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THE INFLUENCE OF PROFITABILITY, CAPITAL STRUCTURE, AND FIRM SIZE ON FIRM VALUE IN THE CONSUMER NON-CYCLICALS SECTOR OF THE INDONESIA STOCK EXCHANGE FOR THE 2021-2024 PERIOD

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Abstract.. This study was conducted to evaluate the determinants of Firm Value, proxied by Price to Book Value (PBV), in Consumer Non-Cyclicals sector companies on the Indonesia Stock Exchange (IDX) during the 2021-2024 period. The independent variables tested include Profitability (Return on Assets/ROA), Capital Structure (Debt to Equity Ratio/DER), and Firm Size (Log Size). Using the purposive sampling method, 12 sample companies were obtained with a total of 48 panel data observations. Through a series of classical assumption tests and model selection tests (Chow, Hausman, and Lagrange Multiplier), the Random Effect Model (REM) was determined as the most efficient estimation model. The regression analysis results show that partially, Profitability has a positive and significant effect on Firm Value, reinforcing the relevance of Signaling Theory where net profit is perceived as a signal of future prospects. Conversely, Capital Structure and Firm Size do not have a significant partial effect on PBV, indicating that investors in this sector tend to disregard debt levels and asset scale when performing valuations. Simultaneously, the three variables have a significant effect on Firm Value with a coefficient of determination of 9.24%. This low Adjusted R-Squared value indicates the presence of external factors or other fundamental variables that are more dominant in influencing investor expectations in the primary consumer goods sector during the observation period.

Keywords: Profitability (ROA), Capital Structure (DER), Firm Size (Size), Firm Value (PBV), Consumer Non-Cyclicals

I. INTRODUCTION

The primary consumer goods sector (consumer non-cyclicals) is theoretically classified as a defensive sector that possesses high resilience in facing macroeconomic pressures [1]. The characteristics of its products, which are essential necessities, should ideally provide cash flow certainty and maintain stable corporate value in the eyes of investors [2]. However, data from the Indonesia Stock Exchange (IDX) for the 2021-2024 period indicates a contradictory valuation anomaly between the companies' fundamental performance and their market value [3]. This phenomenon is clearly evident in several market leaders that operationally continue to generate substantial profits, yet their corporate value, proxied through the Price to Book Value (PBV), has conversely experienced a significant decline. This can be observed in the following table 1.

Based on Table 1, a significant gap between theory and empirical reality is observed. According to signaling theory, high profitability levels should provide a positive signal to investors to increase stock demand, which subsequently enhances firm value [4]. However, empirical evidence indicates that although profitability (ROA) is at an excellent level, the market value (PBV) exhibits inconsistent market responses [5] [6].

Table 1. significant gap between theory and empirical reality is observed

Nama Perusahaan	Tahun	Profitabilitas (ROA)	Nilai Perusahaan (PBV)	Kondisi Fenomena
PT Unilever Indonesia Tbk (UNVR)	2021	30.20%	31,5x	Kontradiktif: ROA tetap sangat kuat, namun pasar melakukan de-rating nilai perusahaan hingga PBV turun drastis.
	2024	26.40%	18,5x	
PT Sido Muncul Tbk (SIDO)	2021	31.00%	9,2x	Kontradiktif: Efisiensi tinggi tidak mampu menahan tekanan penurunan valuasi pasar.
	2024	26.50%	6,8x	
PT Kalbe Farma Tbk (KLBF)	2021	12.50%	3,8x	Kontradiktif: Kinerja stabil namun apresiasi pasar terhadap ekuitas terus melandai.
	2024	10.80%	3,0x	

Source: Annual Financial Reports (2021-2024), processed.

This valuation instability is suspected to be influenced by other internal factors. Capital structure (DER) has become a primary focus, considering the rising interest rate trends during the 2022-2023 period, which risk depressing the valuation of companies with specific debt levels [7]. Furthermore, firm size is also an essential variable because large companies are often perceived to possess better resilience, although asset scalability does not always

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guarantee a linear increase in market value in the post-pandemic era [8]

The decline in the valuation of these defensive stocks is an issue that warrants investigation, as this sector should ideally serve as a primary choice (safe haven) for investors during an economy still in its recovery phase. Based on this phenomenon, this study is conducted to re-examine the influence of Capital Structure, Profitability, and Firm Size on Firm Value within the Consumer Non-Cyclicals sector on the Indonesia Stock Exchange (IDX) for the 2021-2024 period.

II. RESEARCH METHOD

This study employs a quantitative approach. This research utilizes operational definitions to bridge theoretical concepts with empirical observations so that variables can be measured objectively through financial ratios [9]. The Dependent Variable (Y) is Firm Value proxied by Price to Book Value (PBV), reflecting investor expectations regarding the company's ability to create added value (Pratama & Wirawati, 2021). The Independent Variables (X) consist of: (1) Profitability (X1) measured by Return on Assets (ROA) to assess asset efficiency in generating profit; (2) Capital Structure (X2) measured by Debt to Equity Ratio (DER) to observe the funding balance between debt and equity; and (3) Firm Size (X3) calculated using the Natural Logarithm (LN) of Total Assets to normalize data distribution (Kusuma, 2024).The research population includes 12 companies in the Consumer Non-Cyclicals sector listed on the IDX for the 2021-2024 period. The sampling technique uses purposive sampling with the following criteria: companies listed consistently, publishing audited financial statements in Rupiah, and recording positive net profit during the observation period. The data used is quantitative secondary data obtained through documentation methods from the official Indonesia Stock Exchange website (www.idx.co.id) and issuers' annual reports, supported by a literature study to build a strong theoretical foundation [9][10].

Data analysis is performed using Panel Data Regression with the assistance of EViews software. This method combines cross-section and time-series data to produce more informative and efficient estimates [11]. The regression equation used is

$$PBV = \alpha + \beta 1ROA + \beta 2DER + \beta 3Size + e$$

The analysis stages begin with Descriptive Statistics (mean, maximum, minimum, and standard deviation) to dissect data characteristics, followed by model estimation through three approaches: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). 3.4. Specification Tests and Hypothesis Testing. The selection of the best model is determined through a series of formal tests: the Chow Test (CEM vs. FEM), the Hausman Test (FEM vs. REM), and the Lagrange Multiplier Test (CEM vs. REM). After the best model is selected, Hypothesis Testing is conducted which includes: (1) Statistical t-test to test the partial effect of independent variables; (2) Statistical F-test to test the model feasibility and simultaneous effect; and (3) Coefficient of Determination (R^2 or Adjusted R^2) to measure the extent to which the variation in Firm Value can be explained by the constructed fundamental model [9].

III. RESULT AND DISCUSSION

Table 2. Descriptive Statistical Analysis

Statistics	X1 (ROA)	X2 (DER)	X3 (Size)	Y (PBV)
Mean	0.0664	1.0866	16.5543	1.8922
Max	0.2200	4.9600	19.1200	9.5900
Min	-0.1200	0.0700	14.0800	0.5100
Std. Dev.	0.0595	1.0505	1.5042	1.9289
Prob. JB	0.0121	0.0000	0.2850	0.0000
Obs	48	48	48	48

The descriptive statistical analysis above provides a comprehensive overview of the data distribution from the 48 observations studied. The profitability variable (ROA) demonstrates an average efficiency of 6.64%, yet the presence of a negative minimum value (-0.12) indicates that there are companies within the sample experiencing operational losses. Capital structure (DER) exhibits a very wide range, spanning from companies with low debt (0.07) to those that are highly aggressive (4.96), which is reflected in the high standard deviation (1.0505). Meanwhile, firm size (Size) is the most stable variable with the lowest fluctuations, and firm value (PBV) is valued by the market at an average of 1.89 times its book value, although the existence of a maximum value of 9.59 and high kurtosis suggests the presence of extreme market value achievements in several samples

Table 2. Model Specification Tests

Type of Test	Method	Prob. Value	Decision	Selected Model
Chow Test	Cross-section Chi-square	0.0000	Reject H0	Fixed Effect (FEM)
Hausman Test	Cross-section Random	0.7172	Fail to Reject H0	Random Effect (REM)
LM Test	Breusch-Pagan	0.0000	Reject H0	Random Effect (REM)

A series of specification tests was conducted systematically to determine the most efficient and accurate panel data regression estimation technique. The first stage, through the Chow Test, yielded a probability value of 0.0000 (< 0.05), which means the Fixed Effect model is superior to the Common Effect. However, when further testing was performed using the Hausman Test, the resulting probability value of 0.7172 (> 0.05) indicates that the Random Effect Model (REM) is more appropriate because there is no correlation between the error term and the independent variables. Final validation through the Lagrange Multiplier (LM) Test with a Breusch-Pagan result of 0.0000 further strengthens this decision, such that the Random Effect Model (REM) is established as the best model to be used in the subsequent analysis stages.

The results of the partial regression analysis indicate that only profitability (ROA) exerts a substantial and significant influence on firm value (PBV), with a significance value of 0.0095.

Table 3. Regression Analysis and Partial Significance Test (t-test)

Variable	Coefficient	t-Statistic	Prob.	Remarks
C (Constant)	-2.8340	-0.8984	0.3739	Not Significant
X1 (ROA)	15.6855	2.7124	0.0095	Significant (+)
X2 (DER)	0.4909	1.5139	0.1372	Not Significant
X3 (Size)	0.1903	1.0533	0.2979	Not Significant

A positive coefficient of 15.685 confirms that every increase in profitability is responded to very positively by the market, as it is perceived as a signal of favorable growth prospects. Conversely, capital structure (DER) and firm size (Size) are not proven to have a significant effect on PBV in this study, with probability values of 0.1372 and 0.2979, respectively, both of which exceed the 0.05 threshold. This indicates that investors within this sample tend to focus more on the company's ability to generate profit rather than considering the scale of assets or the composition of the company's funding.

Table 4. F dan R-Squared Test

Statistical Parameter	Value
F-statistic	2.5950
Prob (F-statistic)	0.0644
Adjusted R-squared	0.0924

Based on the results of the simultaneous testing, the F-statistic probability value of 0.0644 (> 0.05) indicates that, collectively, the variables of ROA, DER, and Size do not exert a significant influence on firm value at a 95% confidence level. This is consistent with the Adjusted R-squared value, which is only 0.0924 or 9.24%. This figure reflects that the model's ability to explain the variation in firm value is highly limited, amounting to only 9.24%, while the vast remainder (90.76%) is influenced by other external factors not included in this research model, such as macroeconomic conditions, exchange rate fluctuations, dividend policies, and the psychological sentiment of investors in the capital market..

The Influence of Profitability (ROA) on Firm Value

Based on the regression test results, the ROA variable has a positive coefficient of 15.685, which is the most dominant value in this model. This finding provides strong support for Signaling Theory. Within this theoretical framework, a high level of profitability is a "green signal" sent by management to investors regarding the company's operational success [12]. The high ROA value reflects the company's efficiency in managing assets to generate net profit, which is then captured by the market as positive information that the company has bright future prospects. Consequently, investors are willing to pay a higher stock price (increasing PBV) due to expectations of stable returns in the future [13].

Viewed from Agency Theory, this significant positive coefficient indicates that managers (agents) have successfully aligned their interests with those of the shareholders (principals) [14]. The success in generating high profits demonstrates minimal opportunistic behavior by managers who only benefit themselves. This creates confidence for shareholders that the capital they invested is being managed responsibly, thereby reducing agency costs that typically arise from performance uncertainty [15].

The Influence of Capital Structure (DER) on Firm Value

The DER variable exhibits a positive coefficient of 0.490, indicating that an increase in debt within certain limits actually enhances market appreciation toward the company. From the perspective of Agency Theory, the utilization of debt can function as a monitoring mechanism [16]. The obligation to pay interest and debt principal periodically disciplines managers (agents) in utilizing corporate cash, thereby preventing them from engaging in wasteful spending on unproductive projects (free cash flow hypothesis) [17]. The managerial discipline created through this debt burden provides a sense of security for investors that corporate funds are not being misappropriated [18].

Simultaneously, this phenomenon can also be explained through Signaling Theory. Management's decision to incur debt is often perceived by the market as a signal of optimism. Management will only dare to increase the debt burden if they possess strong confidence that future cash flows will be capable of covering those obligations [19]. Therefore, investors perceive this addition of debt as an indicator that the company is in a profitable expansion phase, thus exerting a positive impact on the PBV value [20].

The Influence of Firm Size (SIZE) on Firm Value

The results of the study indicate that Firm Size has a positive effect on PBV with a coefficient of 0.190. Through the lens of Signaling Theory, a large firm scale serves as a signal regarding stability and a low risk of bankruptcy [21]. Large companies typically possess a more established market share and easier access to funding, which provides an impression of "resilience" for investors [7]. It is this signal of stability that leads the market to assign a higher valuation compared to smaller companies [22].

In the context of Agency Theory, although large firms tend to have more complex information asymmetry problems due to their extensive organizational structures [23], these regression results indicate that the market continues to appreciate the benefits of economies of scale [24]. Investors tend to assume that in large and mature companies, internal monitoring and audit systems generally function more effectively; thus, the risk of conflict of interest between agents and principals can be further reduced, which ultimately impacts the strengthening of firm value in the eyes of the public [25].

The Simultaneous Influence of Profitability, Capital Structure, and Firm Size on Firm Value

Based on the results of the F-test (simultaneous), it was found that Profitability (ROA), Capital Structure (DER), and Firm Size (SIZE) collectively exert a significant influence on Firm Value (PBV). This indicates that in forming market expectations, investors do not merely rely on a single indicator, but rather perform a comprehensive evaluation of various fundamental aspects of the company in an integrated manner [26].

From the perspective of Signaling Theory, these simultaneous results demonstrate the existence of a cumulative signaling effect. Investors tend to provide a high

valuation (PBV) when the company is capable of delivering a package of positive information, consisting of profit acquisition efficiency (ROA), stable asset capacity (SIZE), and measured use of debt (DER) [8]. These signals reinforce one another; for instance, high profitability in a large company (SIZE) provides a significantly stronger resilience signal compared to high profitability in a small company [27]. The simultaneous presence of these signals reduces information asymmetry between internal company parties and the capital market, thereby triggering a collective positive market reaction [28].

Viewed from Agency Theory, this simultaneous significance reflects the success of managerial control mechanisms. The integration of ROA, DER, and SIZE illustrates how agents (managers) manage company resources for the benefit of the principal [6]. A large company scale provides a platform for management to operate, while capital structure (debt) acts as a disciplinary tool to ensure managers do not engage in wasteful spending, and profit (ROA) serves as tangible evidence of the agent's hard work [29]. These three factors together provide a guarantee for shareholders that agency conflicts are at a minimum level, which ultimately increases investor confidence to invest capital and raises the company's market value [30].

IV. CONCLUSIONS

Based on data analysis for the 2021-2024 period, it was found that Profitability (ROA) is the primary driver that has a positive and significant effect on Firm Value (PBV) within the Consumer Non-Cyclicals sector. This indicates that investors prioritize operational efficiency and the company's ability to generate profit over other factors. Conversely, Capital Structure (DER) and Firm Size do not have a partially significant effect, indicating that investors tend to be indifferent toward debt levels or the company's physical scale as long as earnings performance is maintained. Nevertheless, simultaneously, these three fundamental factors still provide a significant contribution to shaping market perception regarding the company's book value. This study has several limitations that need to be considered, particularly the relatively small Adjusted R-Squared value (9.24%), which signifies the presence of factors outside the model, such as dividend policy or macroeconomic conditions, that have not yet been accommodated. Furthermore, the limited sample coverage of 12 companies in the primary consumption sector, as well as the research timeframe situated during the post-pandemic transition period, may create specific and unique market behaviors. These conditions result in the research findings having limited generalizability if applied to more volatile industrial sectors or different economic periods. As a practical suggestion, company management is advised to focus more on cost-efficiency strategies to increase profit margins rather than merely conducting large-scale asset expansion. For investors, fundamental analysis should emphasize profitability ratios as the primary indicator in investment decision-making within this sector. For future researchers, it is highly recommended to expand the research variables by including non-financial aspects such as ESG implementation or macro variables such as interest rates, as well as broadening the sample coverage through comparative studies between sectors to enhance the explanatory power of the research model.

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