUSIONS AND RECOMMENDATIONS

Based on the results of the research above, it can be concluded that profitability has a significant influence on the Price Book Value of telecommunications companies, Solvability has no effect on Price Book Value, while liquidity has a significant influence on the Price Book Value of telecommunications companies listed on the IDX.

Articles stating that profitability, solvency and liquidity affect the company's Price Book Value, have different results. So companies need to increase profits or profits in order to gain the trust of investors and customers. With the variables Profitability, solvency and liquidity can conduct research using data in the form of financial reports from different companies of the same type or other objects.

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