Internasional Journal of PERTAPSI, Vol. 1, No. 1, August 2023 DOI: https://doi.org/10.9744/ijp.1.1.32-40
E-ISSN 3025-5945

The Effect of Profitability, Liquidity, and Company Size on Company Value in The Banking Subsector

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Abstract

This study examines the effect of profitability, liquidity, and firm size on firm value. Quantitative research in this study with secondary data in the form of financial statements and annual reports of banking sub-sector companies listed on the IDX from 2019 to 2021. The sample determination method used purposive sampling with the following criteria: 1) banking subsector companies listed on the IDX during the study period, 2) banking subsector companies that presented consistent and complete financial statements and annual reports during the study period, 3) banking subsector companies that did not experience or suffer losses during the research period from 2019-2021, so as to obtain data of 45 observations. The data analysis approach used in this study is multiple linear regression analysis, with the assistance of SPSS 20 for data display. The present study involves the examination of data via the use of the SPSS analysis tool, namely version 20, in order to conduct an analysis of multiple linear regression. The findings of this research suggest that the relevance of profitability positively impacts the valuation of a corporation. The presence of liquidity has a favorable impact on the valuation of firms. The size of a corporation has a favorable impact on its worth. The findings indicate that the value of the business is influenced by three key criteria, namely profitability, liquidity and firm size. Investors are likely to take this element into account when making investment decisions, since a rise in the value of a firm is often accompanied by an increase in its stock price, so as to guarantee that investors may get maximum returns on their investments.

Article Info:
Submitted: July 12, 2023
Reviewed: July 24, 2023
Accepted: July 28, 2023

Keywords:
Firm Size,
Firm Value,
Liquidity,
Profitability.

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INTRODUCTION

The economy in Indonesia is strengthened by the existence of the Indonesia Stock Exchange (IDX), which has an important role in it. For all companies, especially those whose shares have been issued on the capital market, where the share price is traded in the buying and selling process on the stock exchange is an indicator related to the value of the company.(Mahanavami et al., 2021). The concept of firm value relates to evaluating the success of a company, as indicated by the share price which is determined by the interaction of supply and demand in the capital market. Company value assessment has an important meaning in evaluating the effectiveness of an organization or institution, because it has the potential to shape the opinion of prospective or potential investors about the winning rate achieved by the company, as shown in the stock price.(Lumoly et al., 2018). Investors tend to be interested or put their interest in companies that operate with the level of caution a company has, even this is because the company will be able to reduce the risks that will be borne by the potential investors.(Kalbuana et al., 2017). According to Dian and Revita (2018)explained that a bank is an intermediary institution where business activities are carried out related to funds and public trust because banking companies are included in companies that are closely related to risk. Banking companies involve managing money owned by the public and then playing it back in various forms, be it credit or other forms of investment, thus this can cause fluctuations in their financial statements which are considered quite significant. The high level of caution in operating banking companies is due to the high level of corporate risk(Tandanu and Suryadi, 2020).

In line with signal theory related to company value, this can be seen through the stock price of a company in the capital market. The increase in share prices was caused by the existence of a positive signal from the market, where when the stock price rose it had an impact on the value of the company(Septriana and Mahaeswari, 2019).However, the economy in Indonesia is currently in the midst of a condition which has been affected or affected by the Covid-19 Pandemic, especially in the banking sub-sector which is part of the financial sector where banks play an important role in the economy of a country by acting as intermediaries in the financial sector.(Ristiani and Santoso, 2020).

The Covid-19 pandemic caused bank shares to weaken where the weakening of share prices occurred dominated by several large banks in Indonesia with falling share prices so that it could be said to have slipped into the red zone where this happened at the start of trading, such as Bank Negara Indonesia (BBNI) - 74%, Bank Mandiri (BMRI) -1.70%, Bank Danamon Indonesia (BDMN) -0.80%, Bank Rakyat Indonesia (BBRI) - 0.47%, and Bank Central Asia (BBCA) -0.34% . In addition to causing a weakening of stock prices in the banking sub-sector, the Covid-19 pandemic has also had an impact on decreasing the average net profit generated by several banking companies in Indonesia in 2020. This decrease in net profit ranged from 5 - 78.7% compared to 2019 in the same period (databoks, 2021). Based on the data the researchers obtained, (Prasetyo and Gunadi, 2021).

Bank profitability, which experienced a decline, was also accompanied by the condition of company liquidity, in terms of bank loan to deposit ratio (LDR), which declined. This is also caused by an increase in savings or saving deposits in banks which is supported by the absence of economic activity or activity, in which case banks do not obtain credit requests from the public (detikfinance, 2020). Referring to data from the Financial Services Authority (OJK) as of March 2020, it is known that bank credit can only increase by 1.69% when compared to 2019, but on an annual basis it is known that the rate is still growing by 7.95%. Meanwhile, in terms of Third Party Funds (DPK) obtained by banks, it recorded a growth rate of only 3.6% from early January to March 2020, but if viewed on an annual basis it still grew 9.54%. The weakening of stock prices, decreased profitability and company liquidity were also followed by changes in the company value Price to Book Value (PBV) in several companies which were dominated by several large banks which were included in the financial sector, the banking sub-sector which was listed or listed on the IDX in 2019 -2021.

Table 1. Changes in Price to Book Value (PBV)

No	Company name	Company Code	*Price to Book Value (PBV)*			
			2018	**2019**	**2020**	**2021**
1	Indonesian State Bank	BBNI	1.49	1.15	1.00	0.98
2	Mandiri Bank	BMRI	1.80	1.71	1.52	1.48
3	Bank Danamon Indonesia	BDMN	1.68	0.85	0.70	0.51
4	Bank Rakyat Indonesia	BBRI	2.40	2.60	2.57	2,13
5	Bank Central Asia	BBCA	4,20	4.73	4.52	4,44
6	State Savings Bank	BBTN	1,12	0.94	0.91	0.86
7	CIMB Niaga Bank	BNGA	0.57	0.56	0.61	0.56
8	Bank Capital Indonesia	READ	0.94	1.38	1.62	0.89
Average			**1.78**	**1.74**	**1.68**	**1.47**

Source: IDX, Data processed in 2022

Based on the data from Table 1. above, it can be seen that in 2018 these banking sector companies had a fairly high company value or Price to Book Value (PBV). However, if you look at the acquisition of the average PBV value, it faces a decline every year. Such as the companies PT Bank Negara Indonesia (BBNI), PT Bank Mandiri (BMRI), PT Bank Danamon Indonesia (BDMN), PT Bank Central Asia (BBCA), and PT Bank Tabungan Negara (BBTN) which found that the company's value decreased every year from 2019 to 2021.

Investors consider profitability as an important consideration when making investment decisions in a business, because it has the potential to affect the overall value of an organization. Profitability refers to the company's capacity to generate profits or achieve a return on sales, total assets owned, and own capital in a certain period(Ambarwati & Riskawati, 2021). Profitability in this study will be explained through Return on Equity (ROE), a measurement of equity expertise in order to gain profits, so that it will show the level of efficiency and effectiveness of the company's financial performance in the use of assets and capital ownership.(Robiyanto et al., 2020). With respect to signal theory, a high level of company profitability signifies a profitable company situation or prospects. As a result, when investors react positively to these indications, it leads to an appreciation in the value of the Company(Faith et al., 2021).

Liquidity, as a determinant of company value, is related to the company's ability to pay its short-term commitments or debts when they are due(Lubis et al., 2017). In this study, liquidity is explained through the Loan to Deposit Ratio (LDR) which measures the extent to which a bank's ability to fulfill its obligations where LDR is a measuring tool that measures how far the bank's ability to repay a withdrawal of funds for depositors through guided by the form of credit given or channeled as the origin of its liquidity(Suyitno, 2017). The high level of LDR causes bank profits to increase, this is because the bank has been able to distribute this form of credit effectively, so that by increasing bank profits it shows good bank performance so that company value will increase(Utami and Kartika, 2020). Liquidity also has an influence on investors to deposit their capital in a company, so that this also affects the demand for company shares which will increase followed by rising stock prices as well(Antoro and Hermuningsih, 2018).

The size of a company is an additional factor that is considered capable of influencing its value. As stated by Akbar and Fahmi (2020), company size is related to the size of the assets owned by the company, which is used as collateral to obtain debt. As a result, an increase in debt signals a growth in the size of the company. In this study, company size is based on company total assets which are calculated by looking at Ln (total assets) that the company has for the operating activities of a company, where total assets are a reflection of company size.(Yanti and Darmayanti, 2019). The large size of the company indicates that the assets the company has are growing, and the funds needed by the company to maintain operational activities are also many, so that there is a tendency to increase the number of investors by placing their interest in related companies and this is believed to be able to increase the value of the company.(Tandanu and Suryadi, 2020).

LITERATURE REVIEW

Signal Theory (Signalling Theory)

The theory that supports this research is Signaling Theory. Even this theory was first proposed by Michael Spence in 1973, who conducted an extensive study on the subject of Job Market Signaling. Spence said that there are two parties involved in signal theory, namely internal and external parties of the company(Utami and Kartika, 2020). Signaling theory, according to Ross who developed this theory in 1977, states that management in a company who has information that is believed to be accurate about a company will be encouraged to submit data about the company to potential investors or parties. so this will cause the company's stock price to increase. This theory describes how best a company can provide information or signals where the information shows both success and failure in translating the company's performance. The information or signals conveyed can be accessed and viewed through the company's financial reports,(Mariani and Suryani, 2018).

The value of the company

The value of the company is the value that shows the value or price that investors can pay for an entity or company(Kadim and Sunardi, 2019). Firm value also reflects how the performance of a company is, where later this will affect how investors perceive a company(Mustofa, 2023). Price to Book Value. The Price to Book Value (PBV) ratio is a financial metric that facilitates comparison between the market value or price of a company's shares per share and its book value per share, where the book value per share is obtained from comparing the total equity that the company has through how many total shares are being circulating (Esmeralda et al., 2020). If the PBV shows a growing value, then it is followed by increasing prosperity achieved by shareholders so that this indicates that the company can be said to have succeeded in achieving one of its goals.(Yanti and Darmayanti, 2019).

Profitability

Refer toTandanu and Suryadi (2020)Profitability is a form of the company's ability to obtain profits related to its sales, total assets, or its own capital. Profitability can be measured through various types of ratios, another way is to measure the level of profitability, namely the Return On Equity (ROE) ratio which measures a company's expertise in running existing capital to get net profit.(Revita, 2018). Return On Equity (ROE) is a useful ratio for measuring how far the company's ability to earn profits for shareholders on invested capital(Ardiyanto, 2020). ROE according(Wati, 2018)a ratio that can be measured from the point of view of shareholders, so that through this ratio shareholders will know how the company's performance is in optimizing the capital they invest so that they can generate profits or profits. ROE is also an analytical tool that makes comparisons of net profit after tax through the company's own capital(Lumoly et al., 2018).

Liquidity

Liquidity is a form of a company's ability to meet its short-term obligations (debt).(Nuriasari, 2018). Company liquidity can be measured using several types of ratios, in this study it is proxied for the liquidity ratio, namely the Loan to Deposit Ratio (LDR) which carries out measurements and compares funds channeled through credit, with funds originating from third parties(Kumaidi and Asandimitra, 2017). According toWahyuningsih and Gunawan (2017)LDR is a form of comparison related to credit provided through the total funds collected from DPK by banks. Bank Indonesia has standards related to the Loan to Deposit Ratio (LDR), which ranges from 80-110 percent. If the value of a bank's LDR ratio is below 80 percent (for example, 70 percent), this means that the bank is known to only be able to extend credit as much as 60 percent of the total funds that have been successfully raised by the bank. If the Loan to Deposit Ratio (LDR) of a bank exceeds 110 percent, then this can be interpreted that the total form of credit channeled by the bank has exceeded the bank's total funds that have managed to collect(Permatasari and Suwarno, 2022).

Company Size

The concept of business size relates to the classification of company sizes, including small and large dimensions. This classification can be assessed by several metrics, such as the aggregate value of a company's assets, their market value as reflected in the stock market, the volume of sales they generate, and their market capitalization.(Aghnitama et al., 2021).The size of the company is believed to reflect the total assets that a company has, where as the size of the company increases, it indicates that the number of assets that the company has has increased, and the company has relatively abundant funds to support it and maintain the form of operational activities that are carried out. Then this tends to make prospective or investors interested in making decisions to invest their funds in the company(Tandanu and Suryadi, 2020). In this study, the use of a formula for calculations related to company size is proxied through the natural logarithm (Ln) through the total assets owned by the company, where the natural logarithm is useful for minimizing data with excessive fluctuations or it can be said that the purpose of using this formula is to simplify the total assets to reach the number trillion rupiah without changing the existing proportion(Setiawan and Mahardika, 2019).

Framework of thinking

Even this conceptual framework is designed to be guided by the theories, concepts, and previous studies that have been given above.

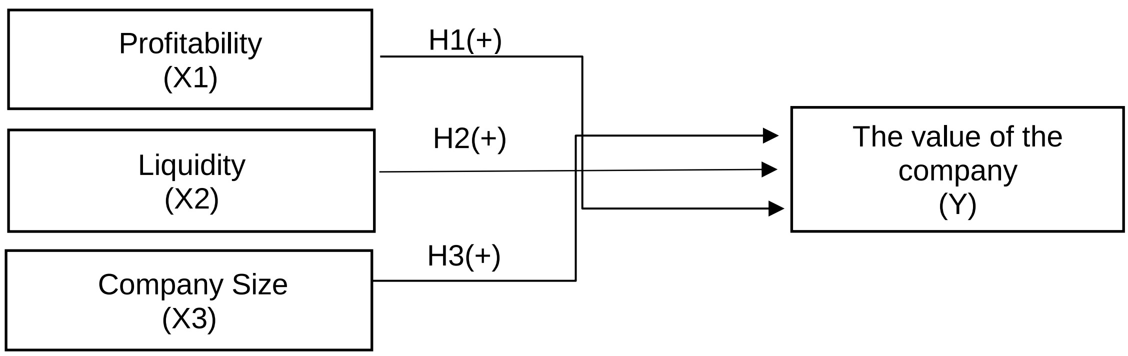

Figure 1. Research Conceptual Framework

RESEARCH METHODS

The selected research methodology uses a quantitative approach, using secondary data sources. The purpose of this study was to determine the effect of profitability, liquidity, and company size on a company's valuation. The research was conducted at banking sub-sector companies listed on the IDX for the 2019-2021 period. The approach in determining the sample is purposive sampling with the following conditions: 1) Banking sub-sector companies listed on the IDX during the 2019-2021 period; 2) Banking sub-sector companies that provide consistent and complete financial reports and annual reports for the 2019-2021 period; 3) Banking sub-sector companies that did not experience or suffer losses during the research period from 2019-2021, obtained 45 observations.

RESULTS AND DISCUSSION

Descriptive statistics

The results of descriptive statistical statistics on the profitability variable are 11 with a maximum value of 2094 with a mean value of 761.44 and a standard deviation of 537.817. This indicates that the average profitability of the companies used as study samples is 761.44. Liquidity has a minimum gain of 84, a maximum value of 15863 through a mean gain of 7949.51 and a standard deviation of 2694.395. This indicates that the average liquidity of the companies used as the sample for this study is 7949.51. Furthermore, the minimum value in the company size variable is 2966, the maximum value is 3511 through the acquisition of a mean of 3268.60 and a standard deviation of 165.411. This indicates that the average size of the companies in the study sample is 3268.60. While the minimum value of the company value variable is 48, the maximum value is 599 through the acquisition of a mean of 164.73 and a standard deviation of 126.071. This indicates that the average value of the companies that are the research sample is 164.73.

Classic assumption test

1) Normality test
   The Kolmogorov-Smirnov (KS) statistical test was used in this work to assess the normality of the data, with a significance threshold set at 0.05 (5%). This indicates that the data can be considered normally distributed if the significance level exceeds 0.05. If the significance threshold is below 0.05, the data is considered not normally distributed. The results of the normality test showed an asymptotic significance value of 0.343 which exceeded the threshold of 0.05. This finding indicates that the data collected for this investigation has a normal distribution, making it suitable for analysis in this study.
2) Autocorrelation Test
   The results of the autocorrelation test using Durbin Watson obtained a value of 1.994. A DW of 1.994 is available in the range of du < DW < 4-du or 1.666 < 1.994 < 2.334. Thus it can be concluded that there is no autocorrelation in the regression model.
3) Test Multicollinearity
   The results of the multicollinearity test prove that each independent variable in this study has a Tolerance > 0.10 and a VIF value < 10. Even this is shown through the acquisition of tolerance and VIF results on the profitability variable (X1) of 0.559 and 1.788, the liquidity variable (X2) of 0.567 and 1.762 company size variable (X3) as much as 0.973 and 1.027. Therefore it can be concluded that there is no multicollinearity problem in this study.
4) Heteroscedasticity Test
   The results of the heteroscedasticity test provide evidence that each independent variable in this study has a Sig value > 0.05. This is also shown by the acquisition of Sig profitability (X1) of 0.127, liquidity (X2) of 0.136 and company size (X3) of 0.717. Therefore it can be concluded that there is no heteroscedasticity in this study.

Multiple Linear Regression Analysis

Referring to the acquisition of multiple linear regression analysis it appears that the regression equation includes:

Y = -0.710+ 0.424X1 + 0.669X2 + 0.236X3

Referring to the equation above so that it can be explained:

α A constant value of -0.710 means that if Profitability (X1), Liquidity (X2) and Company size (X3) are considered zero, then the Company Value will decrease by -0.710 units.

b1 The Profitability regression coefficient value of 0.424 means that if Profitability (X1) increases by one (1) unit, then the company value also increases by 0.424 units, assuming the other independent variables are constant.

b2 The Liquidity regression coefficient value of 0.669 means that if Liquidity (X2) increases by one (1) unit, the company value also increases by 0.669 units, assuming the other independent variables are constant.

b3 The value of the regression coefficient for firm size is 0.236 which means that if the size of the company (X3) increases by one (1) unit, then the value of the company also increases by 0.236 units, assuming the other independent variables are constant.

Determination Coefficient Test(R2)

The results of the determination test show that the Adjusted R Square gain is 0.757 (75.7%). This also provides evidence that 75.7% of the company's value occurs due to profitability, liquidity, and company size while the remaining 24.3% (1 - 0.757) occurs due to other variables outside the variables tested.

Model Feasibility Test (F Test)

The results of the F test provide evidence that the results of the F_{count}value obtained is 46.589 while Ftable is 2.833 therefore Fcount exceeds Ftable assuming Ho is rejected and Ha is accepted. This also provides evidence that there is a simultaneous and substantial influence on profitability, liquidity and company size for company value in the banking sub-sector listed on the IDX for the 2019-2021 period.

Hypothesis Test (t test)

Table 2. Hypothesis Test Results (t test)

Coefficientsa						
	Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**std. Error**	**Betas**		
1	(Constant)	-.710	.317		-2,240	.031
	Profitability	.424	.098	.429	4,315	.000
	Liquidity	.669	.134	.494	5005	.000
	Company size	.236	.111	.161	2,130	039
a. Dependent Variable: Company Value						

Source: Data processed by SPSS, 2023

Referring to the t-test analysis, it appears that the gain from t count is 4.315, while t table is worth 2.020, so t count is in the area of Ho rejection, meaning Ho is rejected and Ha is accepted. This also indicates that there is a positive and substantial influence independently of Profitability for Corporate Value in the Banking Sub-Sector which is listed on the IDX for the 2019-2021 period.

Referring to the t-test analysis, it appears that the gain from the t count yields a result of 5.005, while the t table is 2.020, so the t count available in the area of rejection of Ho means that Ho is rejected and Ha is accepted. This also gives an indication that there is a positive and substantial influence independently of Liquidity for Company Value in the Banking Sub-Sector which is listed on the IDX for the 2019-2021 period.

Referring to the t-test analysis, it appears that the gain from the t count yields a result of 2.130, while the t table is 2.020, so the t count available in the area of rejection of Ho means that Ho is rejected and Ha is accepted. This also indicates that there is a positive and substantial influence independently of Company Size for Company Value in the Banking Sub-Sector which is listed on the IDX for the 2019-2021 period.

Effect of Profitability on Firm Value

Profitability has a positive and substantial influence on the company value of the banking sub-sector which is listed on the IDX, and this is also evidenced by obtaining a regression coefficient of 0.424 through a significance value of 0.000 <0.05 so that information can be obtained that the higher the level of profitability, the company's results also increase.The size of the level of profitability obtained by a corporate entity can have an impact on company value. This is due to increasing or increasing profitability, then followed by an increase in the value of the company so that it will have an impact on the desire of potential investors to provide their capital in the company.

The profitability ratio proxied by Return On Equity (ROE) is useful in measuring the level of management performance of a bank which relates to the management of owned capital so that it can provide profit (profit). This ratio is used to determine the rate of return on invested funds by investors. In line with signal theory, high company profitability indicates good company conditions, thus when investors respond well, this signal will cause the company value to increase.This study is in line with the findingsTui, Nurnajamuddin, Sufri, and Nirwana (2017) also found the findings of Saputri and Giovanni (2021) where profitability (ROE) has a substantial positive impact on firm value.

Effect of Liquidity on Firm Value

Liquidity has a positive and substantial contribution to the value of the banking sub-sector companies listed on the IDX, and even this is evidenced by obtaining a regression coefficient of 0.669 with a significance of 0.000 <0.05. So that information is obtained that if the amount of liquidity increases, the value of the company automatically increases as well. The amount of credit that will be channeled to the community must also be balanced with the bank's capacity in terms of returning the money used. The existence of a balance of these capabilities will keep the LDR well maintained, this will make the public and investors give confidence to the bank where they will speculate that the bank has a position in a healthy condition so that it ends up with an increase in company value.Liquidity shows the company's ability to pay its short-term debt in a timely manner, as well as pay part of its long-term debt that will mature in the relevant period.

The business activities of a bank are influenced by LDR which is an important factor in running its business.*Loan To Deposit Ratio*(LDR) which functions to measure banking liquidity reflects how capable a bank is in repaying withdrawals made for depositors of funds by referring to the credit extended as a source of liquidity that the bank has. The LDR ratio must be maintained at a safe level by banking management, where Bank Indonesia has determined the LDR requirement at a safe level, which ranges from 80-110%. Banks will benefit by optimizing LDR in carrying out their business activities. The percentage of banking liquidity has a significant influence on the size of the profit earned by the bank. If the distribution of credit from bank third party funds (DPK) is high, Thus this can be followed by high bank liquidity and obtaining high interest income as well. The increase in the percentage of LDR indicates that the income in the form of interest received by the bank has also increased. This increase reflects that the bank's profit has also increased due to the increased banking profits derived from large profit growth.Signal theory states that the company's expertise in paying its short-term debt, the higher it indicates a good signal for investors, in line with this, a large company's liquidity indicates that the bank has been able to channel its credit properly so that it is able to get increased profits, thus investors respond with a positive signal. This has an impact on increasing the value of the company. Study studies conducted by Lubis, Sinaga, and Sasongko (2017) and Halimah and Komariah (2017) provide evidence that liquidity (LDR) contributes positively and substantially to firm value.

Effect of Firm Size on Firm Value

Firm size contributes positively and substantially to the value of the banking sub-sector companies listed on the IDX, even this is evidenced by obtaining a regression coefficient of 0.236 through Sig. 0.039 <0.05. So if the total size of the company increases, the value of the company also increases. uCompany size can be a description of the company, whether it is small in size, in terms of total assets and the amount of sales.The size of the company is also taken into consideration by prospective or investors in making decisions to buy or invest their funds in the company. Company size becomes a benchmark by which companies are considered to have good performance, so that company size is believed to have an influence on firm value.There is a prevailing belief that the size of a company may have some influence on its value. This belief stems from the notion that larger companies have a greater capacity to obtain capital investment, both from internal and external sources. An increase in the valuation of a company is denoted by an increase in the company's aggregate assets relative to its total liabilities.

The size of the company proxied through the natural logarithm (Ln) is measured by the total assets owned by the company, where the natural logarithm is useful for minimizing data with excess fluctuations or it can be said that the purpose of using this formula is to simplify the number of assets that reach trillions of rupiah without changing the proportion which exists. The value of total assets will usually be relatively large compared to other forms of financial variables. In general, the size of this company will affect how prospective or investor evaluates in forming an investment decision, so this will affect the value of the company. Signal theory reveals that the bigger a company is, it will automatically be followed by a greater level of trust in external parties. This is because the level of trust of external parties will have an impact on decisions taken by external parties. In line with signal theory, company size shows the size of a company which indicates the development of the company, so that this also has an impact on the positive assessment given to investors for a company.This finding is also in line with the studies of Dewantari, Cipta and Susila (2019) and Yanti and Darmayanti (2019) which provide evidence that company size has a positive and substantial impact on company value.

CONCLUSIONS AND SUGGESTIONS

Conclusion

The conclusions obtained include: 1) Profitability contributes positively to the value of the banking sub-sector companies listed on the IDX, therefore if the percentage of profitability rises automatically the value of the company also automatically increases; 2) Liquidity contributes positively to the value of the banking sub-sector companies listed on the IDX, therefore when liquidity increases, the value of the company also automatically increases;; 3) Company size contributes positively to the value of the banking sub-sector companies listed on the IDX, therefore if the total size of the company increases, the value of the company will automatically increase.

Suggestion

Suggestions that can be conveyed: 1) Issuers are expected to pay attention to the importance of the size of the level of profitability obtained, which automatically increases the value of the company so that it will have an impact on the desire of investors to provide their capital to the company. Furthermore, to pay attention to the amount of credit that will be distributed to the community, it must also be balanced with the bank's capacity in terms of returning the money used. The existence of a balance of these capabilities will keep the LDR well maintained, this will make the public and investors give confidence to the bank, where they will speculate that the bank is in good health so that it will lead to an increase in company value; 2) Investors are anticipated to have the capacity to allocate their investment in companies that show favorable indicators of profitability, liquidity, and company size. This enables them to effectively assist investors in formulating informed investment judgments. This information can be obtained by closely examining a company's financial accounts, as these documents have the potential to convey positive indications (favorable developments) or negative indications (unfavorable developments) to investors. Based on the financial information provided, investors and potential investors can make decisions about their investment in the company; 3) To increase the scope of future studies, it is suggested to include a specific time frame for the research period and introduce other factors that may have correlation with business value. In addition, using a variety of company sectors will contribute to obtaining stronger results.

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