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Key Indicators of Financial Ratios on Value of Food and Beverage Companies in Indonesia

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ABSTRAK

Negara mendapatkan devisa yang sangat besar dari sektor makanan minuman yang mana sektor tersebut menjadi sektor primer bagi kebutuhan masyarakat. Penelitian ini memiliki tujuan menganalisis pengaruh debt to equity ratio (DER), return on assets (ROA), free cash flow (FCF), dan pertumbuhan (GRW). Penelitian ini menggunakan 5 perusahaan sektor makanan dan minuman dari tahun 2015 sampai 2019 dengan laporan keuangan triwulanan. Hasil penelitian dengan menggunakan model fixed effect membuktikan seluruh variabel yang diteliti memiliki pengaruh signifikan terhadap price to book value. Perusahaan perlu menjaga dan meningkatkan performa bisnis dan kinerja keuangan, kemudian melaporkannya sesuai dengan prinsip dan standar yang berlaku pada laporan keuangan setiap periode untuk menarik investor.

Kata kunci: Debt to Equity Ratio; Return on Assets; Free Cash Flow; Pertumbuhan; Price to Book Value

ABSTRACT

The country earns substantial foreign exchange from the food and beverage sector, the primary sector for people's needs. This study aims to analyze the effect of debt to equity ratio (DER), return on assets (ROA), free cash flow (FCF), and growth (GRW). This study uses five companies in the food and beverage sector from 2015 to 2019 with quarterly financial reports. The study results using the fixed-effect model prove that all the variables studied significantly affect the price to book value. Companies need to maintain and improve their business performance and financial performance, then report them following the principles and standards that apply to each period's financial statements to attract investors.

Keywords: Debt to Equity Ratio; Return on Assets; Free Cash Flow; Growth; Price to Book Value

INTRODUCTION

The consumer goods sector, which includes the food and beverage industry, is a processing company that converts raw materials into finished or semi-finished food and beverage products that are more valuable to benefit the company. The food and beverage industry provides significant foreign exchange for the country because this industry continues to be consumed by people from various circles every day (Ladha-Sabur et al., 2019; Sovacool et al., 2021). This industry also has an excellent opportunity to develop and is in demand by many investors, so that the competition is very tight because companies

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are looking for investors to invest their capital in the food and beverage industry (Prihatminingtyas et al., 2014; Telukdarie et al., 2020).

The high growth of the food and beverage industry must be balanced with the fulfillment of large funding requirements to maintain its business position in the industry. In meeting funding needs, companies must look for efficient alternative funding by considering and analyzing various variables and sources of funds to meet investment needs and company operational activities (Geissdoerfer et al., 2018; Mazzucato & Semieniuk, 2018). Managers must consider their funding decisions (Ozturkkal, 2015). Consideration is needed because each funding source has different consequences.

The number of companies that have been established has resulted in very tight competition between one company and another. As a result of this competition, the company will further improve the company's performance to become a company with a high value in the eyes of investors in the capital market (Ioana, 2012; Rohrbeck & Etingue, 2018; X. Wang & Lou, 2020). An established company certainly has several goals, namely goals in the short term and the long term. The company's short-term goal is to get as much profit as possible with the resources available at that time, but in contrast to the company's long-term goal is to prosper the company's shareholders (Bocken & Short, 2016; Haessler, 2020; Heidary & Jalilian, 2016; Teece, 2018). Therefore, the company's goals achievement is used as a benchmark in making managers' decisions (Geissdoerfer et al., 2018; Stanciu et al., 2014).

The decisions taken by the manager will affect the company in the future, especially the value of the company in the eyes of investors (Ozturkkal, 2015). Investors' perception of a company's success is if the company's shareholders are prosperous, which will automatically reflect the company's high value (Ali & Lesage, 2013; Bank et al., 2020). The prosperity of the company's shareholders is characterized by a high rate of return on investment to the company's shareholders (Cafasso et al., 2018; Li et al., 2016). If the company's shareholders are prosperous, then the company's value is declared high or maximum.

Company value is the price that prospective buyers are willing to pay if the company is sold. The value of a company is compassionate in the eyes of investors in determining their investment decisions (Giraldo-Prieto et al., 2017; Wang & Dou, 2015). Those investors, before investing, tend to collect various information, such as what factors can affect the value of the company (Abdillah et al., 2019). They collect this information from various parties, both internal and external. The company's value is always associated with the company's share price in the capital market by investors, where a high share price will be in great demand by investors because a high share price will reflect the company's high value (Alfaro & Chauvin, 2017; Cafasso et al., 2018; Sánchez-Sellero et al., 2014).

Previous research on firm value states that capital structure has a significant effect on the value of manufacturing firms (Dewi & Wirajaya, 2013; Hasbi, 2015; Hermuningsih, 2013). Profitability has a significant effect on the value of manufacturing companies (Mahendra et al., 2012; Sucuahi & Cambarihan, 2016). Company growth has a significant effect on the value of manufacturing companies, LQ 45, Indonesia stock exchange (Dewi et al., 2014; Meidiawati & Mildawati, 2016; Saraswathi et al., 2016; Suastini et al., 2016; Syardiana et al., 2015).

This study aims to analyze the factors that influence the value of food and beverage companies in Indonesia. From existing research to our knowledge, the object of research regarding the value of new companies is in the manufacturing, real estate, and LQ45 sectors. Therefore, this study takes the food and beverage sector to add a free cash flow variable that has not been tested much, even though we suspect that this variable influences firm value. In addition, we use quarterly financial report data to reflect actual conditions in terms of the data processed.

The research results can contribute, firstly, to provide an overview of what and how each variable influences the firm value. Second, the results of this study can provide information to investors about the state of the company and how the company is in its efforts to prosper the shareholders, which will then be considered in making investments. Third, the results of this study add to theoretical knowledge and broaden horizons to study directly by analyzing the effect of financial performance on firm value. Fourth, the results of this study contribute to the development of knowledge in financial management and become the basis for conducting further research.

LITERATURE REVIEW

Capital Structure and Value of the Company

Capital structure is a comparison between the amount of internal and external capital of a company. The company's value will increase if the company's managers can balance the use of the company's capital structure and will give a positive signal to investors for the company (Latif, 2013; Rehman, 2016). The capital structure policy involves balancing risk and rate of return. Therefore the optimal capital structure is a capital structure that is in the balance between the risk of the maximum return on investment (Cheng et al., 2014; Ferris et al., 2018; Huang et al., 2018).

H₁: The company's capital structure affects the value of the company

Profitability and Value of the Company

Profitability is the ability of a company to earn profits, and high profitability is stated to affect the company's value. The higher the profitability, the higher the company's value and vice versa (Mahendra et al., 2012). Companies that get a high profitability value will indirectly signal to investors that companies with a high profitability value mean that the company can provide a high return on its investment and have good prospects in the future (Cheng et al., 2014; Salehi et al., 2019). If investors demand more shares against the company, the company's share price will increase, and the company's high value is reflected in the high share price and the prosperity of the company's shareholders (Abdillah et al., 2019; Riantani & Nurzamzam, 2015). The increasing profitability of a company will also increase the company's Earning Per Share (EPS).

Investors will be interested in investing if there is an increase in the company's EPS. adalah bagian dari mata uang digital, yang dimana memiliki berbagai macam jenis. *Cryptocurrency* memiliki perbedaan dari mata uang lainnya yaitu teknologi yang digunakan dalam *cryptocurrency* adalah *blockchain* atau rantai blok. Yang dimana setiap transaksi yang masuk ke dalam buku besar akan terdistribusi secara terbuka dan terdesentralisasi (Lee, 2020). Dalam pasar *cryptocurrency* dapat diakses selama 24 jam. Jenis *cryptocurrency* yang digunakan dalam penelitian ini yaitu Bitcoin dan Ethereum.

H₂: The company profitability affects the value of the company

Free Cash Flow and Value of the Company

One of the factors that also determine the value of the company is free cash flow. Free cash flow is cash available to distribute to investors after the company places its investment in fixed assets and working capital needed to maintain ongoing operations (Cai et al., 2016; Putra & Fidiana, 2017). Free cash flow is cash flow that is available to be paid to investors after the company has invested in fixed assets, new products, and working capital needed to maintain ongoing operations (Cai et al., 2016; Lam et al., 2012). The existence of free cash flow indicates the ability of a company to generate cash from its operating activities.

Companies with high free cash flow will be reflected in the increase in the company's performance. High free cash flow will make investors believe in investing in the company because high free cash flow shows the company's ability to pay debts (Edmans et al., 2017; Prasad & Suprabha, 2015). When the ability to pay the company's debts is more remarkable, the company shows the ability to face financial difficulties in the future so that the company will get a positive response from investors, thereby increasing the company's value (Alaabed & Masih, 2016; Innocent et al., 2014; Shafron, 2019).

H₃: Free cash flow of the company affects the value of the company

Growth and Value of the Company

Another factor that affects the value of the company is the company's growth. Company growth is the company's ability to utilize existing assets to generate income (Trisnawati, 2016). The company's growth is declared high if the company succeeds in increasing the value to generate profits (Suryani & Khafid, 2013). Companies with high growth rates require funds from more significant external sources (Ioana, 2012; Radygin et al., 2015). Companies with fast growth are defined as companies experiencing expansion to use various ways to meet their needs, including using debt (Miyazawa et al., 2019; Onofrei

et al., 2015).

H₄: The growth of the company affects the value of the company

RESEARCH METHOD

The study consisted of time series and cross-section data. The times series data of this study uses quarterly data from 2015 to 2019, while the cross-section data contains five companies that are the research sample. The sample companies consist of Delta Djakarta, Tbk (DLTA), Multi Bintang Indonesia, Tbk (MLBI), Nippon Indosari Corporindo, Tbk (ROTI), Sekar Bumi, Tbk (SKBM), and Siantar Top, Tbk (STTP). The source of the data comes from the financial statements of each company. This study uses panel regression which is a combination of time series and cross-section data. The variables of this study consist of price to book value (PBV), which reflects the company's value, debt to equity ratio (DER), which reflects the company's capital structure, return on assets (ROA) which reflects the company's profitability, free cash flow (FCF) and company growth (GRW). The panel data regression equation where α is the intercept, β is the regression coefficient of each independent variable, i is the company, t is time, e is the error term.

$$PBV_{it} = \alpha + \beta_{it}DER_{it} + \beta_{it}ROA_{it} + \beta_{it}FCF_{it} + \beta_{it}GRW_{it} + e$$

Price to book value (PBV) describes how much the market appreciates the value of a company's shares. The debt to equity ratio (DER) compares the total debt by the company with the company's total equity. Return on assets (ROA) is the profit (loss) ratio before tax to total assets. Free cash flow (FCF) can be obtained from operating cash flow minus capital expenditure. Company growth is the company's ability to maintain its business position in the development of the economy and industry in which the company operates.

$$PBV = \frac{\text{Stock Price per Share}}{\text{Book Value Per Share}}$$

$$DER = \frac{\text{Total Liabilities}}{\text{Total Shareholders' Equity}}$$

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

$$FCF = \text{Net Operating Profit After Taxes} - \text{Investment During Period}$$

$$GRW = \frac{\text{Total Assets End of Year}}{\text{Total Assets at the beginning of the Year}}$$

Determining the best model in panel data regression must choose one of the three estimated models based on the data's characteristics, namely the common effect model, fixed effect model, or random-effect model. The best model test uses the Chow test and the Hausman test. The Chow test is used to determine whether to use the common effect model or the fixed-effect model, and the Hausman test determines whether to use the fixed effect model or the random effect model. After getting the best model, the next step is to test the classical assumptions, which aims to determine the feasibility of the model. A good model is normal data, no multicollinearity, no autocorrelation, and no heteroscedasticity.

RESULT AND DISCUSSION

Determination of the best model between common effects, fixed effects, and random effects using two model estimation techniques. These two techniques are used in panel data regression to obtain a suitable model in estimating panel data regression. Two tests were used; firstly, the chow test chose a common effect or a fixed-effect model. Second, the Hausman test chooses the fixed effect or random effect model in estimating panel data regression.

The Chow test is a test to determine the most appropriate fixed effect model or common effect model on panel data. If the probability value of the cross-section F is less than 5 percent, the model chosen is the fixed effect model. However, if the probability value of the cross-section F is more than 5 percent, the model chosen is the common effect model. In Table 1 are the results of the chow test. The results of the Chow test obtained a cross-section F probability value of 0.0000 which means the value is less than 5 percent so that the Chow test can conclude that the selected model is the fixed effect model. Furthermore, because the Chow test concludes that choosing the fixed effect model, it is necessary to perform the Hausman test to choose between the fixed effect model and the random effect model.

Table 1. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	8.120980	(4,91)	0.0000
Cross-section Chi-square	30.525144	4	0.0000

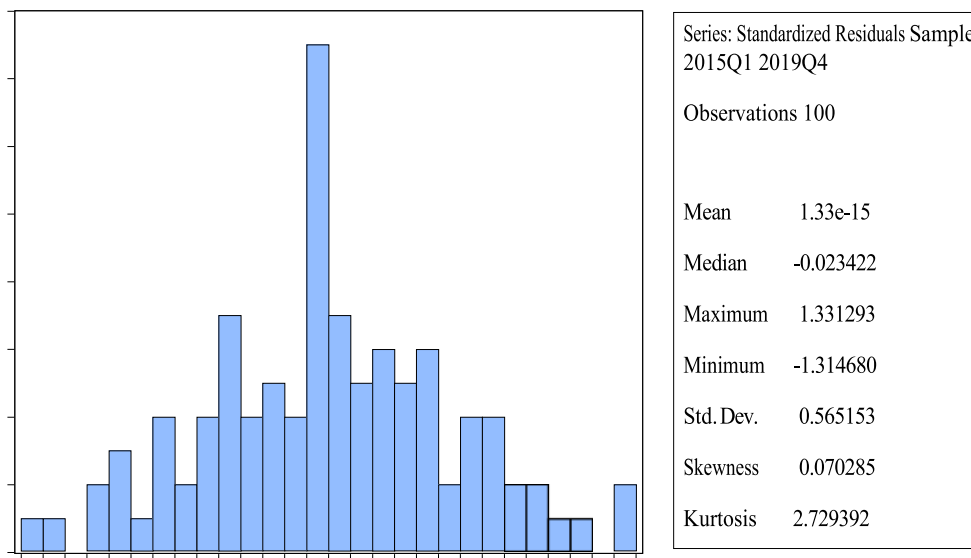
Source: Data Processed (2021)

Hausman test is a statistical test to choose whether the fixed effect model or random effect model is the most appropriate to use. If the random cross-section probability value is less than 5 percent, the model chosen is the fixed effect model. However, the random effect model is chosen if the random cross-section probability value is greater than 5 percent. Table 2 shows the results of the Hausman test. Based on Table 2, the Hausman test results show that the random cross-section probability value is 0.0000, which means the value is less than 5 percent, thus concluding that this study uses the fixed effect model as the best model.

Table 2. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	32.483920	4	0.0000

Source: Data Processed (2021)



Source: Data Processed (2021)

Figure 1. Normality Test Results

The normality test aims to test whether the residual regression model has a normal distribution or not—this study, testing the normality of the data using the probability jarque-bera. If the jarque-bera probability value is more than 5 percent, then the data is normally distributed, but if the jarque-bera probability value is less than 5 percent, then the data is not normally distributed. Figure 1 shows the

test results of the normality of the data where the probability value of the jarque-bera is more than 5 percent so that the research data is normally distributed.

The multicollinearity test aims to test whether the model has a high correlation between the independent variables. If the correlation value is more than 0.90, then there is multicollinearity in the model. However, if the correlation is less than 0.90, then there is no multicollinearity. Table 3 describes the results of the multicollinearity test using Pearson correlation, where the correlation between independent variables has a value of less than 0.90. Based on the test results, all independent variables do not have a high correlation so that the data does not occur multicollinearity.

Table 3. Multicollinearity Test Results

	DER	ROA	GRW	FCF
DER	1.000000	0.236230	0.066318	-0.156202
ROA	0.236230	1.000000	-0.068511	0.570941
GRW	0.066318	-0.068511	1.000000	-0.027190
FCF	-0.156202	0.570941	-0.027190	1.000000

Source: Data Processed (2021)

The heteroscedasticity test aims to test whether there is an inequality of variance in the regression model from the residuals of one observation to another observation. There is no heteroscedasticity if the chi-square probability value of obs*r-squared is more than 5 percent. However, if the chi-square probability value of obs*r-squared is less than 5 percent, there is heteroscedasticity. Table 4 is the result of the heteroscedasticity test using white test where there is an obs*R-squared value of 4.987908 with probability chi-square(4) is 0.2885. Based on the results obtained, it can be concluded that the probability chi-square (4) is more than 5 percent so that the data does not occur heteroscedasticity.

Table 4. Heteroscedasticity Test Results

F-statistic	Prob. F(4,94)	Obs*R-squared	Prob. Chi-Square(4)	Scaled explained SS	Prob. Chi-Square(4)
1.246817	0.2966	4.987908	0.2885	52.57080	0.0000

Source: Data Processed (2021)

The determination of the presence or absence of autocorrelation using the results of the probability chi-square(2) of obs*r-squared. The autocorrelation test aims to test whether in a linear regression model there is a correlation between the residuals at time t (at the moment) and residuals at time t-1 (previous). If the value probability chi-square(2) of obs*r-squared is less than 5 percent, there is autocorrelation. However, if the probability chi-square(2) of obs*r-squared is more than 5 percent, there is no autocorrelation. Table 5 is the result of the autocorrelation test using the Lagrange multiplier test. Based on the LaGrange multiplier test results, the value of probability Chi-Square(2) of Obs*R-squared is 0.4212, greater than 5 percent, thus concluding that there is no autocorrelation.

Table 5. Autocorrelation Test Results

F-statistic	Prob. F(2,92)	Obs*R-squared	Prob. Chi-Square(2)
0.817903	0.4445	1.729518	0.4212

Source: Data Processed (2021)

The equation of the panel data regression model in this study uses a fixed-effect model. The fixed-effect model serves to analyze the effect of the independent variable on the dependent variable. The panel data regression equation using the fixed-effect model can be explained as follows.

$$PBV_{it} = 3.780579 + 0.319062DER_{it} + 0.780998ROA_{it} - 0.800212FCF_{it} - 0.800212GRW_{it} +$$

The results showed that the variable debt-to-equity ratio (DER) significantly affected the price to book value (PBV). The debt-to-equity ratio has a significant effect on the price to book value, indicating that any changes in the debt-to-equity ratio cause the company's value to change with the higher the debt-to-equity ratio, the higher the price to book value. The market will trust companies that use debt more because they have the ability to pay their debts (Suryanto, 2015). In addition, investors will also trust companies in debt because they think they have good prospects (Christensen et al., 2020; Shafron, 2019). Companies that dare to take on debt show that the company is growing and increasing its production.

Table 6. Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DER	0.319062	0.101292	3.149913	0.0022*
ROA	0.780998	0.077272	10.10710	0.0000*
FCF	-1.427323	0.643526	-2.217972	0.0290*
GRW	-0.800212	0.386467	-2.070584	0.0412*
C	3.780579	0.231884	16.30376	0.0000

*significant at 5 percent

Source: Data Processed (2021)

However, the right proportion of debt must be considered by managers by looking at the risks of the debt itself because using debt funding and not being able to repay it can threaten the liquidity and position of the manager itself and even result in bankruptcy (Atidhira & Yustina, 2017; Werner, 2014). Companies prefer the use of debt because the company will benefit from tax savings on profits. Debt is also an essential mechanism in controlling the actions of managers and reducing agency problems in the company because managers must make periodic payments on interest and principal loans (Imelda & Patricia, 2018; Panda & Leepsa, 2017; Wang, 2011).

The trade-off theory explains the comparison of benefits and costs or the balance between the advantages and disadvantages of using debt. The Trade-off theory also explains that debt will be cheaper than selling shares before reaching a maximum point because of the tax shield (Mosko & Bozdo, 2016; Onofrei et al., 2015). The implication is that the higher the debt, the higher the firm value (Margaretha, 2014). However, after reaching the maximum point, the use of debt by the company becomes not good because the company must bear agency costs, bankruptcy, and interest costs that cause the value of shares to fall (Suryani & Khafid, 2013).

The results showed that the return on assets (ROA) variable significantly affected the price to book value (PBV). Return on assets has a significant effect on the price to book value, indicating that any changes in return on assets are followed by changes in price to book value. That is, the higher the return on assets ratio, the higher the price to book value. Companies with a high level of profitability mean that they have high trust from investors because of their ability to earn profits (Cheng et al., 2014; Salehi et al., 2019). Signaling Theory explains that the company's internal factors, such as funding structure, profitability, firm size, and company growth, will cause changes to a company's stock price on the stock exchange so that company value can provide a positive signal for investors to be more interested in investing (Griebeler & Wagner, 2017; Taj, 2016).

The results showed that the free cash flow (FCF) variable significantly affected the price to book value (PBV). Free cash flow has a significant effect indicating that every change in free cash flow is followed by price to book value. That is, the higher the free cash flow ratio, the lower the price to book value. The higher the free cash flow, the healthier the company should be because it can pay off its debt using free cash flow and reduce the proportion of the company's debt (Cai et al., 2016; Lam et al., 2012). However, the large amount of free cash flow cannot represent the company's value because a high price to book value indicates an ineffective use of cash.

The results showed that the company growth variable (GRW) significantly affected free cash flow (FCF). Investors assume that companies that have good prospects in the future are companies that are experiencing growth. Investors catch positive signals from companies experiencing growth because it will affect the rate of return on their investment. The more investors are interested in the company, the more it will increase its stock price, reflecting its high value (Antoniadis et al., 2015; Malini, 2019; Tan & Tas, 2019). An increase will also follow companies that experience an increase in assets in operating results which will also describe the level of profit earned by the company.

CONCLUSIONS

This study aims to analyze the effect of company performance on firm value in food and beverage companies. Based on the analysis and discussion of the research results, it can be concluded that the debt to equity ratio (DER), which reflects the company's capital structure, return on assets (ROA) which reflects the company's profitability, free cash flow (FCF) and company growth (GRW) have a significant effect on the price to book value (PBV) which reflects the value of the company.

Investors should pay attention to the variables of debt to equity ratio, return on assets, free cash flow, and company growth because they significantly influence price to book value in food and beverage companies. These four measures are important indicators of good or bad performance of food and beverage companies and can predict the company's prospects in the future. Company management and investors need to pay attention to the debt to equity ratio (DER), which reflects the capital structure of food and beverage companies as the basis for determining policies or investments.

Continue to be disciplined and strict in capital and operational expenses so that the company's performance can be maintained. Consistently maintain and improve business performance and financial performance, then report it following the principles and standards that apply to the financial statements for each period. If the company has good performance and is reported on the financial statements regularly every period correctly, then this can attract investors to invest so that the company can obtain additional funds that can be used to develop the business and increase profits and wealth. In addition, it is necessary to find the ideal capital structure so that the company's value can become more optimal to attract the attention of investors to invest, which makes capital funds increase, and the company can continue to grow.

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