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RADJA PUBLIKA

EFFECT OF PROFITABILITY , LIQUIDITY, *FREE CASH FLOW*, AND COMPANY SIZE TO COMPANY VALUE WITH STRUCTURE CAPITALAS *INTERVENING* VARIABLES ON MINING COMPANIES LISTED INSTOCK EXCHANGE INDONESIA

Melvi Fitri[1], Erlina[2], Chandra Situmeang[3]
Accounting Study Program, Faculty of Economics and Business, Universitas Sumatera Utara
e-mail: melvifitri8@gmail.com

Abstract

This study aims to examine and analyze the effect of Profitability, Liquidity, Free cash flow, and firm size on Firm Value through Capital Structure as an intervening variable in mining companies listed on the Indonesia Stock Exchange. The population of this study is all mining companies listed on the Indonesia Stock Exchange for the period 2014-2020. The sample used in this study amounted to 30 companies. This type of research uses associative research methods. Data analysis used path analysis approach using SPSS program. The results showed that profitability had a positive and significant effect on firm value. Liquidity, *free cash flow* , firm size, and capital structure have a negative and insignificant effect on firm value. Profitability and liquidity have a negative and significant effect on capital structure. *Free cash flow* has a positive and insignificant effect on the capital structure. Firm size has a positive and significant effect on capital structure. Based on the results of the mediation test, it shows that the Capital Structure is not able to act as an intervening variable.

Keywords: ***Firm Value, Profitability, Liquidity, Free Cash Flow, Company Size, Capital Structure***

1.INTRODUCTION

The company is an organization that functions to manage resources to produce products with the main goal of increasing welfare or maximizing shareholder wealth. Maximizing shareholder wealth can be realized by increasing company value. In this study, firm value is proxied by *price to book value* (PBV). A high PBV indicates that the market believes in the company's future prospects. Various factors that are thought to affect the value of the company through the capital structure include profitability, liquidity, *free cash flow* , and company size .

The mining sector on the Indonesia Stock Exchange consists of the sub-sectors of coal mining, oil and gas, metals and minerals, and soil/ quarry stones . The mining sector is used as a driving force for the domestic economy and is used as an export commodity for other countries. Indonesia is one of the world's largest coal exporters and is in the fourth position as the world's top coal producer, only behind China, the United States and India. The company is one of the sectors that Indonesia can rely on because Indonesia is a country rich in natural resources (www.cekindo.com). The mining sector is one of the main contributors to non - tax state income (PNBP). In addition, economic developments have caused mining companies to find it difficult to continue their business and have unsatisfactory company values. The company value of the four mining sub-sectors for the 2014-2020 period shows that the company's value has decreased more.

Companies are sometimes unable to increase the value of the company. The increase and decrease in the value of the company was due to the closing price of shares , equity, and outstanding share capital. In addition, there is a *research gap* between the effect of profitability, liquidity, *free cash flow* , and firm size on firm value with capital structure as an intervening variable in previous studies.

Based on this, researchers are interested in conducting research on the effect of Profitability, Liquidity, Free cash flow, and Company Size on Firm Value with Capital Structure as an intervening variable in mining companies listed on the Indonesia Stock Exchange.

2.LITERATURE REVIEW

2.1. The value of the company

Firm value is the selling value of a company as an operating business (Sartono, 2016). According to Husnan (2015) the value of the company is the price that prospective buyers are willing to pay if the company is sold. The price that prospective buyers are willing to pay is defined as the market price for the company itself. Firm value is very important because high corporate value will be followed by high shareholder prosperity (Bringham & Houston, 2018). The wealth of shareholders and companies is represented by the market price of shares which is a reflection of investment decisions, funding, and management as et.

Firm value can be measured using valuation ratios or market value ratios. In this study, the measurement of firm value using PBV. *Price to book value* (PBV) is the comparison between the stock price and the book value of the company (Brigham & Houston, 2018).

1. Profitability

Profitability is the company's ability earn a profit in relation to the sale of total assets and own capital (Sartono, 2016).

In this study, the measurement of profitability by using ROA. ROA is a ratio that shows the results (return*)* on the number of assets used in the company (Cashmere, 2018).

2. Liquidity

Liquidity is the company's ability to meet short-term obligations (Hery, 2017). Kasmir (2018) states that the liquidity ratio is a ratio used to measure how liquid a company is. The trick is to compare all components of current assets with components of short-term debt. Current ratio (CR) to measure the company's ability level.

3. Free cash flow

Free cash flow is cash flow that is available to be distributed to shareholders or owners after the company has invested in fixed assets and working capital needed for its business continuity. In other words, *free cash flow* is cash available above the profitable investment needs (Sartono, 2016).

4. Company Size

Company size is a calculation where company size can be limited as measured by total assets, total sales, share prices , and others (Widiastari & Yasa, 2018). The size of the company is seen from the total assets owned by the company which are used for the company's operational activities . The size of the company can be measured by the total assets / large assets of the company by using the calculation of the logarithmic value of the total assets (Jogiyanto , 2017).

5. Capital Structure

Capital structure is a comparison between total debt (foreign capital) with total own capital or equity (Halim, 2015). In this study, the measurement of Capital Structure using DER. DER is the ratio used to assess debt to equity. This ratio is useful for knowing the amount of funds that have been provided by the borrower with the owner of the company. This ratio serves to find out each rupiah of own capital used as collateral for debt (Kasmir ,2018).

3.CONCEPTUAL FRAMEWORK AND HYPOTHESES

3.1. conceptual framework

This study tries to see the role of Profitability, Liquidity, Free cash flow, and Company Size on Firm Value with Capital Structure as a mediating variable. The Conceptual Framework in this study can be seen in the following figure:

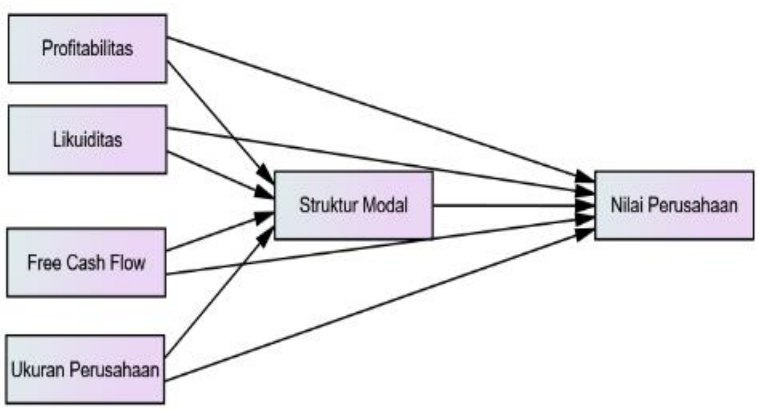

Figure 3. 1 Conceptual Framework

1. Hypothesis

Based on this framework, the following hypotheses can be made in the study:

a. Profitability has a positive effect on firm value .
b. Liquidity has a positive effect on firm value .
c. Free cash flow positive effect on firm value.
d. Firm size has a positive effect on firm value.
e. Profitability has a negative effect on Capital Structure.
f. Liquidity has a negative effect on the structure Capital
g. Free cash flow has a negative effect on the Capital Structure .
h. Firm size has a positive effect on capital structure
i. Capital structure has a negative effect on firm value .
j. Capital structure is able to mediate the effect of Profitability, Liquidity, Free cash flow, and Company Size on Firm Value.

4. RESEARCH METHODS

In this research, the method used is associative research method. The sampling technique was carried out using purposive sampling method. The population in this study are all mining companies registered in Indonesia Exchange Indonesian Securities for the period 2014-2020. Sample mining company used in this study amounted to 30 companies. The data analysis technique uses a path analysis approach using the SPSS application.

The structural equations of this research are:

$$Y_1 = {}_0 + \beta\, 1\, _X 1\, _+ 2\, _X 2\, _+ 3\, _X 3\, _+ 4\, _X 4\, _+ e$$
$$Y_2 = {}_0 + \beta\, 1\, _X 1\, _+ 2\, _X 2\, _+ 3\, _X 3\, _+ 4\, _X 4\, _+ 5\, _Y 1\, _+$$

Information :

Y1	= Capital Structure
Y2	= Firm Value
X1	= Profitability
X2	= Liquidity
X3	= Free cash flow
X4	= Company Size
e1, e2	= S standard error

5.RESULTS AND DISCUSSION

5.1. Research result

Descriptive Analysis

Descriptive statistical analysis was used to determine and describe the maximum value, minimum value, mean value and standard deviation of each research variable.

5.2. Discussion

Profitability has a positive effect on firm value

The results of the study show that profitability has a positive and significant effect on firm value. The results of this study are in line with what Husnan (2015) stated that if profitability increases, The amount of profitability will be an advantage for investors and potential investors because the greater the profitability achieved by the company will have an impact on maximizing shareholder wealth and will get a positive signal from outsiders or investors. This will have implications for increasing the value of the company.

Capital structure has a negative effect on firm value

result of the research shows that the capital structure has a negative and insignificant effect on firm value . The results of this study are in line with research conducted by Dewantari et al (2019); Zaher (2020); and Handayani et al. (2022) which states that capital structure has a negative and insignificant effect on firm value . However, the results of this study are not in line with the results of research conducted by Tarmiji (2019); Hirdinis (2019); Sari & Sedana (2020); Markonah et al. (2020) ; Margono & Changeno (2021); and Aprilyani et al. (2021) which states that the capital structure has a significant effect on firm value . The results of this study indicate that the larger the capital structure , the lower the firm value . According to Darsono (2016), the greater the *leverage* , the lower the firm value. The results of this study are supported by signal theory and *trade off* theory which states that the greater use of debt will increase the risk of the company and ultimately the value of the company will decrease.

6.CONCLUSIONS AND RECOMMENDATIONS

6.1. Conclusion

The results of the study conclude that profitability has a positive and significant effect on firm value. Liquidity, *free cash flow* , firm size, and capital structure have a negative and insignificant effect on firm value. Profitability and liquidity have a negative and significant effect on capital structure. *Free cash flow* has a positive and insignificant effect on the capital structure.

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Firm size has a positive and significant effect on capital structure. Based on the results of the mediation test, it shows that the capital structure is not able to act as an intervening variable.

6.2. Suggestion

a. Future research is expected to use other sector companies such as manufacturing companies, banking, agriculture, and others.
b. Further researchers are expected to add other independent variables such as *good corporate governance*, asset structure, company growth, and so on so as to expand the research and can allegedly affect the value of the company. In addition, it is better to use other intervening variables , such as CSR, dividend policy, and so on which are expected to act as mediating variables on firm value .
c. The company's management is expected to continue to improve the company's performance, make the right policies, and pay attention to the company 's capital structure. A good capital structure can make the company grow which in turn can increase the value of the company.
d. Investors and potential investors can consider companies that have profitability, liquidity, *free cash flow,* and optimal capital structure because thus good company value will be obtained so as to ensure the prosperity of investors.

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