

The Effect of Return of Equity on Company Value with Profitability As A Moderating Variable

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ABSTRACT

This research is a quantitative research with an explanatory approach, namely an approach that relies on the research objectives of previous research and adds new variations as novelty value to the research being carried out (Abdurahman, 2016). The data used in this study are quantitative data that the researcher obtained from primary sources, namely finance companies listed on the Indonesian stock exchange from 2015 to 2025. The data obtained were analyzed using the smart PLS 4.0 analysis tool. The conclusion in this article show that the Return on Equity variable can have a positive relationship direction and a significant influence on the Company Value variable because the P-Values value is positive and is below the significance level of 0.05, namely 0.011. These results are in line with the research are not in line with the research . In addition, the Profitability variable can also moderate the influence of the Return of Equity variable on the Company Value variable because the same thing the P-Values value is positive and is below the significance level of 0.05, namely 0.000. Thus, it can be concluded that the first and second hypotheses in this article can be accepted and proven.

Keywords: *Return Of Equity, Company Value, Profitability*

INTRODUCTION

Return on equity is a profitability ratio that measures the ability to generate profits from shareholders' investments in the company (Agustine, 2013). In other words, return on equity indicates how much profit a company can generate for every rupiah invested by shareholders. Return on equity is usually expressed as a percentage. Return on equity is also a crucial ratio because it is the net profit for shareholders divided by total shareholder equity. Shareholders naturally desire a high rate of return on their invested capital, and return on equity indicates this rate. A high return on equity reflects a company's success in generating profits from its own capital. An increase in return on equity will also boost the company's market value, which in turn impacts the stock price. The higher the return on equity, the greater the net profit. Dividend distributions to shareholders will naturally be higher, resulting in increased stock returns. A low return

on equity reflects a company's low net profit. This results in the company's shares being less attractive to investors, which, as a result of low dividend distributions, reduces investor interest in the stock (Pratiwi, 2020).

According to (Faruq, 2017), ROE is "a ratio used to measure the ability of equity to generate profits for all shareholders, both common and preferred stock." Kasmir (2016) states that the ratio is used to assess a company's ability to generate profits. ROE, according to (Brigham & Houston, 2010), is "the most important ratio because shareholders certainly want a high rate of return on the capital they invest and shows the level they earn." According to (Lince Bulutoding, Rika Dwi Ayu Parmitasi, 2016), ROE is "one of the ratios that can measure a company's ability to generate profits and provide information to investors regarding the rate of return or return on capital that has been invested in the company. The higher the ROE level, the greater the net profit generated from equity, a sign that the company is able to generate high profits."

The benefits obtained from using the ROE ratio based on (Amelia, 2022) are to: 1. Know the amount of net profit after tax with own capital. 2. Know the productivity and overall production capacity of the company's funds that have been used. 3. Inform the effectiveness of the use of owned or borrowed capital. Meanwhile, the objectives based on (Safitri, 2021), namely: 1. Calculate the amount of net profit after tax with owned capital. 2. Estimate the company's overall productivity data whether used loans or owned capital. Based on the Return of Equity above, researchers believe that Return of Equity can have a positive relationship direction and a significant influence on Company Value.

According to (Supriadi & Ariffin, 2013), company value is "a certain condition that has been achieved by the company and then becomes a reflection of public trust after going through a process of activities for several years, namely from the time the company was founded until now." According to (Chandra & Budhidharma, 2022), company value is "investor perception of the level of success of managers in managing the company's resources entrusted to them, which is often associated with stock prices." According to (Miranda Agustin Wulandari, 2022), company value is the selling value of a company as an operating business. The existence of excess selling value over liquidation value is the value of the management organization that runs the company. Based on several opinions above, it can be concluded that company value is a natural value of the company that can explain the views of capital owners to the company concerned and is often associated with the value of the company's shares.

Several studies by (HJ. ADILLA VADILLA K, 2021) show that ROE, Company Size, Price Earning Ratio, and Capital Structure have a simultaneous influence on company value, and Return on Equity partially has a significant influence on company value and company size partially has no significant influence on company value. Research by

Wastam Wahyu (2019) states that company size is proven to have no significant effect on company value, ROE is proven to have a positive and significant effect on company value. Research by (Kasmir, 2006) shows that ROA has a positive and significant effect on company value, ROE shows a negative and significant effect on company value. In contrast to the number of studies above, research by (PUTRI, 2024) shows that ROE has no significant effect on company value, ROA does not have a significant effect on company value, company size has a significant effect on company value, then ROA, ROE, and company size simultaneously have a significant effect on company value.

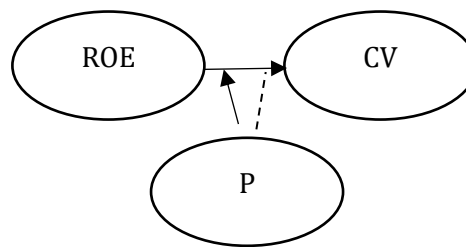
Unlike the four studies above, this article adds profitability as a moderating variable believed to strengthen the influence of ROE on firm value (Oktavia & Fitria, 2019). Profitability, or the ability to generate profits, is a percentage measure used to assess a company's ability to generate profits at an acceptable level. According to (Muhammad, 2019), profitability is a company's ability to generate profits within a specific time period. Meanwhile, (M. Hanafi, 2015) define profitability as the net result of a series of policies and decisions. Profitability can be determined by calculating various relevant benchmarks. One such benchmark is financial ratios, which are used to analyze a company's financial condition, operating results, and profitability.

According to (Kasmir, 2015) explains that measurement results can be used as an evaluation tool for management's performance, determining whether they have been working effectively. Failure or success can be used as a reference for future profit planning, as well as the possibility of replacing new management, especially after the old management has failed. Therefore, profitability is often referred to as a measure of management performance. Several indicators that can be used to measure profitability are (Kasmir, 2010): 1. Gross Profit Margin (GPM) GPM reflects the mark-up on the cost of goods sold and management's ability to minimize the cost of goods sold in relation to the company's sales. If the cost of goods sold increases, the GPM will decrease, and vice versa. The higher the GPM ratio, the better the company's operating conditions. Conversely, the lower the GPM, the worse the company's operations (Gitman, 2006). 2. Net Profit Margin (NPM) NPM is a measure of a company's profitability from sales after accounting for all costs and income taxes. This ratio serves to measure the rate of return on net profit to net sales. NPM is often used to evaluate a company's efficiency in controlling sales-related expenses. The higher the NPM, the better the company's operations and vice versa. 3. Operating Ratio Margin (OPM): The operating ratio shows how much cost is sacrificed in sales or what percentage of costs are incurred in sales. The operating ratio reflects the level of company efficiency so that a high ratio indicates a less than good condition because it means that every rupiah of sales absorbed in costs is also high, and what is available for profit is small. 4. Return On Investment (ROI) or Return On Asset (ROA): ROI

or commonly called Return On Asset (ROA) shows the company's ability to generate profits from the assets used. Return On Asset (ROA) is the most important ratio among the existing profitability ratios (Sari, 2021).

RESEARCH METHODS

Figure 1
Model



Noted:

ROE: Return on Equity

EV: Company Value

P: Profitability

Hypothesis:

H1: The Influence of Return on Equity on Company Value

H2: Profitability Can Moderates The Influence of Return on Equity on Company Value

The diagram above shows that this article aims to analyze the influence of the Return on Equity variable on the Company Value variable. This research is in line with a number of previous studies, namely research (HJ. ADILLA VADILLA K, 2021); (Kasmir, 2018). Research (HJ. ADILLA VADILLA K, 2021) & (Kasmir, 2018) shows that the ROE variable can have a positive relationship direction and a significant influence on Company Value. In contrast, research (PUTRI, 2024) does not have a positive relationship direction and a significant influence on Company Value. In contrast to research (HJ. ADILLA VADILLA K, 2021); (Kasmir, 2018) & (PUTRI, 2024), this article adds the Profitability variable as a moderating variable that the researcher believes can strengthen the influence of the Return on Equity variable on the Company Value variable (Jonathan Sarwono, 2016). This research is a quantitative research with an explanatory approach, namely an approach that relies on the research objectives of previous research and adds new variations as novelty value to the research being carried out (Abdurahman, 2016).

The data used in this study are quantitative data that the researcher obtained from primary sources, namely finance companies listed on the Indonesian stock exchange from 2015 to 2025 (Sugiyono, 2019). The data obtained were analyzed using the smart PLS 4.0 analysis tool with a comprehensive explanation below (Sugiyono, 2019) & (Sugiyono, 2015).

RESULT AND DISCUSSION

Background Analysis

Return on equity is a profitability ratio that measures the ability to generate profits from shareholders' investments in the company (Agustine, 2013). In other words, return on equity indicates how much profit a company can generate for every rupiah invested by shareholders. Return on equity is usually expressed as a percentage. Return on equity is also a crucial ratio because it is the net profit for shareholders divided by total shareholder equity. Shareholders naturally desire a high rate of return on their invested capital, and return on equity indicates this rate. A high return on equity reflects a company's success in generating profits from its own capital. An increase in return on equity will also boost the company's market value, which in turn impacts the stock price. The higher the return on equity, the greater the net profit. Dividend distributions to shareholders will naturally be higher, resulting in increased stock returns. A low return on equity reflects a company's low net profit. This results in the company's shares being less attractive to investors, which, as a result of low dividend distributions, reduces investor interest in the stock (Pratiwi, 2020).

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Validity Test

Although the data used in this study is secondary data obtained indirectly from the Indonesian Stock Exchange, it still needs to go through a validity test as a starting point before entering the next stages, namely the reliability test and the path functionality test. To understand these results, the following validity test results are included in this article (Ghozali, 2016).

Table 1
Validity Test

Variable	Loading Factor	Noted
Return on Equity	0.873	Valid
Company Value	0.921	Valid
Profitability	0.917	Valid

Valid > 0.70

Reliability Test

After determining the validity of the ten-year data obtained from the Indonesian

Stock Exchange, the researchers then proceeded to the next stage, namely the reliability test. This test aims to determine whether the variables used in this study—Return on Equity, Company Value, and Profitability—are reliable. Based on this, the following reliability test results are presented in this article (Hair, 2010).

Table 2
Reliability Test

Variable	Composite Reliability	Cronbach Alfa	Noted
Return on Equity	0.896	0.845	Reliable
Company Value	0.923	0.875	Reliable
Profitability	0.972	0.921	Reliable

Reliable > 0.70

Path Coefisien

The final stage is the Path Efficiency stage, which serves to determine whether the hypotheses used in this article can be proven or disproven. The research hypothesis is that variables can have a positive relationship and a significant influence on Return on Equity, and that Profitability can moderate the effect of Return on Equity on Company Value. The following are the results of the hypotheses in this study (Sarstedt et al., 2014).

Table 3
Path Coefisien

	Variable	P-Values	Noted
Direct Influence	ROE->CV	0.011	Accepted
Indirect Influence	P* ROE->CV	0.000	Accepted

Significant Level & Accepted < 0.05

The results of the third table of Path Efficiency above show that the Return on Equity variable can have a positive relationship direction and a significant influence on the Company Value variable because the P-Values value is positive and is below the significance level of 0.05, namely 0.011. These results are in line with the research (HJ. ADILLA VADILLA K, 2021) & (Kasmir, 2006) and are not in line with the research (PUTRI, 2024). In addition, the Profitability variable can also moderate the influence of the Return of Equity variable on the Company Value variable because the same thing the P-Values value is positive and is below the significance level of 0.05, namely 0.000. Thus, it can be concluded that the first and second hypotheses in this article can be accepted and proven.

CONCLUSION

The conclusion in this article show that the Return on Equity variable can have a positive relationship direction and a significant influence on the Company Value variable because the P-Values value is positive and is below the significance level of 0.05, namely 0.011. These results are in line with the research [10] & [11 and are not in line with the research [12]. In addition, the Profitability variable can also moderate the influence of the Return of Equity variable on the Company Value variable because the same thing the P-Values value is positive and is below the significance level of 0.05, namely 0.000. Thus, it can be concluded that the first and second hypotheses in this article can be accepted and proven.

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