

# Building the Value of Mining Company Through a Financial Fundamental Theory Approach: Experience in Indonesia

Sriyono<sup>1\*</sup>, Dany Putri Ekawati<sup>2</sup>

<sup>1,2</sup> Faculty of Business, Law, and Sosial Science, Universitas Muhammadiyah Sidoarjo, Indonesia Sidoarjo

\* Email: [Sriyono@umsida.ac.id](mailto:Sriyono@umsida.ac.id)

## ABSTRACT

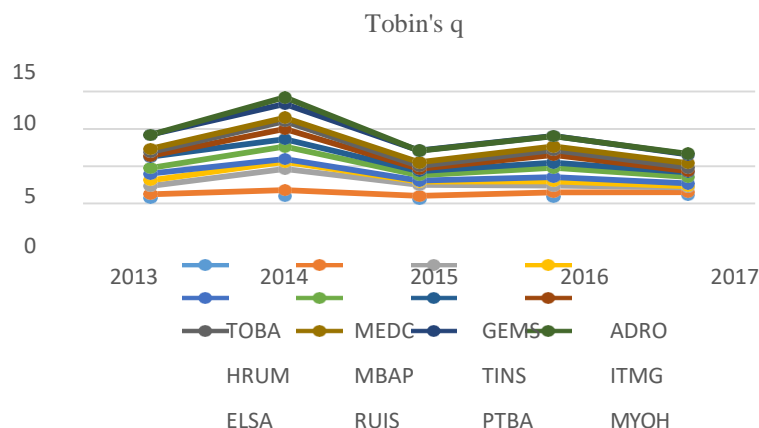
Previous researchers have researched mining quite a lot, but the study has a lot of theorizing on production, optimization, and risk. Research on the condition of the Company's economic micro has not done much before. This study aims to know and analyze Net Profit Margin, Earnings Per Share, and Growth Opportunity to The Company's Value. This study used a quantitative method, and the object of this research was conducted with population and sample purposive sampling obtained by 12 mining companies registered in IDX Data collection techniques using the annual report and data analysis techniques using data panel regression method with Common Effect model approach using Eviews 10. The results of this study found a link between Company Size, Net Profit Margin, Earning Per Share, and Growth Opportunity to The Company's Value. The conclusion is that Company Size and Net Profit Margin do not influence the Company's value. Earnings per share and Growth opportunities affect the value of the Company.

**Keywords:** Companies value, companies size, Net Profit Margin, Earning Per Share and Growth Opportunity.

## 1. INTRODUCTION

Mining conditions in Indonesia until now have a serious problem, in addition to the weak mastery of technology and human resource capabilities and low-risk prevention [1] so that with this weakness can reduce

the value of the Company. Investment in the mining sector and requiring large investments also has considerable risk, so that the level of uncertainty becomes high [2]. Some data show that the value of mining companies has decreased five years as shown in the chart below:



Sumber: [www.idx.ac.id](http://www.idx.ac.id)

Growth, Although the process and the risk, are high. [3]. The mining sector's nature and characteristics are different from other sectors where the mining sector requires huge investment costs and high risks, so this is an obstacle in its development. Therefore, when the investment is mined, careful planning is required, either from the results be disputed or the risks that will face [4].

Many other factors that cause a decrease in the value of the Company, results of the study are in line with the results of research from, [5], which stated that the size of the Company has a positive and significant effect on the value of Company[6][[7]. Meanwhile, according to [8], the Company's measurement is not meaningful to the Company's value [9].

Based on the research results, [10] showed that profitability measured by Net Profit Margin (NPM) has no significant effect on the Company's value. This shows that the profit earned by the Company can not necessarily increase the value of the Company. Based on research [11] it is known that Growth opportunity affects the value of the Company positively and significantly affects the Company's Value, but in other studies, negative and significant influence [12].

In the study [13], earning per share showed that earning per share has a significant positive influence,

**Table 1** Operational Definitions and Variable Measurements

Variable	Description	Formula	Measurement
Company Size	The number of assets measures the size of the Company	Size = Ln Assets	Nominal
Net Profit Margin	the ratio between net income after-tax or net income after tex	$NPM = \frac{\text{Net profit}}{\text{Sales}}$	Ratio
Earnings Per Share	earnings per share	$EPS = \frac{\text{laba bersih}}{\text{jumlah saham yang beredar}}$	Ratio
Growth Opportunity	Company growth	$g = r \times ROE$	Nominal
Companies Value	The value of the Company that is produced with the Value of Tobin Q	$\text{Tobin Q} = \frac{ME+DEBT}{TA}$	Nominal

### 2.1. Data Collection Techniques

This study's data is in the form of financial statements and annual reports on companies going public from the Indonesia Stock Exchange through the website www.IDX.co.id. The data will collect in his analysis to solve the problem and then concluded. Before the data is analyzed, a classic assumption test is conducted first, then the model estimates using the Eviews 10.0 analysis tool.

while the study results stated that Earning per share has no significant impact on the value of the Company. The increase in EPS is a phenomenon for companies because of the research results that show different results. So the Growth in EPS may be profitable for investors because the amount of profit per share is up, while for entrepreneurs can not necessarily increase the value of the Company.

This study aims to determine whether the fundamental financial theory reflected in financial ratios can provide enough information to evaluate the increase in the Company's value. It is essential for entrepreneurs because once the entrepreneur knows the increase in the Company's worth, the entrepreneur will have expectations for the rise in the share price.

## 2. RESEARCH METHODOLOGY

The type of data in this study is quantitative data. This research population is a mining company listed on the Indonesia Stock Exchange, the method of determining samples used in this study is the purposive sampling technique. The Company that is the selection must meet the criteria. The Company that meets the requirements desired by the researchers amounts to 60 samplings.

### 2.2. Data Analysis

The initial analysis used is to analyze the estimated regression of panel data through several tests, namely the Chow test, Hausman Test, and Lagrange Multiple Test. The classic assumptions to know the data problems to be used include normality, multicollinearity, heteroskedastic, and Autocorrelation. After that, a hypothesis test conducted.

### 3. RESULTS AND DISCUSSION

#### **Result Classic assumption test**

**Table 2.** Classic Assumtion Test

Variable	Normality	Multicollinearity	Heterokedasity	Autocorrelation
Size Companies	√	√	√	√
Net Profit Margin	√	√	√	√
Earnings Per Share	√	√	√	√
Growth Opportunity	√	√	√	√

Source: Data analysis results

Note: √: Valid

Based on the results of statistical analysis in Table 2, the data used are all valid and feasible to be processed at

the next stage, namely the data regression estimation panel

#### **Panel Data Regression Analysis**

**Table 3** Panel Data Regression Estimation Test Results

Parameter	Uji Chow	Uji Hausment	Uji Langrange Multiple
Cross-section Chi-square	0.0009	-	-
Cross-section random	-	0.2173	-
Cross-section Breusch-Pagan	-	-	0.016

Source: Data analysis results

The analysis results in Table 3 show that the panel data regression to be used is a common type of panel data. Through the results of this test, the analysis of the

hypothesis using the regression of random model panel data.

**Table 4** T-test analysis results

Variable	Coefficient	Std. Error	t-statistic	Prob.
Size Companies	-0.020916	0.01432	-1.462491	0.1493
NPM	-0.131009	0.76568	-1.437903	0.1561
EPS	0.001467	0.000266	5.518838	0.0000
GO	0.526612	0.096247	5.471446	0.0000
C	1.068483	0.295521	3.615594	0.0007

Source: Data analysis results

Based on the results of the data analysis in Table 4, can explain that t-test testing on company size variables, Net Profit Margin, Earnings Per Share and Growth Opportunity to the value of the Company can explain as follows:

#### **3.1 Relationship of Company Size to Company Value**

The size of the Company that does not have a significant effect means that the size of the Company is not a consideration for investors in investing. Positive value gives the meaning that the increasing importance of the Company.[14] The Company's extent is assessed from the total assets owned by the Company for its operational activities. The larger the Company, the greater the funds needed for the Company's operating activities. One of the sources of the Company's funds obtained from debts derived from external parties. So it can be concluded that the bigger the Company, the more outstanding the debt it has. [13]

The assets used as collateral to obtain the debt are more significant in value than the Company's return on investments. Thus, it shows the solvency between assets and debts to the Company. Unsolvability in the Company raises concerns for investors. This is due to the high risk in the Company, thus increasing the potential for bankruptcy.

The results of this study are not in line with the research conducted by [15] that the size of the Company significantly affects the value of the Company because large companies have easier access to the capital market so that the ability to get funds is greater compared to small companies. The larger the size of a company the higher the value of the Company.

#### **3. 2. Net profit margin relationship to Company Value**

The results of the study showed that Net profit margin (NPM) has no significant effect on the value of the Company that does not provide empirical evidence

that the higher net profit margin (NPM) will increase the Company's value [16]. This condition occurs because the Company makes a low profit from the sale, it will prevent investors from investing in the Company so that the Company's value will decrease [10]. Based on the results of regression testing (test), the hypothesis states that the Company's profitability that projected with Net Profit Margin has a significant effect on the value of the Company can be accepted.[17] Showing that the higher the net profit margin the Company eats indicates that, the higher the Company's net profit margin will impact the increase in the Company's Value which will increase as well [18] [19].

### **3.3. Earning Per Share Relationship to Company Value**

Based on the results of the study shows that Earning per share has a significant favorable influence. This means that if the EPS increases, then the Company's value will increase, and vice versa if the EPS decreases, then the Company's value will fall. The results of this study show that Earning Per-share has a significant favorable influence. If the EPS increases, then the Company's value will increase, and vice versa. If the EPS decreases, then the Company's value will decrease. This study's results strengthen the results of previous research [22], where it concluded that Earning Per Share affects the value of the Company in manufacturing companies. Companies can be said to maximize the value of the Company if the profit per share they earn continues to increase. A high EPS value will show good performance. The increasing EPS may indicate the Company's prospects. The results of the study stated that Earning per share has no significant influence on the value of the Company

### **3.4. Growth Opportunity's Relationship to Corporate Value**

Based on the regression testing results (t-test), the hypothesis states that growth opportunities have a significant effect on the Company's value received. This indicates that the higher the Growth of the Company will have an impact on the increase in the Company's value that will increase as well. Growth opportunity provides an overview of how investors value the Company and are willing to invest in the Company. Companies with the potential to grow will have a relatively higher value than their real assets (assets in place). High-growth companies generally need external funds to expand [20].

The Company's growth rate is one of the fundamental factors assessed by investors because if the Company's growth indicates that the Company has been well established in its business activities, the Company's performance is also useful in obtaining the Company's return and value as expected. This study's results are in line with research conducted by [12], which states that

Growth Opportunity has a significant impact on the Company's Value.

This study's results are not in line with [21] that Growth opportunity does not affect the Company's value. That the higher the growth opportunity of the Company, the higher the value of the Company. Indicating that companies with high sales growth will impact increasing the value of the Company, sales growth will be accompanied by an increase in the Company's operating expenses, which will reduce the profit generated.

## **4. CONCLUSION**

The value of a company is significant to increase the share price. The high value of the Company will attract investors to buy those shares. To obtain the Company's worth, it must increase the steps to grow some of the Company's finance's fundamental variables, namely the Company's growth opportunity, and improve the Company's net profit margin.

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