Research Article

Effect Of Profitability On Company Value When The Covid-19 Pandemic In The Sector Of Telecommunication Companies Registered On The Indonesian Stock Exchange

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Abstract: The purpose of this study is to empirically prove the effect of return on assets (ROE) on earnings per share (EPS) during the Covid-19 pandemic. The sample used is a telecommunications company listed on the Indonesia Stock Exchange (IDX) for 2020. The data is obtained from quarterly financial reports in 2020. The test in this study uses simple linear regression. The results showed that profitability had an effect on firm value in telecommunications companies. In addition, it can be observed that the growth of ROA and EPS during the 3 quarters of 2020 has fluctuated.

Keywords: Profitability and Company Value.

1. Introduction

The development of the impact of the Covid-19 pandemic has hit on many aspects, including the decline in the world economy. The economic aspect is one of the priorities for post-health recovery. The Indonesian government continues to encourage economic growth by issuing national policies. In its development, the Indonesian government also urges entrepreneurs and the public to carry out activities in a new normal way. This is due to changes in people's behavior in working, studying and carrying out business processes using more support from telecommunications infrastructure. Utilization of telecommunications infrastructure is expected to encourage economic recovery and growth in Indonesia.

This also triggers the telecommunication industry to provide reliable products and services, because telecommunications has become one of the most important pillars of people's needs today. Telecommunication companies currently need to obtain capital funding resources to continue to grow and operate from the support of stakeholders. Conversely, stakeholders need company performance information to make the right business decisions. In line with the increasing need for information and communication technology, it is hoped that investors will be able to read more about investment opportunities and invest in advancing the telecommunications industry in Indonesia.

Transparency of corporate financial reports related to the performance and value of telecommunications sector companies during the Covid-19 pandemic is increasingly needed to make business decisions by investors and stakeholders. Through this information, it is hoped that stakeholders will be more eager to encourage the company's performance to be better. An increase in company performance is closely related to company value. Firm value is the stock market value that reflects the owner's wealth. The higher the price of traded shares, the higher the owner's welfare, and vice versa (Rini and Febriani, 2017; Akin, 2019).

The company's performance can be measured from a financial and non-financial perspective to provide a signal to stakeholders. Financial performance analysis is shown in published financial reports, by calculating return on assets (ROA), economic value added (EVA), return on equity (ROE), earnings per share (EPS), return on investment (ROI), return on sales (ROS), and Tobin's Q. Through the measurement of the company's financial performance, it can show the results of activities in the management of all resources in the company.

Previous research conducted by Wartono (2018), states that partially Return On Asset (ROA) and current ratio have a significant effect on earning per share (EPS). Research with the same results was conducted by Lestiningsih (2017), namely ROA and ROE had an effect of 67.2% on the EPS variable. From several previous studies, it can be concluded that earnings per share (EPS) can predict the value of the company in the future. This research was developed descriptively to prove empirically the influence between return on assets (ROA) and earnings per share (EPS), in order to predict the relationship between profitability and firm value in telecommunication companies during the Covid 19 pandemic.

In accordance with the background that has been described, the problem in this study is an analysis of company value and the effect of profitability on company value during the Covid-19 pandemic.

2. Literature review

Company Performance

The success of an organization or company in achieving its goals and meeting the needs of stakeholders is highly dependent on the performance and managers of the company in carrying out their responsibilities. Company performance can be reflected through financial performance analyzing and evaluating financial reports. Performance appraisal is carried out to determine the results and activities that have been carried out compared to the previously established performance standards.

According to Pratowo and Juliaty (2002), a process for examining the elements contained in financial reports which aims to obtain the right results so that they can be used to measure the company's financial condition is called financial ratio analysis. Ditinjua from the information on financial conditions, there are 5 measures of financial ratios, namely: liquidity ratios, leverage ratios, activity ratios, profitability ratios and assessment ratios. Valuation ratio is the ratio used to create market value so that it exceeds the cost of capital.

One form of measure of the level of profitability is Return on Assets (ROA). ROA describes the entity's ability to generate profits from total assets under management. The ROA variable is expressed as the ratio of EBIT (Earnings before Interest and Taxes) to total assets.

Corporate value

The corporate value is the investor's reaction of the company's success rate which is often connecting with stock prices. High share prices make the company value high, and increase market confidence not only in the company's current performance but also in the company's future prospects. According to Adenso (1997), a stock can be used as a means of measuring company efficiency. If the stock price reflects all information about the company in the past, present and future, then the increase in share price can be considered as an indication of an efficient company.

Hypothesis Development

Economic growth for several quarters of this year continued to decline due to the Covid-19 pandemic which had an impact on the profitability of many companies. However, the trend of society's need for technology and communication has increased rapidly. This creates new opportunities for telecommunication companies to set strategies to produce telecommunication products and services to meet the needs of society. The telecommunication sector industry should have increased sales that can increase profitability and company value. These assumptions make investors and stakeholders even more eager to invest.

Investors need continuous information on the profitability and value of the company to make investment decisions. The right investors' decisions can determine the company's survival in a sluggish economy. In this study, empirically tested the effect of profitability and firm value on telecommunications sector companies during the Covid-19 pandemic. A similar study was conducted by Yunina et al (2009), which found that return on assets and return on equity together had a significant effect on earnings per share at PT. Bank Muamallat Indonesia, Tbk.

This research is provide information to stakeholders about the effect of profitability and company value on telecommunications companies with quarterly data in 2020. The observation subjects used are telecommunication companies listed on the BEI. The hypothesis is:

H1: The effect of Profitability to company value.

3. Research methods, results and discussion

Research Methods

Data Types and Sources

The research method used is a qualitative approach. The qualitative approach method aims to measure the effect between the independent variable in the form of profitability and the dependent variable in the form of company value. The data used in this study is secondary data in the form of quarterly financial reports on telecommunications sector companies listed on the BEI for the first to third quarter of 2020. Quarterly financial report data is obtained through the website www.idx.co.id

Each research variable operational definition is explained in table 1:

Table 1. Definition of Variable Operations

Variable Name	Indicator	Formula	Scale
Independen: Profitability	*Return on Asset* (ROA) = Measuring economic profits by calculating total assets	$ROA = \frac{EBIT}{Total\ Asset}$	Ratio
Dependen: Company Value	Earning Per Share (EPS) = Measures the income of each share outstanding	EPS=Net Income divided by outstanding shares	Ratio

To test the hypothesis, a simple regression equation model is used as follows:
Regression Equation Formulas
EPS= α + β_1ROA + ε
Information:
EPS = *earning per share*
ROA= return on assets
ε = default error

This equation is used to determine the impact of return on assets (ROA) on the price of outstanding shares (EPS). This study uses regression with panel data to analyze variables that influence each other. The goal is that the estimation results obtained are better, because the increase in the number of observations has an impact on the standard error. The data in the research were from the financial statements of telecommunications companies with cross section criteria. Then the quarterly observation period during 2020 in a row (time series).

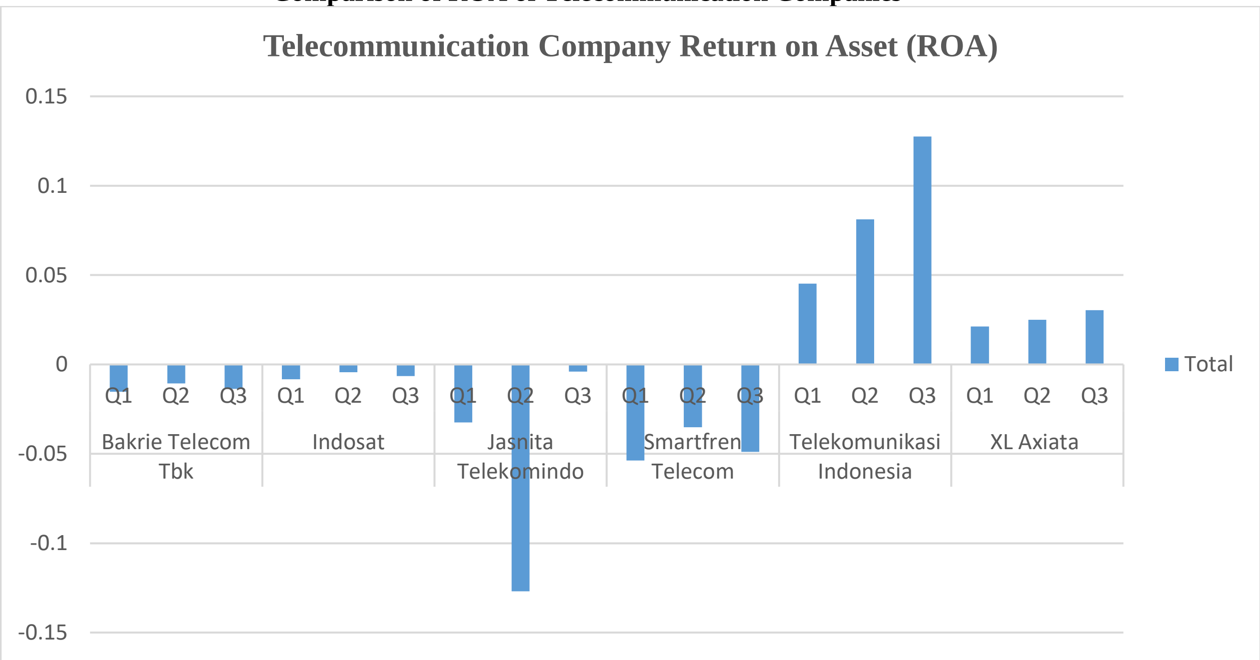
4. Results and discussion

Research Result

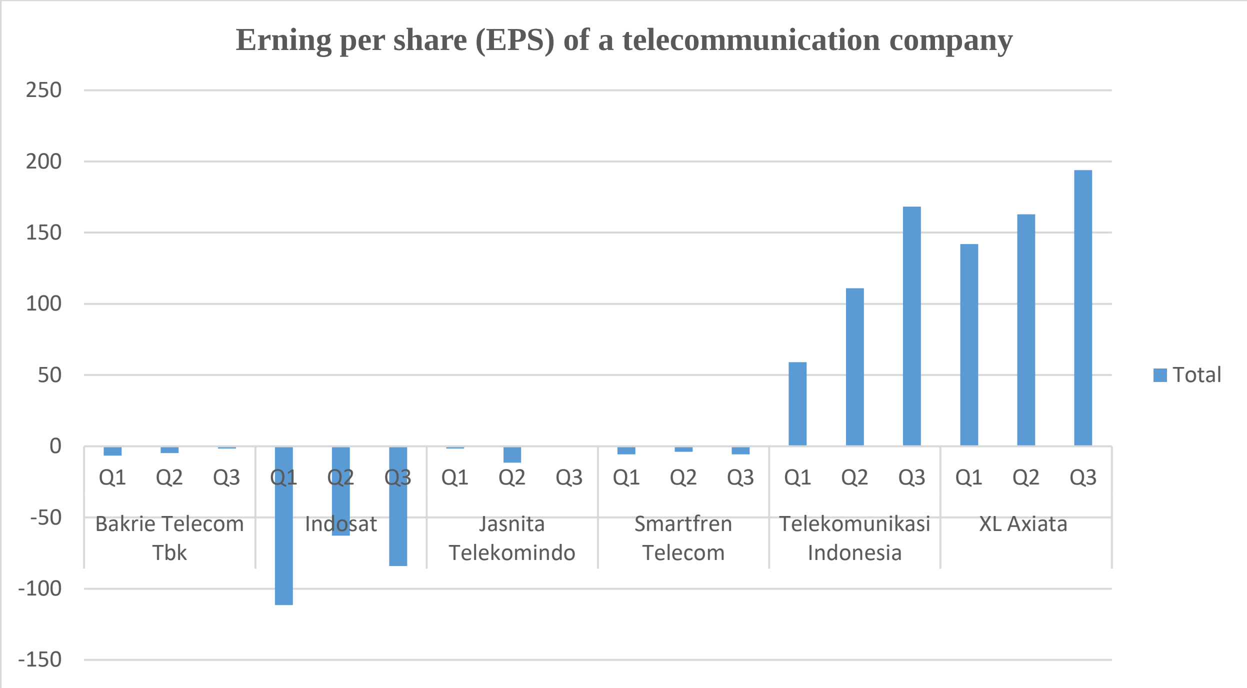
The companies studied were 6 telecommunications companies listed on the BEI with the research period from the first to the third quarter of 2020.

1. Description of ROA and EPS of telecommunications companies

Image 1
Comparison of ROA of Telecommunication Companies



Imege 2
Comparison of EPS of Telecommunication Companies



Figures 1 and 2 briefly show the ROA and EPS of telecommunications companies for the 3 quarters of 2020. The profitability shown by ROA has a movement pattern that is relatively the same as that of the company value indicated by EPS.

2. Testing the Coefficient of Determination

In this test, it will empirically prove the effect of ROA on earnings per share (EPS). The following shows the results of the coefficient of determination (R2) in table 2:

Table 2 First Coefficient of Determination
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.613[a]	0.375	0.336	72.92648

a. Predictors: (Constant), ROA

b. Dependent Variable: EPS

The results of table 2 it can be explained that the R-Square value in the first coefficient test is 0.38 or 38%. The value of R-Square shows that ROA can affect the variable earnings per share (EPS) by a value of 38%, the rest is explained by variables outside this model.

a) Hypothesis Testing

The testing of hypothesis in this research uses simple regression analysis. According on the results of data processing with SPSS, then statistical hypothesis testing is carried out using the t test and F test. The results of the t test and F test are presented in tables 3 and 4, as follows:

Table 3 T Test
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	31.468	17.197		1.830	0.086
	ROA	999.162	322.248	0.613	3.101	0.007

a. Dependent Variable: EPS

Table 4 F Test

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	51128.425	1	51128.425	9.614	0.007[a]
	Residual	85092.349	16	5318.272		
	Total	136220.774	17			

a. Predictors: (Constant), ROA
b. Dependent Variable: EPS

The t test results show that the effect of the ROA variable on earnings per share (EPS) is as follows:

EPS= 149,8 + 22,59ROA + ε

According on the results of the F statistical test in table 4, the ROA variable has a significant positive effect on EPS, with a significance value of 0.007 which is smaller than the critical value of 0.05. Thus the test results prove the acceptance of H1 and H0 is rejected, which means that the regression model of this study has a significant positive effect.

Discussion

From the comparison of ROA and EPS movements in telecommunication companies, it shows that there is a fluctuating value. The movement of the ROA value is followed by the movement of EPS with the same pattern. However, not all telecommunication companies showed a constant increase in ROA and EPS during the last 3 quarters of 2020. Constant movements only occurred for Indonesian telecommunication companies and XL Axiata. This indicates that the performance and value of telecommunications companies in the midst of the Covid-19 pandemic are still not improving as a whole. Telecommunication companies still need to create reliable telecommunication products and services to seize opportunities related to high customer needs.

The test results on the return on assets (ROA) have a significant positive effect to earnings per share (EPS), with a significance value of 0.007. This indicates that the variable return on assets (ROA) can explain the variable earnings per share (EPS). The increase in profitability can indicate positively on the value of the company at the telecommunication companies. Investors can use profitability information to make investment decisions in telecommunications companies, because it can increase the company value and its stakeholders. The results of this study are in line with research by Dias and Jufrizen (2014) which states that return on assets and return on equity have a significant effect in increasing firm value.

5. Conclusion and suggestion

Conclusion

1. The comparison between ROA and EPS has a fluctuating value. This shows that there has not been a constant increase in performance and company value in telecommunications companies throughout 2020. Telecommunications companies need to improve their performance to seize opportunities amid the Covid-19 pandemic.

2. The results of hypothesis testing show that return on assets (ROA) has an effect on earnings per share (EPS). This can indicate that profitability affects the value of the telecommunications company. Stakeholders can use this information to make investment decisions because it can increase company value in telecommunications companies.

Suggestion

Suggestions for future researchers are that researchers can use company value indicators such as Economic Value Added (EVA) because EVA includes financial and non-financial aspects, and uses data from the annual report

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