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The Effects of Profitability, Debt Policy and Dividend Policy on Company Value:

An empirical study on the manufacturing companies listed on the Indonesia stock exchange in the period of 2014-2016

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***Abstract*—This study aims to examine and analyze the effect of Profitability, Debt Policy and Dividend Policy on the Value of the Company. This study was conducted in Indonesia using a unit of analysis of go public manufacturing companies. The research population was a manufacturing company listed on the Indonesia Stock Exchange. By using purposive sampling method this research got 118 companies from 135 companies that had consistently announced complete report in 3 years. The data were analysed by multiple linear regression technique. The results showed that Profitability had no significant effect on the company values in the manufacturing companies on the Indonesia Stock Exchange. Debt policy had a positive significant effect on the company values in the manufacturing companies listed on the Indonesia Stock Exchange. Dividend policy had a positive significant effect on the company values in the manufacturing companies listed on the Indonesia Stock Exchange. The results of this study have implications for consideration for investors decision making.**

Keywords—profitability; debt policy; dividend policy; company value

I. Introduction

The main objective of company establishment is to maximize company value as reflected in the stock price. The higher the company value, the higher the value of the shareholder’s wealth. The high and low company value becomes an attraction for prospective investors in making investment decisions. Every go-public company certainly wants the stock price sold has potentially a high price that attracts investors to invest in the company [1]. The factors that can influence company value include profitability, debt policy, and dividend policy.

Profitability is an ability of a company to make profit in relation to sales, total assets and own capital [2]. One measure of profitability is *Return on Assets* (ROA) which shows the rate of return on an investment. Profitability is able to describe the amount of profit from invested capital. High profitability shows a high return on investment. High returns will attract investors to invest their funds in the company, so profitability may affect company value.

Profitability has a positive significant effect on company value [1,3,4,5]. On the other hand, the research of Moniaga found no effect of profitability on company value [6].

Debt Policy is a policy of whether a company's financing is financed with capital derived from long-term loans or own capital. This policy is called the Capital Structure of the Company with a high debt composition that will have a high risk. However, if the debt is used effectively, it can generate profits and can increase company value. This is because using higher debt will increase earnings per share. The increase in profit has an impact on rising stock prices which ultimately increases company value.

Debt policy has a positive significant effect on company value [3,7]. However, the results of the study contradicted the studies who found no significant effect of debt policy on company value [8,9].

Another factor that influences company value is dividend policy. Dividend policy concerns the issue of the use of profits which is the right of the shareholders. Investment activities carried out by companies are expected to provide optimal profit that is reused for investment activities or distributed to shareholders in the form of dividends [10]. An optimal dividend policy is a policy that creates a balance between current dividends and future growth so as to maximize stock prices [11].

Dividend policy has a positive effect on company value. This study used the basis of Signaling Theory with the development of the following hypotheses [8,10,12]:

A. *Effect of Profitability on Company Value*

Profitability is company's ability to make a profit, while profitability ratio is company's ability to make a profit in relation to sales, total assets, and own capital [2]. High profitability gives a positive signal to investors. Investors will get a high return too. The positive response has an impact on rising stock prices, which in turn will increase company value. Based on signaling theory, companies with favorable prospects will convince investors by showing high corporate profits, which has an impact on increasing share prices, and this also has an impact on the increasing prosperity of shareholders, which in the end the company's value will also increase.

The research on the effect of profitability on company value had been conducted by Mery [1]. The results of the study found that profitability has a positive significant effect on company value. This means that high profitability can increase company value reflected in the stock price. Profitability has a positive significant effect on company value [3,4,7].

H1: Profitability has a positive effect on company value

B. Effect of Debt Policy on Company Value

Company's funding needs can be met from internal and external funding sources. Debt policy is more widely used by companies than issuing shares, and this policy is considered safer. Therefore, it can increase company value because the use of debt can save taxes and increase profits per share. According to signaling theory, managers can use more debt as a signal that the company has good prospects in the future. Companies with profitable prospects will try to avoid selling shares and seek new capital in other ways such as using debt [7,11].

Debt policy has a positive significant effect on company value [3,7]. They conclude that; if there is a corporate income tax, the use of debt will increase company value because the cost of debt is a cost that reduces tax payments.

H2: Debt Policy has a Positive Effect on Company Values

C. Effect of Dividend Policy on Company Value

Dividend Policy is a decision on how much profit obtained by a company that will be distributed to shareholders and how much profit that will be retained in the company as additional investment. An optimal dividend policy is a policy that creates a balance between current dividends and future growth so as to maximize stock prices [11]. The balance is also expected to increase company value.

Dividend policy in this study was measured by dividend payout ratio (DPR). DPR is a part of net income distributed to shareholders in the form of dividends. Based on the Bird in the Hand Theory, the number of dividends distributed to shareholders is an attraction. Most investors tend to prefer dividends compared to capital gains because dividends are more certain. The number of investors who are interested in the companies that distribute dividends will have an impact on the increase in the company's stock price. With the rising price of these shares, it will ultimately increase the value of the companies. Dividend policy has a positive effect on company value [8,10,12].

H3: Dividend Policy has a Positive Effect on Company Value.

II. Research Method

A. Population, Sample and Sampling Techniques

The population used in this study were all manufacturing companies listed on the Indonesia Stock Exchange in the period 2014-2016. The sample determining method was purposive sampling which is defined as a sample determination technique with certain considerations. Using the sampling technique, the data obtained were 135 companies.

B. Operational Definition and Variable Measurement

Company value illustrates company success. Company value can be reflected in the stock price. In this research, the company value was measured using Price Earnings Ratio to Book Value (PBV). The ratio compared the share price per share with the equity book value per share [13]. The formula for calculating PBV is as follows: Share price per share/ Equity Book Value per share.

1) Profitability. The ratio of net earning to total assets measures the return on total assets (ROA) after interest and tax [11]. ROA ratio is stated as: Net Earning/ Total Assets.

2) Debt policy. The debt ratio in this study was represented by Debt Equity to Ratio (DER). DER describes the comparison between total debt and corporate equity used as a source of business funding [4]. DER can be calculated by the following formula: Total Debt / Total Equity

3) Dividend policy dividend. Dividend policy is related to the determination of the amount of Dividend Payout Ratio (DPR), which is the percentage of net earning after tax distributed as dividends to shareholders [14]. DPR is measured by: Dividend per share / Earnings per Share.

III. Results and Discussion

A. Multiple Linear Regression Analysis

Based on the table can be seen that the research data are normally distributed and free from multicollinearity, autocorrelation and heteroscedasticity.

TABLE I. THE OUTPUTS OF NORMALITY TEST, CLASSIS ASSUMPTION, AND REGRESSION

Normality			ZSkew = 1.66	ZKurt = 0.713	
Durbin Watston			1.056		
Determination coefficient			Adj R2 = 0177		
F-Test			F = 7398	Sig= 0.000	
multicollinearity			Heterocedastisity	t-test	
	Tol	**VIF**	**Sig**	**B**	**Sig**
Constants				0805	0.002
ROA	0.991	1.009	0.295	-0009	0.292
DER	0.990	1.011	0.126	0.811	0.013
DPR	0.982	1.018	0.055	1,621	0,000

From the research model test, it indicates that the variable of company value can be explained by the variables of profitability, debt policy and dividend policy around 17.7% and the remaining 82.3% is explained by other variables out of the model, while the F-test for the feasibility of the model above shows the significance value is 0.000 < critical value 0.05. Then, this means that the model used in this study is feasible to use.

From the regression test results, the following equation is obtained:

PBV = 0.805 - 0.009ROA + 0.811DER + 1.621DPR

B. Discussion

1) Effect of profitability on company values: The test results show that Profitability (ROA) has no effect on company value (PBV). High profitability indicates that a company is able to earn profits and, vice versa, low profitability shows that a company is able to earn low profits. The high and low profitability is not considered by prospective investors to decide on investment. The results of this study indicate that profitability is not able to give signals to investors that can be used as a basis for making decisions to buy the company shares. The influence of profitability shows that investors do not consider short-term earnings as a basis for decisions. Investors are more interested in using long-term earnings as a basis for their decisions. The results of this study indicate that profitability is not a signal for investors in making investment decisions.

Profitability has no effect on company value [6]. This research is contrary to the research results that profitability has a positive significant effect on company value [1,3,4,5]. This means that the higher the profit, the more attractive investors are to buy shares in the company. This is considered a good signal for investors.

2) Effect of debt policy on company values: The results of the tests above show that debt policy (DER) has a positive and significant effect on company value (PBV). High debt can increase company value because the use of debt can save taxes and increase profits per share. Based on signalling theory, increasing debt is considered a positive signal that the increase in debt is used for the development of the company's business. With the development of the company, it will increase the company's profits, so that the company's stock price will increasingly attract prospective investors,The development of the company's business will increase investor’s confidence and will eventually increase stock prices.

The results of this study corroborate the studies who found that debt policy has a positive significant effect on company value [3,7]. This shows for investors that if funds from debt are managed properly and effectively, the company can be developed better, so that the profits to be received by the company will also increase.

However, the results of this study are in opposite with the study of Rochmah with the result that leverage has a negative significant effect on company value [5].

3) Effect of dividend policy on company value. The test results above show that dividend policy has a positive significant effect on company value. The ability of the companies to pay dividends shows that the companies have good prospects. The good prospects of the companies will be responded by investors by buying the shares of the companies. With more and more investors interested in the companies’ stocks, the stock price will increase and ultimately increase the companies’ value. This is in line with signalling theory that the companies that share dividends are good news for investors, and the good news will be responded by buying company shares which will ultimately increase company value. The results of the study also show that in investing their funds in the form of shares, investors not only consider the difference in stock prices they have, but also the amount of dividends paid by the company that issued the shares.

The research results are support the studies that state dividend policy has a positive effect on company value [8,10,12]. This illustrates that the higher the Dividend Policy, the more attractive prospective investors are to buy shares in the company. However, the results of this study are not in line with the research of Semibiring and Rosma which state that Dividend Policy has no effect on Company Value [15].

IV. Conclusion

Based on the research entitled "The Effect of Profitability and Debt Policy on Company Value with Dividend Policy as Moderation Variable (An Empirical Study on the Manufacturing Companies listed on the Indonesia Stock Exchange for the Period 2014-2016)" and the analysis and testing results, it can be concluded that Profitability had no significant effect on the company values in the manufacturing companies on the Indonesia Stock Exchange. Debt policy had a positive significant effect on the company values in the manufacturing companies listed on the Indonesia Stock Exchange. Dividend policy had a positive significant effect on the company values in the manufacturing companies listed on the Indonesia Stock Exchange.

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