



The Effect of Capital Structure and Profitability on Company Value in Pharmaceutical Sub-Sector Manufacturing Companies Listed in the Indonesia Stock Exchange

Hayah Masrurah Nurfan¹, Abdul Rahman Mus¹, Junaidin Zakaria¹

¹Indonesian Muslim University Makassar

*Corresponding Author: Hayah Masrurah Nurfan

Email: hayahmn15@gmail.com



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Abstract

The Impact of Capital Structure and Profitability on Company Value in Pharmaceutical Sub-Sector Manufacturing Companies Listed on the Indonesian Stock Exchange. (Supervised by H. Abdul Rahman Mus and Junaidin Zakaria). This study aimed to rigorously examine the effect of capital structure and profitability on company value in pharmaceutical sub-sector manufacturing companies listed on the Indonesia Stock Exchange. This study employed a quantitative approach using secondary data. This study was conducted on representatives of the Indonesian Stock Exchange in the Indonesian Stock Exchange Gallery located at the Faculty of Economics and Business, Universitas Muslim Indonesia, JL Urip Sumoharjo KM. 5 Makassar, South Sulawesi. The study was carried out from November to December 2023, for around two months. The population in this study were pharmaceutical sub-sector companies listed on the Indonesian Stock Exchange in 2019-2022, for a total of 11 companies. Applying a purposive sampling technique, a number of predetermined criteria resulted in eight pharmaceutical sub-sector companies as samples. The data were analyzed using the Statistical Program for Social Science (SPSS) with multiple linear analysis techniques and classical assumption tests. The results of this study reported that: (1) capital structure demonstrated a positive and significant effect on company value; (2) profitability illustrated a positive and insignificant effect on company value.

Introduction

In the current era of economic globalization, companies have become major actors in economic activities without being limited by national borders, implementing careful planning strategies to face fierce competition in the global market. This phenomenon is especially evident in the context of business in Indonesia, which is experiencing rapid growth with the emergence of various companies in various sectors such as services, manufacturing, and trade. Increasingly fierce competition encourages companies to continue to innovate and implement strategies that can increase company value and avoid bankruptcy risk (Morandi Stagni et al., 2021; Agustia et al., 2020).

Increasing the value of the company, especially for companies that have gone public and offered their shares to the public, is the main focus. The value of a company measured through its share price, which reflects good performance and future prospects, becomes an important factor for investor confidence (Sukesti et al., 2021; Jihadi et al., 2021). Factors that affect company value, such as capital structure and profitability, are highlighted in this study (Ngoc et al., 2021; Putri & Rahyuda, 2020).

The company's capital structure, as a comparison between foreign capital and own capital, as well as profitability, as the company's ability to generate profits, have a significant role in shaping company value (Awan et al., 2021; Alkestarihi et al., 2024). Previous research by Pangestuti et al. (2022) emphasized that increasing company value requires efforts to increase the company's net profit.

Sari & Sedana (2020) stated that a capital structure that can maximize company value is the best capital structure. Capital structure measurement using the Debt-to-Equity Ratio is a relevant indicator in understanding the extent to which the company depends on external sources of funds. Meanwhile, profitability, measured through Return on Equity Ratio (ROE), describes a company's ability to generate profits using its own capital (Supriyadi & Terbuka, 2021; Handayani & Winarningsih, 2020).

Company value, which is often linked to stock price, has a broad impact on shareholders, employees, product quality, and the company's future prospects (Baruah & Panda, 2020; Zimon et al., 2022). This study tries to analyze the effect of capital structure and profitability on company value, focusing on pharmaceutical sub-sector manufacturing companies listed on the Indonesia Stock Exchange (Murti et al., 2023).

In this context, this study aims to answer several research questions, namely whether capital structure affects company value, whether profitability affects company value, and whether capital structure and profitability together affect company value in pharmaceutical sub-sector manufacturing companies listed on the Indonesia Stock Exchange.

Methods

The research method used in this study is a quantitative method with a statistical analysis approach. A quantitative approach is a method that uses statistically calculated data to examine the object of research. The data obtained in this study is expressed in the form of numbers, which involve independent variables such as Capital Structure (X1) and Profitability (X2), as well as the dependent variable namely Company Value (Y).

The location of the research was carried out at the Investment Gallery of the Indonesia Stock Exchange, Faculty of Economics and Business, Indonesian Muslim University, with data that can also be obtained from the official website of the IDX (Indonesia Capital Market Directory - ICMD). The subject of the study involved the Financial Statements of Pharmaceutical Sub-Sector Manufacturing Companies for 2019-2022. The research period lasts for approximately 3 months, starting from September 2023 to November 2023.

The type of data used in this study is quantitative data that can be measured using numbers and numbers. The source of research data is secondary, taken from the company's audited and published annual reports, as well as data from the Indonesia Stock Exchange (www.idx.co.id).

The study population consists of 11 pharmaceutical sub-sector manufacturing companies listed on the Indonesia Stock Exchange in the 2019-2022 period. Samples are selected using the purposive sampling method, with certain company criteria that meet certain requirements. The selection process resulted in 8 companies as research samples, with a total of 32 observations. The data collection technique used is a documentation method, by collecting data using documents in the form of financial statements that have been collected and published. Data analysis is carried out through descriptive statistical analysis, classical assumption tests (data normality, multicollinearity, heteroscedasticity), and hypothesis testing (F test, determination coefficient test, t test).

The variables used in this study are operationalized as follows: Capital Structure (X1) is measured by Debt-to-Equity Ratio (DER), Profitability (X2) is measured by Return On Equity (ROE), and Company Value (Y) is measured by Price to Book Value (PBV). Using multiple regression method, this study aims to examine the effect of Capital Structure and Profitability on Company Value. Data analysis was performed by taking into account regression coefficients and statistical tests to test the significance of these variables.

Result and Discussion

The Indonesia Stock Exchange (IDX) is a stock exchange in Indonesia that facilitates trading in stocks, fixed income, derivative instruments, mutual funds, stocks to Sharia-based bonds. IDX also provides real-time trade data in data-feed format for data vendors or companies. More complete information about the development of the stock exchange is disseminated by IDX through print and electronic media. One indicator that affects stock price movements is the stock price index. Currently, IDX has 6 types of indices and 10 types of sectoral indices as indicators. The history of the capital market in Indonesia began since the Dutch colonial era in December 1912 in Batavia.

The capital market developed with various challenges, such as World War I, World War II, the transfer of power from the colonial government to the government of the Republic of Indonesia, and other conditions. The capital market was reactivated on December 10, 1977, and the IDX was inaugurated by President Suharto. In 1988-1990, regulations in the field of banking and capital markets were introduced, opening the door to foreign investment and increasing the activity of the stock exchange. Until now, IDX continues to grow with various innovations, such as the launch of a new trading system in March 2009.

The following are the results of the analysis of the financial performance of issuers in the research sample

Table 1. Correlation Analysis of Variable Indicators with Validity and Significance

Variable Indicators	Corellation	Minimum Correlation Limit (r-table)	Sig.	Information
Y1	0,820	0.125	0,000	Valid
Y2	0,723	0.125	0,000	Valid
Y3	0.817	0.125	0,000	Valid
Y4	0.727	0.125	0,000	Valid

During the research period covering 2018 to 2019, a number of leading pharmaceutical companies in Indonesia managed to record encouraging financial performance, showing significant growth in various aspects of their operations. One of the companies that managed to achieve positive financial performance is PT. Darya-Varia Laboratoria Tbk. In 2019, the company's net profit increased rapidly from Rp71.98 billion to Rp97.69 billion. In addition, operating revenue also experienced a marked increase, reaching Rp2.36 trillion. This growth can be attributed to effective marketing strategies and product innovations successfully launched by the company.

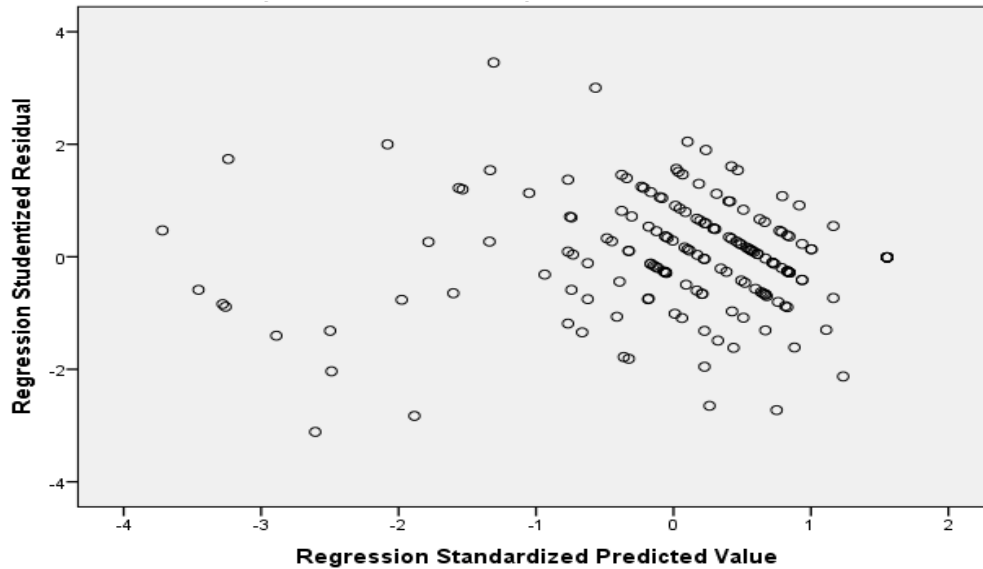


Figure 1. Regression

On the other hand, PT. Indofarma Tbk., despite experiencing a decrease in net profit from Rp29.82 billion in 2018 to Rp22.58 billion in 2019, managed to show operating revenue growth of 7.47%. The company's focus on new product development and market expansion proves their seriousness to remain competitive amid intense pharmaceutical industry competition.

Table 2. Multicollinearity Analysis of Research Variables"

Research Variables	Tolerance	VIF	Information
Trust (X1)	0.460	2.172	No multicollenaritiy
Information Quality (X2)	0.427	2.340	No multicollenaritiy
Discount (X3)	0.548	1.824	No multicollenaritiy

PT. Kimia Farma Tbk., in the same period, recorded a very positive financial performance. The company's net profit increased significantly from Rp517.82 billion to Rp567.02 billion, supported by operating revenue growth of 7.87%. The company continues to expand and diversify its products to strengthen its market share in the growing pharmaceutical sector. Furthermore, PT. Pyridam Farma Tbk. also managed to record satisfactory financial performance during the research period. Their net profit increased from Rp96.18 billion in 2018 to Rp129.37 billion in 2019, while operating revenue grew significantly to Rp902.87 billion. Pyridam Farma's focus on product innovation and market expansion helped support their business growth strongly.

PT. Merck Tbk., one of the major players in the pharmaceutical industry, managed to increase its net profit from Rp154.92 billion in 2018 to Rp185.24 billion in 2019. Their operating revenue also recorded a growth of 9.48%, marking the success of their efforts in strengthening their product portfolio and market expansion. Tempo Scan Pacific Tbk., a listed company that recorded solid financial performance during the research period, managed to increase net profit from Rp475.49 billion to Rp500.81 billion, with operating revenue growth of 6.39%. With a focus on product diversification and operational efficiency, Tempo Scan Pacific successfully increased the value of their company.

PT. Phapros Tbk. also managed to record a positive financial performance, with net profit increasing from Rp123.27 billion in 2018 to Rp150.05 billion in 2019. Operating revenue

growth of 14.12% indicates the success of product innovation efforts and market expansion that continues to be carried out by the company.

Table 3. Regression Coefficients Analysis for Predictors of Type

Type	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	2,119	,793		2,670	,000
	Trust	,240	,066	,236	3,631	,000
	Information Quality	,389	,066	,395	5,854	,000
	Discount	,355	,070	,300	5,034	,000

Lastly, PT. Kalbe Farma Tbk., as one of the major players in the Indonesian pharmaceutical industry, recorded a strong financial performance during the research period. The company's net profit increased from Rp2.62 trillion in 2018 to Rp2.97 trillion in 2019, while operating revenue grew by 5.56%. Kalbe Farma's focus on product research and development, as well as global expansion, helped them strengthen their dominance in the pharmaceutical market. In the face of increasingly fierce pharmaceutical industry competition, the success of these companies can be attributed to effective strategies, product innovation, market expansion, and a focus on operational efficiency. This period of research shows that although some companies experienced a decline in net income, growth in operating income and efforts in new product development remain key factors in ensuring the sustainability and success of companies in the dynamic pharmaceutical industry.

Conclusion

Based on the results of the analysis of the financial performance of a number of pharmaceutical issuers on the Indonesia Stock Exchange during the research period, it can be concluded that most companies recorded positive achievements. PT. Darya-Varia Laboratoria Tbk. shows significant growth with effective marketing strategies and product innovations. PT. Indofarma Tbk., despite the decline in net profit, managed to increase operating revenue and remained focused on product development and market expansion. PT. Kimia Farma Tbk., PT. Pyridam Farma Tbk., PT. Merck Tbk., PT. PT. Tempo Scan Pacific Tbk., PT. Phapros Tbk., and PT. Kalbe Farma Tbk. also recorded a positive performance with promising net profit and operating income growth. To increase growth in the capital market and support the business continuity of issuers, it is recommended that pharmaceutical companies continue to implement greater transparency and disclosure of information related to financial performance, business strategies, and risks faced. Product development and innovation need to be a key focus to maintain competitiveness in a competitive industry. Strengthening regulatory policies from the government and capital market supervisory authorities is also needed to create a conducive investment environment. In addition, increasing financial literacy among the community and close collaboration between stakeholders can make a positive contribution in supporting sustainable capital market growth.

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