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LIQUIDITY AND PROFITABILITY ON FIRM VALUE IN LQ45 COMPANIES

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Abstract
This study aims to analyze the effect of liquidity and profitability on firm value in LQ45 companies listed on the Indonesia Stock Exchange during the 2021–2024 period. Liquidity is measured using the Current Ratio (CR), profitability is measured by Return on Assets (ROA), while firm value is proxied by Price to Book Value (PBV). The study applies a quantitative research approach using panel data analysis to evaluate the relationship between the independent and dependent variables. The sample consists of 27 companies included in the LQ45 index, with a total of 108 observations selected through purposive sampling techniques based on predetermined criteria. The findings reveal that liquidity has a positive and significant effect on firm value, indicating that companies with stronger liquidity positions tend to have higher market valuations. Meanwhile, profitability shows a positive but insignificant effect on firm value, suggesting that increases in profitability do not necessarily lead to significant changes in market perception or company valuation during the observed period.
Keywords : liquidity, Profitability, firm value, LQ45

INTRODUCTION

Company value has a strong relationship with the dynamics occurring in the capital market. This value reflects how the market assesses the company's overall prospects and performance. Company value is one of the important aspects that becomes a primary consideration for investors in evaluating their investments. Company value serves as an indicator of how the market comprehensively values a company and as a reflection of the company's market price (Ambarwati & Vitaningrum, 2021) . Views on company value may vary depending on the perspective and objectives used. In the context of finance, company value is often associated with the company's market value or market capitalization, which reflects the company's share price traded in the market (Sari & Septiano, 2023).

Company value is a key indicator of of how the market comprehensively assesses a company and serves as a reflection of the company's market price (Iman et al., 2021). The concept of firm value is not only reflected in the size of assets or profits earned, but also in market perceptions of growth prospects, performance stability, and the company's ability to manage risks. Therefore, firm value is often associated with stock prices, capital structure, quality of corporate governance, and the effectiveness of managerial strategies. Therefore, investor confidence will increase, which in turn can drive up the company's stock price. This increase in stock price reflects an increase in the firm's value (Fadillah et al., 2021).

Liquidity is a ratio that measures a company's short-term ability by comparing its current assets to its current liabilities (liabilities in this case refer to the company's obligations) (Septiano et al., 2022). In other words, the liquidity ratio is a ratio that can be used to measure a company's ability to pay its short-term obligations when they become due. If a company is able to settle its short-term liabilities on time, then the company is considered liquid, and vice versa (Iman et al., 2021). To meet

its short-term obligations, a company must have sufficient cash availability or other current assets that can be quickly converted into cash.

Profitability is a ratio that measures a company's ability to generate profits by comparing the company's total assets in order to evaluate its financial performance. High profitability reflects a company's ability to generate substantial profits for shareholders. Companies that earn large profits are also associated with the ability to pay dividends, which in turn increases firm value. An increase in a company's attractiveness makes it more appealing to investors because the potential level of return becomes higher. Improved company performance will also contribute to an increase in firm value (Widajantie, 2021).

The firm value of LQ45 companies experienced a decline from 2021 to 2024. In 2021, the firm value was 3.29, then increased to 5.15. However, in 2023 it declined again to 2.88 and further decreased to 2.10 in 2024. Due to the decline in firm value among LQ45 companies during the 2021–2024 period, the researcher became interested in conducting a study based on the phenomenon described above.

The period from 2021 to 2024 has become a crucial time to examine firm value, as the prolonged impact of the COVID-19 pandemic continues to affect global economic stability. Many studies confirm that COVID-19 has caused stock market movements to decline sharply (Nardo & Sari, 2021). Economic uncertainty caused by rising inflation, supply chain disruptions, and the implementation of high interest rate policies by central banks in various countries has put pressure on company performance and business sustainability. Based on the phenomena and data found, as well as supported by previous research findings, the researcher is interested in conducting a study entitled "Liquidity and Profitability on Firm Value in LQ45 Companies."

LITERATURE REVIEW

Liquidity

Liquidity refers to a company's ability to meet its short-term obligations using current assets. A high level of liquidity indicates that the company has strong financial stability and sufficient resources to support operational activities. Liquidity is commonly measured using the Current Ratio (CR). According to Ambarwati and Vitaningrum (2021), liquidity positively influences firm value because investors perceive liquid companies as less risky and financially secure. Fadillah, Tiara, and Elviani (2021) also explain that good liquidity management reflects efficient use of current assets, which strengthens investor confidence. Therefore, liquidity is considered an important financial indicator affecting market perception and firm value.

Profitability

Profitability refers to a company's ability to generate profit from its assets and business operations. Profitability is generally measured using Return on Assets (ROA), which indicates how efficiently management utilizes company assets to produce earnings. Higher profitability reflects better operational performance and greater potential returns for investors. Lestari and Sapari (2021) state that profitability demonstrates management effectiveness in generating income and maintaining business growth. Putra and Gantino (2021) explain that profitable companies tend to attract investors because strong earnings signal positive future prospects. Thus, profitability is considered an important determinant of financial performance and corporate sustainability in competitive markets.

Firm Value

Firm value represents investor perception of a company's overall performance and future prospects, which is commonly reflected in stock market prices. Firm value is often measured using Price to Book Value (PBV), comparing market price with book value. A higher firm value indicates greater investor confidence in the company's growth and financial condition. Iman, Sari, and Pujiati (2021) explain that financial factors such as liquidity and profitability influence firm value because they affect market perception and investment decisions. Saputri and Giovanni (2021) also state that companies with strong financial performance are more capable of increasing shareholder wealth and attracting investors.

METHOD

This study used a quantitative research approach to examine the effect of liquidity and profitability on firm value in LQ45 companies listed on the Indonesia Stock Exchange during the 2021–2024 period. Quantitative research was chosen because it allows the researcher to analyze the relationship between variables using statistical methods and numerical data. The population of this study consisted of 45 companies included in the LQ45 index in 2024. The LQ45 index represents companies with high liquidity and strong market capitalization in the Indonesian capital market.

The sampling technique applied in this research was purposive sampling. This method was used to select companies that met predetermined criteria relevant to the objectives of the study, such as companies consistently listed in the LQ45 index and providing complete financial statements during the observation period. Based on these criteria, 27 companies were selected as the final sample. Since the study covered four years of observation, from 2021 to 2024, the total number of observational data reached 108 data points.

The study relied on secondary data obtained from annual reports, audited financial statements, and official publications accessed through the Indonesia Stock Exchange and company websites. The variables examined included liquidity, profitability, and firm value. Liquidity was measured using the Current Ratio (CR), profitability was measured using Return on Assets (ROA), and firm value was

measured using Price to Book Value (PBV). All variables used a ratio scale. Data analysis was conducted using panel data regression analysis with the assistance of eViews 13 software.

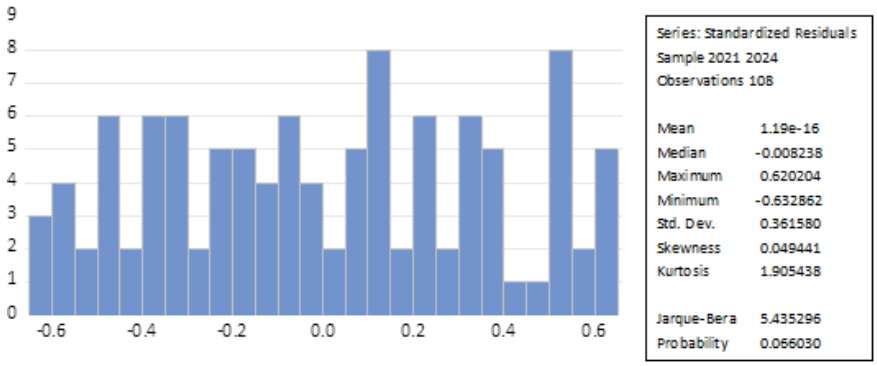
RESULTS AND DISCUSSION

Classical assumption test

Normality test

The normality test is used to test whether the residual values of the regression analysis have a normal distribution or not. Using the Jarque-Bera test, this study compares the JB (Jarque-Bera) probability values with a threshold of 0.05. If the probability of JB.sig > 0.05 means that the data distribution is normally distributed. Meanwhile, if the probability of JB.sig < 0.05 means that the distribution is not normally distributed.

Table 1. Results of the normality



Source: Secondary data processed with eviews 13

Based on the results of the normality test in the figure, it can be seen that the JB (Jarque Bera) probability value is 0.066030 > 0.05. So it can be interpreted that the normality test in this study is normally distributed.

Multicollinearity Test

The multicollinearity test is used to test the regression model to show the correlation between independent variables or more in a multiple linear regression model. Testing multicorrelation can be seen by looking at the VIF 15 Model (Variance Inflation Factor) value. If the Tolerance number is > 0.10 and VIF < 10, then it can be stated that the data does not show symptoms of multicorrelation.

Table 2. Multicorrelation Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.012022	1.920254	NA
LOGX1	0.007899	1.139102	1.101975
X2	0.000109	2.102353	1.101975

Source: Secondary data processed with eviews 13

Based on table 2 above, the results of the multicollinearity test in the table above show that the Centered Variance Inflation Factor (VIF) value for variables LOGX1 (Liquidity) and X2

(Profitability) has a value of 1.101975 < 10, so it can be concluded that the relationship between Liquidity and Profitability is free from symptoms of multicollinearity.

Heteroscedasticity Test

Heteroscedasticity test to test whether in the regression model there is an inequality of variance from the residual of 1 study to another study. The presence or absence of heteroscedasticity is determined by the f-statistic (f-count) probability value. If the f-count probability value is > 0.05, it can be concluded that there is no heteroscedasticity or that the data is homoscedastic. Conversely, if the f-count probability value is < 0.05, heteroscedasticity has occurred.

Table 3. Results of Heteroscedasticity Test

F-statistic	3.644290	Prob. F(1,105)	0.0590
Obs*R-squared	3.589135	Prob. Chi-Square(1)	0.0582

Source: Secondary data processed with eviews 13

Based on table 3 above, it shows that the probability value is higher than the alpha level, this can be seen from the p value indicated by the Chi square Prob. value on Obs*R-Squared which is 0.0582 > 0.05, so it can be concluded that there is no heteroscedasticity.

Panel Data Regression Analysis

Panel data regression is a research technique that combines cross-sectional data with time series data. Based on the two previous tests, the researchers concluded that the Hausman test was used with the selection of the fixed effects model (FEM). This was because the Hausman test yielded results with a significance value below 5%. Therefore, the researchers chose FEM as the appropriate model

Table 4. Results of Fixed Effect Model Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.210889	0.117368	1.796809	0.0762
LOGX1	0.525514	0.204601	2.568479	0.0121
X2	0.021962	0.013975	1.571577	0.1200

Source: Secondary data processed with eviews 13

Based on table 4, the results of the fixed effect model (FEM) test, the following equation was obtained:

LOGY = 0.210888760902 + 0.525514040632*LOGX1 + 0.0219622927255*X2 + [CX=F]

From this equation, the following conclusions can be drawn:

1. The regression constant is positive at 0.210889, indicating that when liquidity and profitability are constant, firm value is 0.210889. However, the probability value of 0.0762 > 0.05 shows that the constant is not significant at the 5% level.
2. The liquidity variable has a positive coefficient of 0.525514, meaning that a 1% increase in liquidity increases firm value by 0.525514. With a probability value of 0.0121 < 0.05, liquidity has a positive and significant effect on firm value.

3. The profitability variable has a positive coefficient of 0.021962, indicating that a 1% increase in profitability increases firm value by 0.021962. However, the probability value of 0.1200 > 0.05 shows that profitability has a positive but insignificant effect on firm value.

Hypothesis Test

t-Test

Table 5 t-Test Results

Variabel	Koefisien	t-statistik	t-tabel	Prob	Alpha	Kesimpulan
Liquidity	0,525514	2,568479	1,98282	0,0121	0,05	H_1 Diterima
Profitability	0,021962	1,571577	1,98282	0,1200	0,05	H_2 Ditolak

Source: Secondary data processed with eviews 13

Based on table 5 above, the results are as follows:

1. The test results show that the Liquidity variable has a t-statistic value of 2.568479, which is smaller than the t-table of 1.98282, with a probability value of 0.0121 < 0.05. This means that H0 is accepted and H1 is rejected, indicating that the Liquidity variable has a positive and insignificant effect on Firm Value in LQ45 companies in 2021-2024.
2. The test results show that Profitability has a t-statistic value of 1.571577 which is greater than the t-table of 1.98282, with a probability value of 0.1200 > 0.05. This means that H0 is rejected and H2 is accepted, which indicates that the Profitability variable has a negative and significant effect on Firm Value in LQ45 Companies in 2021-2024.

Determination Test

The coefficient of determination is used to determine the percentage of liquidity and profitability on company value. The coefficient of determination is measured using the Adjusted R-Square value.

Table 6 Determination Test Results

Information	**Coefficient**
R-Square	0,848419
Adjust R-Square	0,794694

Source: Secondary data processed with eviews 13

Based on table 6 above, the Adjusted R-Squared value obtained was 0.848419, this means that the liquidity and profitability variables have a contribution of 84.84% in explaining the company's value, while the remaining 79.46% (100% -79.46%) is explained by other variables that are not included in the model or explained by other indicators outside this study.

Discussion

This study aims to determine the effect of liquidity and profitability on firm value in LQ45 companies between 2021 and 2024. This research has been conducted and tested. The data obtained shows a sample size of 27 with 108 observations.

The Effect of Liquidity on Firm Value

The results of the partial regression test show that liquidity has a positive effect on firm value. A company's liquidity can affect its financial performance, including its ability to meet short-term obligations. These short-term liabilities include accounts payable, dividends payable, taxes payable, and others (Lestari & Sapari, 2021). These results indicate that as liquidity increases, firm value will also increase. A high level of liquidity indicates that the company has sufficient current assets to meet its short-term liabilities, maintain operational continuity, and reduce the potential for financial distress. This condition provides a positive signal to the market, as the company is considered to have effective cash management and a relatively lower level of risk. Investor confidence in companies with strong liquidity tends to increase, leading to higher interest in the company's shares and ultimately increasing the firm value.

In addition, adequate liquidity provides companies with greater flexibility to adapt to economic uncertainty, maintain business sustainability, and seize investment opportunities without relying too heavily on risky external financing sources. Nevertheless, firm value is not solely determined by liquidity factors, but is also influenced by various other aspects such as macroeconomic conditions, government regulations, capital structure, and market perception. Therefore, companies need to manage liquidity in a balanced manner—not too low, but also not excessive—in order to remain efficient while increasing investor confidence. These results are consistent with the findings of research conducted by (Saputri & Giovanni, 2021) which also concluded that there is a positive relationship between liquidity and firm value.

The Influence of Profitability on Firm Value

Profitability is the ability of a company to generate profit (Nardo & Sari, 2021). It was concluded that profitability does not have a significant effect on firm value. This indicates that the company's ability to generate profits, whether high or low, has not been able to significantly increase firm value in this research sample. Several companies with high ROA levels actually had relatively low PBV values, while there were companies with moderate ROA but very high PBV values. This inconsistency indicates that the market does not solely consider profit performance as the basis for valuation, but also pays attention to other factors such as growth prospects, business stability, company reputation, and the level of risk faced by the company.

Overall, although profitability is theoretically an important indicator of financial performance, in this study the variable was not able to significantly explain firm value. These results are consistent

with the findings of research conducted by (Putra & Gantino, 2021), which explained that profitability does not have a significant effect on firm value.

CONCLUSION

Based on the results of the study, it can be concluded that liquidity and profitability provide different influences on firm value in LQ45 companies listed on the Indonesia Stock Exchange during the 2021–2024 period. The analysis conducted using eViews 13 demonstrates that liquidity, as measured by the Current Ratio (CR), has a positive and significant effect on firm value. This finding indicates that companies with higher levels of liquidity are considered more capable of fulfilling their short-term obligations and maintaining financial stability. As a result, investors tend to respond positively to companies with strong liquidity positions, which ultimately increases firm value in the capital market.

On the other hand, profitability, measured by Return on Assets (ROA), does not have a significant effect on firm value. This result suggests that the company's ability to generate profits has not been sufficient to significantly influence investor perceptions or market valuation during the observation period. One possible explanation is that investors may pay greater attention to other factors, such as market conditions, company growth prospects, business risks, or macroeconomic uncertainty, rather than focusing solely on profitability indicators. In addition, fluctuations in economic conditions during 2021–2024 may have affected investor confidence and reduced the impact of profitability on firm value. Overall, this study highlights the importance of maintaining liquidity management as a strategy to enhance firm value, while profitability alone cannot guarantee an increase in market valuation.

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