International Journal Of Accounting & Finance in Asia Pasific
IJAFAP

The Effects of Profitabilitas and Activity Ratio Toward Firms Value With Stock Price as Intervening Variables

I Gusti Ngurah Bagus Gunadi[1], I Gede Cahyadi Putra[2], Ida Ayu Nyoman Yuliastuti[3]
Faculty of Economic and Bussiness, Mahasaraswati Denpasar University, Indonesia[1,2,3]
Jl. Duyung No. 43 Denpasar, 80228
Jl. Patih Nambi Gang 1D No. 6 Denpasar, 80116
Jl. Kamboja 11A Denpasar, 80233
Correspondence Email: bgsgunadi@yahoo.com

ABSTRACT

The purpose of this paper is to discuss the effect profitability ratios and activities on firms' value with stock prices as intervening variable. The study was conducted for 10 years on 39 property, real estate and building construction companies listed on the Indonesia Stock Exchange. The results showed profitability and activity had a positive effect on stock prices, but did not affect the value of the company. Stock prices are able to mediate the effect of profitability and activity on firm value. The research implications show that the higher profitability and activity ratios cause stock prices to rise and result in an increase in the value of the company.

Keywords: profitability, activity, stock price, company value

INTRODUCTION

Companies as economic entities generally have short-term and long-term goals. The short-term goal of the company is to obtain maximum profit by using existing resources, while the company's long-term goal is to maximize the value of the company. The higher the value of the company, the more prosperous the owner is. Companies that go public always have a normative goal, which is to maximize the prosperity and economic prosperity of the shareholders. The normative objective is not easy to achieve because almost every day there is a fluctuation in the stock price index that illustrates changes in stock prices on the exchange.

Stock price as an indicator to measure the success of company management, where the market power on the stock market is indicated by the sale and purchase of the company's shares in the capital market. The transaction conditions occur based on investors' observations of the company's achievements in increasing profits. Profitability ratio is a ratio that shows a company's ability to benefit from the use of its capital (Martono and Harjito, 2003: 53). This ratio is usually considered by investors and the company itself. The company considers a high profitability ratio as the company's success in maintaining business continuity.

The value of the company is the investor's perception of the level of success of the company. In this case, the measure of the success of the company's management is seen from the company's ability to prosper its shareholders. High stock prices make the value of the company also high, and increase market confidence not only in the company's current performance but also in the company's future prospects.

According to Noerirawan (2012: 10), the value of a company is a certain condition that has been achieved by a company as an illustration of people's trust in the company after going through a process of activities for one year. Company value can be measured through several indicators, including Price Earning Ratio (PER), Tobin's Q and Price to Book Value (PBV).

Profitability is a ratio to assess a company's ability to generate profits. The higher profitability, the company's performance will be more productive in getting profits through sales. This affects the value of the company, which will make the company's value increase. Research by Gultom et.al (2013), Rajab (2017), Nofrita (2013), Nurhayati (2013) and Indasari (2018) shows that profitability has a positive effect on firm value. Research by Prasetyorini (2013) and Dewi (2013) states that profitability has a positive effect on firm value. Different research results produced by Herawati (2013) which states that profitability has a negative effect on firm value. Whereas Manoppo and Arie (2016) stated that the profitability variable had no effect on firm value. Based on the results of these studies there are still conflicting research results about the effect of profitability on firm value.

Activity ratio is used to see the size of the level of effectiveness of the company in using the assets owned by the company. The higher the ratio of activities obtained by a company, the higher the company's value of the company. Sianipar (2015) in his research showed that the activity ratio had a positive effect on firm value. Research by Alivia and Chabachib (2013), Utami and Prasetiono (2016), Marli (2018) and Misran (2017) also stated that activity ratios had a positive effect on firm value. In contrast to the results of Astutik's research (2017) which shows that activity variables negatively affect firm value. The research produced by Novalia et al. (2014) and Wasila (2018) show that the activity ratio has no effect on firm value.

Changes in profitability ratios and activity ratios in the company so that it can affect the value of the company is inseparable from the market price of the company's shares. Shares are a sign of ownership or ownership of a person or entity in a company or limited liability company. A tangible stock of paper which explains that the owner of the paper is the owner of the company that issued the securities. Share price according to Jogiyanto (2008: 167) is the price that occurs in the stock market at a certain time determined by the demand and supply of the relevant stock in the capital market. There are many factors that affect stock prices, which then can also affect the value of the company, both directly and indirectly through stock prices. Stock prices strengthen the relationship between profitability and firm value. Profitability ratios indicate how much percentage of net profit obtained from each sale. The greater this ratio, the better the company's ability to get high profits is considered. With high profits, it will influence investors to invest in the company. Then this will also affect the stock price increase. If the share price increases, the value of the company will also increase.

In addition to profitability, company activity measured through activity ratios is also one of the factors that influence stock prices. The value of the activity ratio shows the efficiency of a company using all of its assets to generate sales. The higher the level of efficiency of the company in using assets for sales, the higher the profit will be, assuming there are no losses in sales. High profits result in better financial performance, so that more investors are interested in buying shares from the company, so the share price will also rise. With the increasing demand for shares

which has an impact on stock prices, this will also affect the value of the company for the better.
Based on the description above this study was conducted to examine the mediating effect of stock prices on the effect of profitability, and the ratio of activity to firm value. research was conducted on property, real estate and building construction companies listed on the Indonesia Stock Exchange for 10 years, from 2009 to 2018. Property, real estate and building construction companies experienced ups and downs of business, especially when the global financial crisis impacted on stock prices and will certainly affect the value of the company.

Theoretical background and Hypotheses

Signaling Theory

Signal theory shows the information asymmetry between the company and parties with an interest in information. Information is an important element for investors and business people because the information essentially presents information, notes or pictures both for the past, present and future conditions for the survival of a company and how it markets its effects. Complete, accurate and timely information is needed by investors in the capital market as an analytical tool for making investment decisions. According to Jogiyanto (2012: 392), information published as an announcement will give a signal to investors in making investment decisions. If the announcement contains a positive value, it is expected that the market will react positively when the announcement is received by the market.

When information is announced and all market participants have received the information, market participants first analyze the information in the form of bad news (bad news) or good news (good news). Bad news means that information will have a negative impact on stock prices, namely the decline in stock prices. According to Sharpe in Ivana (2011: 16), the announcement of accounting information gives a signal that the company has good prospects in the future (good news) so that investors are interested in trading shares, thus the market will react which is reflected through changes in stock trading volume.

The relationship between signal theory and profitability, which is if profitability increases, this means that the company is able to use its assets productively so that it can generate large profits. This can be used as a signal to investors in predicting how much change in shares owned. The relationship between signal theory and activity ratio is that if the value of the activity ratio gets higher, then this shows that the change has operated at an adequate volume for its investment capacity. So the higher the existing activity in the company means more effective in managing transaction activities in the company. The existence of a high level of effectiveness indicates a high opportunity to grow the company in the future. Surely this can be a signal by investors to invest in companies that have prospects in the future.

Resources Based Theory

Resource based theory (RBT) is a theory that explains the company's performance will be optimal if the company has a competitive advantage so that it can produce value for the company. Competitive advantage is obtained by utilizing and managing its resources well. In the resources of the company, resource based theory believes that the company as a collection of capabilities in managing these resources. Existing resources or assets are in the form of bundles and these resources affect performance with casual ambiguity. Therefore, it is difficult to identify how individual resources can contribute to success without taking into account interdependencies with other assets (Sampurno, 2012: 213).

Resources Based Theory assumes that the company can be seen as a heterogeneous collection of resources. The heterogeneity of the company's resources gives a unique character to each company. Resources based theory focuses on the concept of corporate attributes that are difficult to emulate as a source of corporate performance excellence and corporate competitive advantage (Barney, 2001: 42). Based on RBT, in order to build a competitive advantage, a company must have resources and capabilities that are superior to its competitors. The company's competitive advantage comes from the company's ability to form and use the right combination of available resources.

Hypothesis

Profitability shows the company's ability to generate profits for a certain period. The profitability of a company is measured by the company's success and the ability to use its assets productively, thus the profitability of a company can be known by comparing the profits earned in a period with the total assets or the amount of capital the company (Munawir, 2014: 33). The profitability measurement method used in this study is Return on Assets (ROA). According to Fahmi (2015: 84), return on assets looks at the extent to which investments that have been invested are able to provide returns as expected. The greater the change in return on assets shows the greater ability of management to generate profits. This affects investors in predicting earnings and predicting risks in investment so that it will have an impact on investor confidence in the company. This will also have an impact on the company's stock price in the capital market which will increase so that the return on assets will affect the company's stock price.

The results of research conducted Kusumastuti (2018), Amanah et al. (2014), Lambey (2013) and Novasari (2013) show that profitability ratios have a positive effect on stock prices. This means that the higher the profitability ratio, the more efficient and effective the company or the company's good management performance in managing assets. So this will affect investor interest in investing in companies that will have an impact on the company's stock price.

According to Hanafi (2012: 81), profitability is a ratio that measures a company's ability to generate profitability at a certain level of sales, assets and share capital. The higher this ratio, the better the productivity of assets in obtaining net profits. This will further increase the attractiveness of the company to investors. Increasing the attractiveness of the company makes the company more attractive to investors, because the rate of return or dividends will be even greater. This indicates that return on assets has a positive effect on firm value. Results of research conducted by Gultom et al. (2013), Rajab (2017), Nurhayati (2013) and Nofrita (2013) concluded that profitability has a positive effect on firm value. Based on the description above, the hypotheses developed in this study are.
H1: Profitability ratios have a positive effect on stock prices
H2: Profitability ratios have a positive effect on firm value

The activity ratio measures the extent to which the company's management is effective in managing its assets. This means that in this case is measuring the ability of company management in managing the inventory of raw materials, processed goods, and finished goods as well as management policies in managing other assets and marketing policies (Martono and Agus, 2010: 56).

The activity ratio in this study was proxied using Total Assets Turnover (TATO). According to Sutrisno (2012: 221), total assets turnover is a measure of the effectiveness of the use of assets in generating sales. The greater the asset turnover, the more effectively the company manages its assets. This ratio is often used because it covers the whole. Regardless of the type of business, total asset turnover illustrates how much support all assets have to obtain sales.

The greater value of total asset turnover shows the value of sales is also greater and the expectation of getting profits is also greater. Thus increasing the value of total asset turnover, the company's profits will increase. Increased corporate profits, attracting investors to invest their capital in the company so that it will affect the company's stock price increase. The research results of Putra et al. (2013), Sari (2014), Adipalguna and Suarjaya (2016) and Lumbantobing (2016) stated that the activity ratio had a positive effect on stock prices.

The higher the total assets turnover shows the more effective the company is in using assets with the aim of obtaining profits from the company's sales. Sales is income from products or services sold, so the size of a company's profits earned over a period of time depends on the size of this sale, in other words it is assumed that a company with high sales is a company with good prospects because it will get high profits. also. The higher the efficient use of assets and the faster the refund in cash. The greater the value of sales, the more efficient the use of company assets, the greater the expectations for profit, so the value of the company is higher. The results of Sianipar's (2015), Utami and Prasetiono (2016), Misran (2017) and Marli (2018) research shows that the activity ratio variable has a positive effect on firm value. Based on the description above, the hypotheses developed in this study are.

H3: Activity ratio has a positive effect on stock prices
H4: Activity ratio has a positive effect on firm value

A company's stock price reflects the value of the company in the eyes of the public, if the stock price of a company is high, then the value of the company in the eyes of the public is also good and vice versa. Therefore stock prices are very important for the company (Nirawati, 2003: 105). The stock price is a very important factor and must be considered by investors in investing because the stock price shows the achievements of the issuer, the movement of stock prices in line with the issuer's performance. If the issuer has better performance, the profits that can be generated from operating the business will be even greater. In such conditions, the share price of the issuer concerned tends to rise.

The stock price also shows the value of a company. Stock value is the right index for company effectiveness. So it is often said to maximize the value of the company also means maximizing shareholder wealth. The higher the stock price, the higher the value of the company and vice versa. Therefore, every company that issues shares is very concerned about its stock price. Prices that are too low often mean that the company's performance is not good. However, if the share price is too high, it reduces the ability of investors to buy, causing share prices to be difficult to increase again. This change in financial position will affect the company's stock price. Based on the description above, the hypotheses developed in this study are.

H5: Stock prices have a positive effect on company value

Profitability ratio is the ability of a company to make a profit in relation to sales, total assets and own capital. There are many measurement ratios in profitability ratios, but this study uses measurements using the Return On Asset (ROA) ratio. ROA is able to measure the company's ability to generate profits in the past and then projected in the future. The assets or assets referred to are the entire assets of the company, obtained from own capital or from foreign capital that the company has converted into company assets that are used for the survival of the company. With high profits, it will influence investors to invest in the company. Then this will also affect the stock price. High stock prices will increase the value of the company.

Signaling Theory says that the high TATO value indicates the effectiveness of a company getting better, this is captured by investors as a good signal, so as to attract investors to invest in the company which will ultimately increase stock prices. Stock prices strengthen the relationship between the ratio of activity to company value. The higher the company's stock price, the higher the company's value. Based on the description above, the hypotheses developed in this study are.

H6: Profitability ratios affect company value with stock prices as an intervening variable.

H7: Activity ratio influences company value with stock price as an intervening variable.

RESEARCH METHOD

The population of this research is as many as 64 property, real estate and construction companies going public listed on the Indonesia Stock Exchange during the observation period, from 2009 to 2018. The sampling technique in this study uses the purposive sampling method, which is the sampling technique with certain criteria based on research objectives. In accordance with the criteria that have been set up, a total sample of 39 companies is obtained with observations over 10 years.

Measurement of research variables as shown in Table 1.

Table 1: Variable measurement

No	Variable	Measurement
1	Firms Value	PBV: $\frac{Market\ Price\ per\ Share}{Book\ Value\ per\ Share}$
2	Profitability	ROA : $\frac{Net\ Income}{Total\ Assets}\ x\ 100\%$
3	Activity	TATO: $\frac{Penjualan}{Total\ Aktiva}$
4	Stock price	Closing price

This study uses the Partial Least Square (PLS) method for data analysis using SmartPLS software. Partial Least Square is an analysis of variance-based structural equations that can simultaneously conduct measurement model testing as well as structural model testing. The measurement model is used to test the validity and reliability, while the structural model is used to test causality (hypothesis testing with predictive models).

RESULTS AND DISCUSSION

Based on the test results using the PLS method the results obtained are as in Table 2.

Table 2
Path Coefficients (Mean, STDEV, T-Values)

Variable	Original Sample	Sample Mean	Standard Deviation	Standard Error	T-Stat	Significance
Profitability -> Stock price	0.349	0.376	0.083	0.083	4.200	Significance
Activity -> Stock price	0.024	0.028	0.052	0.052	2.462	Significance
Profitability -> Firms value	0.083	0.136	0.101	0.101	0,820	Not Significance
Aktivitas -> Firms value	0.021	0.102	0.104	0.104	0.202	Not Significance
Stock price -> Firms value	0.197	0.355	0.149	0.149	4.316	Significance

Source: data processed

Based on the results of the path coefficient test that produces a coefficient of 0.349 and t-statistics of 4.200 for the variable profitability of stock prices and this value is greater than 1.96. This shows that profitability has a positive effect on stock prices. The company's high ability to generate profits can raise the price of shares in the market so that stock prices are higher.

The test results show that testing the ratio of profitability to firm value produces a coefficient of 0.083 and t-statistics of 0.820 which is smaller than 1.96 so it can be concluded that the profitability ratio has no effect on firm value.

The test results for the mediation of stock prices on the effect of profitability with firm value produce the coefficient of profitability variables to the value of the company of 0.083 and t-statistics of 0.820 <1.96. This means that profitability ratios have no effect on firm value. While t-statistic profitability to stock prices is 4,200> 1.96, which means profitability has a positive effect on stock prices and the relationship of stock prices to firm value results in t-statistics of 4,316> 1.96. It can be concluded that the stock price is a mediating pull between the effect of profitability and firm value.

Activity ratio has a positive effect on stock prices. The results showed that testing the ratio of activity to stock prices produced a coefficient of 0.024 and a t-statistic of 2.462. This means that the activity ratio has a positive effect on stock prices.

Activity ratio directly has no effect on firm value. The test results show that testing the ratio of activity to firm value produces a coefficient of 0.021 and t-statistics of 0.153 <1.96, this means that the ratio of activity has no effect on firm value. As for the stock price which is an intervening variable between the ratio of activity to the value of the company produces significant positive results. This means the share price is a pull mediation variable.

Profitability and activity ratios directly do not affect the value of the company. Investors tend to see the value of a company that is reflected in the price of shares in the market and do not consider or examine directly in the financial statements of investors. High stock prices are influenced by the company's ability to generate profits by utilizing its resources - resources that are able to attract investors to invest their shares so that stock prices rise and are accompanied by rising share prices.

CONCLUSIONS

The research aims to examine the effect of profitability and activity ratios on firm value with stock prices as an intervening variable in property, real estate and building construction companies. The results showed that the ratio of profitability and activity did not directly influence the value of the company but had a positive effect through stock prices. The high share price achieved by the company can increase the value of the company. The research implication is that the company's ability to manage all its resources effectively and efficiently must be maintained in order to create business profits. The greater the company's ability to generate profits causes the stock price to rise so that it can increase the value of the company.

REFERENCES

Alivia, NR and Chabachib. (2013). Analysis of Factors Affecting Company Value with Profitability as Intervening Variables (Study of Manufacturing Companies Listed on the Stock Exchange in 2008 - 2011). *Diponegoro Journal of Management* Vol. 2, No. 2. Pp.1-12

Astutik, Dwi. (2017). Effect of Activity Financial Ratios on Firm Value (Study in Manufacturing Industry). *Jurnal STIE Semarang*. Vol 9 No. 1.

Danuarta, Adad. (2014). Profitability According to Experts. Quoted 30 May 2019 from blogspot: http://adaddanuarta.blogspot.com/2014/11/profitability-according-para-ahli.html

Gultom, Robinhot. et al. (2013). Analysis of Factors Affecting Company Value in Pharmaceutical Companies on the IDX. *Journal of Microeconomic Entrepreneur*. Vol. 3. No. 01.

Indasari, AP and Yadnyana IK. (2018). Effect of Profitability, Growth Opportunity, Liquidity and Capital Structure on Company Value. *E-Journal of Udayana University Accounting* Vol.22. no.1 pp.714-746

Kusumadilaga, Jungle. (2010). The Effect of Corporate Social Responsibility on Firm Value with Profitability as a Variable Moderating Empirical Study in

Manufacturing Companies Listed on the IDX. *Thesis.* Diponegoro University Faculty of Economics, Semarang

Lumapow, L. S. (2019). The Effect of Investment and Non-Monotonic of Managerial Ownership on Corporate Value. *International Journal of Applied Business and International Management*, *4*(1), 71-82.

Manoppo, Heven and Arie FV. (2016). Effect of Capital Structure, Company Size and Profitability on the Value of Automotive Companies Registered on the Indonesia Stock Exchange in the 2011-2014 period. *EMBA Journal*. Vol.4 No.2. pp.485-497

Marli. (2018). Analysis of the Effect of Activity Ratio, Financial Leverage on Firm Value with Profitability as Intervening Variables in Plantation Companies Listed on the Indonesia Stock Exchange in the period 2015-2017. *Journal of Malangkucecwara STIE Malang*

Moniaga, Fernandes. (2013). Capital Structure, Profitability and Cost Structure of the Corporate Value of the Ceramic, Porcelen and Glass Industry Period 2007-2011. *EMBA Journal*.Vol.1 No.4 pp. 433-442

Niar, H. (2019). The Impact of Decision Investment, Capital Structure and Growth on Profitability and Company Value in Manufacturing Sector of Firms in Indonesia. *International Journal of Accounting & Finance in Asia Pasific (IJAFAP)*, *2*(1).

Noerirawan, Moch. Ronni and Abdul Muid, (2012). The Effect of Internal and External Factors of the Company on Company Value. *Journal of Accounting* Vol.1 No. 2. pp. 4

Nofrita, Ria. (2013). The Effect of Profitability on Company Value with Dividend Policy as an Intervening Variable. *Thesis*. Faculty of Economics, Padang State University

Nurhayati, Mafizatun. (2013). Profitability, Liquidity and Company Size Influence on Dividend Policy and Non-Service Sector Company Value. *Journal of Finance and Business*.Vol. 5. No. 2.

Putra, I. G. C., Saitri, P. W., & Gunadi, I. G. B. N. (2019). Accounting Fraud Tendency on Village Credit Institution. *International Journal of Accounting & Finance in Asia Pasific (IJAFAP)*, *2*(2).

Rukyatiningsih, Wasila. (2018). Effect of Activity Ratios and Profitability Ratios on Firm Value in the Consumer Goods Sector Company. *Thesis*. Jember University Journal

Sianipar, Ruth Tridianty. (2015). The Effect of Liquidity, Solvency, Activities and Profitability on Company Value at PT Astra Internasional, Tbk, which is Listed on the Indonesia Stock Exchange. *Journal of Management and Finance*. STIE Sultan Agung Vol 3, No 2.

Subhan, Azis Muhamad. (2016). The Influence of Net Profit Margin, Return On Equity and Earning Per Share on the Stock Prices of Consumption Goods Industry Companies Listed on the Indonesia Stock Exchange Period 2008-2011. *Journal of Profita* Edition 3 Yogyakarta State University.

Sugiyono. (2017). Quantitative, Qualitative, and R&D Research Methods. Bandung: Alfabeta

Sujoko and Ugy Soebiantoro. (2007). Effect of Share Ownership, Leverage, Internal Factors and External Factors on Company Value. *Journal of Management and Entrepreneurship.* Vol.9. No 1. Pp. 41-48.

Sunarsih, N. M., Dewi, N. P. S., & Kireina, M. N. N. A. (2019). Analysis Of Factors Effecting The Firm Value Factors That Effect The Firm Value. *International Journal of Applied Business and International Management*, *4*(3), 94-103.

Wibowo, C. C. A., Sukoco, A., Wulandari, A., & Bhukuth, A. (2018). Stock Price and Performance of Indonesian Banking, Case Study for The Period of 2013-2016. *International Journal of Accounting & Finance in Asia Pasific (IJAFAP)*, *1*(1).