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Effect of Return on Assets and Current Ratio on Company Value in the Coal Industry in Indonesia for 2014 to 2017

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The purpose of this study was to determine the effect of return on assets and the current ratio on the value of the company in the coal industry in Indonesia. Research data is taken from financial statements for the period of 2014-2017. The sampling technique uses purposive random sampling with a sample of 18 samples from 23 populations listed on the IDX. This study uses multiple linear regression analysis with panel data. The empirical results show that the return on assets has an influence on firm value, and the current ratio has no impact on firm value. The variables used have a contribution of 40.27% in the model, while the remaining 59.73% is influenced by variables not examined.

Key words: *Return on asset, Current ratio, Firm value, Coal industry.*

Introduction

One of the effects of the global crisis is the unstable value of a company. The value of a company in Indonesia is weak, thus endangering the welfare of its shareholders. Improving company performance could encourage the tendency of stock values to increase in order to boost the confidence of investors. Every company that has gone public certainly wants the stock price to have a high potential price that could attract investors to invest their funds in the company. Hence, the higher the stock price, the higher the value of the company. Increasing the value of the company also provides an increase in the prosperity of the owners or shareholders (Mery and Kurnia, 2017).
The economic condition of mining is capable of having an impact on Indonesia's economic stability. The mining industry's business activities in Indonesia have grown rapidly, with the increasingly sophisticated technology in mining, natural resources such as gold, silver and

copper in the mining industry have been thoroughly explored. One sector that can be used as a pillar in terms of economic development is the coal industry, where the export value for this industry has a high value and thus significantly contributes to national income.

Table 1: Coal Production, Export, Consumption and Prices Period 2014 – 2017

Year	Production (million tons)	Export (million tons)	Domestic (million tons)	Price (USD ton)
2014	458	382	76	72.6
2015	461	375	86	60.1
2016	456	365	91	61.8
2017	461	364	97	NA
2018	425	311	114	NA

Source: Indonesian Coal Mining Association & Ministry of Energy and Mineral Resources

The coal industry is a large source of income for Indonesia. This industry is a sector that is quite influential in global economic conditions. Data shows that in 2016, Indonesia was the fifth ranked nation in terms of the volume of their coal production with a total of 255.7 million tons of oil.

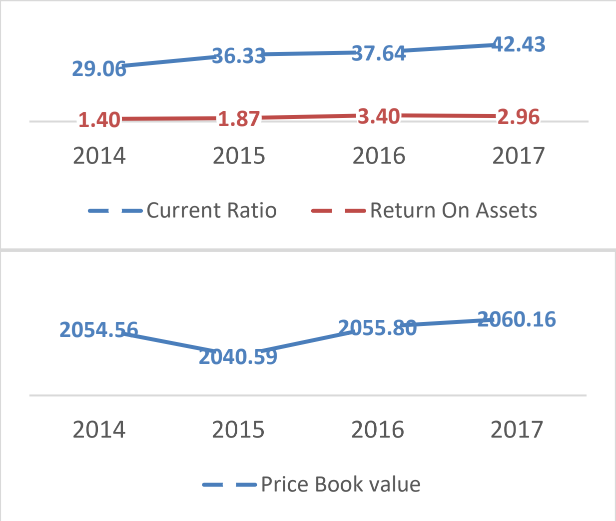
Table 2: World coal producer in 2016 (in million tons of oil)

No	Negara	Volume Produksi
1	China	1685.7
2	Amerika Serikat	364.8
3	Australia	299.3
4	India	288.5
5	Indonesia	255.7
6	Rusia	192.8
7	Afrika Selatan	142.4

Sumber: BP Statistical Review of World Energy 2017

A company must try to maintain its value as reflected by the price of the company's shares on the stock exchange. To maintain the value of a company, they must positively impact their financial side, specifically their profitability. The purpose of a company is to maximize company value or wealth for shareholders. Maximizing company value is considered more appropriate as the goal of a company. Maximizing company value means maximizing the value of profits that will be received by shareholders in the future. The value of the company is reflected in a stable stock price with long term increases. The higher the stock price, the higher the value of the company. Companies who continue to decline in value will not attract investors. Thus, coal companies must be able to produce good corporate value so investors are interested in investing their capital.

Figure 1. Current ratio, return on assets and value of coal industry companies



Source: data processed

For a company to be able to carry out its operations they must be in a favourable condition. Without profit, it will be difficult for companies to attract capital from outside investors. Companies that have a high level of profitability will be attractive to investors. Wijaya and Sedana (2015) say that profitability can affect company value. This is because the increase in profits raises a positive response from investors who can subsequently increase stock prices in the market which ultimately increases the value of a company in the eyes of investors. Profitability reflects a company's ability and efforts to generate profits in its operations. Profitability will generate additional funds for a company whether it will be included in retained earnings or directly used for investment (Hudan, et al, 2016). The level of profitability affects investors' perceptions of a company's growth prospects in the future. Companies that have good prospects in the future have a high level of profitability. Good profitability will increase the likelihood of other companies and creditors to invest in a company. High profitability shows good company prospects so investors are likely to respond positively to these signals and the value of the company will increase (Lubis, et al, 2017). But this theory is inversely proportional to what be seen in Figure 1 above. Figure 1 shows that when profitability experienced a rise in 2014-2015 the value of the companies in the same time period actually decreased. A similar phenomenon can also be seen in 2016-2017 as companies profitability decreased but the values actually increased.

Liquidity is a ratio used to measure the level of a company's ability to meet short-term financial obligations on time. High levels of liquidity will minimize the failure of companies to meet short-term financial obligations to creditors. This high and low ratio will affect investors' interest to invest their funds (Widyamukti and Wibowo, 2018). The greater the ratio, the more efficient the company is in utilizing current assets. High liquidity companies have a positive influence on a company's performance. Company managers need to maintain a good level of company liquidity because if the level of liquidity is good then the company will be effective in generating profits. This will have an impact on financial performance and investors will have confidence in, and invest in, the company (Esthirahayu, 2014). In figure 1, it can be seen that in 2014-2015 companies' liquidity ratio increased while companies' value in that year actually decreased. This is also inversely proportional to the theory that when companies experience an increase in fulfilling their obligations to pay off short-term debt, it should attract investors and cause an increase in the value of the company.

Research proves that profitability has a positive and significant effect on a company's value (Dewi and Wiraraja, 2013; Hussain, Sallehuddin, Shamsudin & Jabarullah, 2018). This is reinforced by research from Dj, et al (2012) that profitability has a positive and significant effect on a company's value. The results of this study contribute to the research of Gusaptono (2010), that profitability has a negative but not significant effect on corporate value creation. Research on the effect of liquidity on the value of the company has been carried out. Research from Wulandari (2013) and Nurhayati (2013) provides results that suggest that liquidity does not affect the value of a company. While the research of Rompas (2013) states that liquidity does affect the value of a company. Based on the above, it can be seen that overall the research on profitability and liquidity shows that they do affect the value of a company. However, there are limited studies which assess the return on assets and current assets affecting the value of a company.

Research problem

1. How does the return on assets affect the value of the company in the coal industry
2. How does the current ratio affect the value of the company in the coal industry

Literature study

Susilawati (2012) explains that profitability describes the ability of a company to make a profit through all available capabilities and resources such as sales activities, cash, capital, number of employees, number of branches, and so on. The high profitability of a company can affect the value of a company and that depends on how investors perceive the increase in a company's profitability. Profitability is an indicator that investors often use to see the value of a company.

Profitability can provide an overview of the profits that will be obtained by the company in a certain period. Profitability also shows the development of profits across a time period, which is useful information for the company itself and as well as outside parties. The profitability ratio shows the combined effect of liquidity, asset and debt management on the results of operations. In addition, net profit margins, total assets turnover, company growth and company size can influence profitability.

From several profitability indicators (Brigham and Houston, 2010), researchers are interested in using variable return on assets in the model. Return on assets measures a company's ability to generate profits using the total amount of assets available in the company. The greater the change in return on assets shows the greater the ability of management to generate profits. This affects investors who attempt to predict profits and risk in investment as well as overall investor confidence in the company. The higher a return on assets, the better the productivity of assets in obtaining net profits. High profitability will certainly make investors interested in investing their capital. This ratio is used to measure how much net income will be generated from each fund embedded in total asset capital.

Liquidity ratio is a ratio that shows the relationship of cash and other current assets with current liabilities. In general, current assets consist of cash, securities, accounts receivable, and inventories. Current liabilities consist of trade payables, short-term notes payable, maturing long-term liabilities, accrual taxes, and other accrual expenses. (Nurhayati, 2013). Liquidity indicates the ability of a company to fulfil its financial obligations that must be fulfilled immediately or the company's ability to fulfil financial obligations when billed. Liquidity problems are related to the problem of the ability of a company to fulfil financial obligations that must be met. Even though the company has assets that are valuable enough to pay off its obligations, but when these assets cannot be converted immediately into cash, the company is said to be illiquid. Companies that are able to fulfil their financial obligations on time can be said to be liquid, meaning that the company has current assets that are greater than current liabilities.

One indicator of liquidity is the current ratio. The current ratio is a comparison between current assets and current liabilities and is the most commonly used measure to determine the ability of a company to meet its short-term obligations. Current ratio shows the extent to which current assets cover current liabilities. The greater the comparison of current assets and current liabilities the higher the company's ability to cover its short-term liabilities. This is the reason the researchers used the current ratio as an indicator of liquidity in this study.

The main goal of companies, especially companies that have gone public, is to maximize the prosperity of their shareholders. The company's own goals are divided into two, including short-term goals and long-term goals. The short-term goal of a company is to obtain maximum profits with existing resources, while a company's long-term goal is to optimize the value of the company (Meidiawati and Mildawati, 2016).

Company value is an investor's perception of the company, which is often associated with stock prices (Suffah and Riduwan, 2016). What is meant by this is that the value of a company is effectively the market response to the book value of the company which is reflected through its share price. Company value becomes an important component for investors in deciding their investment decisions. The higher the value of a company, the higher investor confidence in the future and this will continue to affect investment decisions for the company.

In this study, company value is measured using Price to Book Value. This ratio is used to measure the price level of the stock whether overvalued or undervalued. Company value can be measured through the value of stock prices in the market which is a reflection of the assessment by the public of company performance in real terms. With the Price to Book Value ratio, investors can find out directly how many times the market value of a stock is valued from its book value. Company value can be measured through the value of stock prices in the market which is a reflection of the assessment by the public of company performance in real terms (Abdullah et al., 2018).

Research framework

Profitability is considered important because profitability is an indicator used in measuring the financial performance of a company. The higher the profitability figures listed in financial statements the better a company's financial performance. Higher profitability also reflects greater investor wealth and more promising future corporate prospects. Prospective growth in the eyes of investors will be captured as a positive signal that can increase the company's value in the eyes of investors which is then reflected in actual value by an increase in the company's stock price (Ayu and Suarjaya, 2017).

According to Rizqia and Sumiati (2013), companies that maintain stability and increase profits can light a positive signal with investors regarding the company's performance. This happens because companies that have increased profits are reflective of companies that have good performance. This creates a positive sentiment from investors and can make the company's stock price increase. Increasing stock prices on the market means that the value of the company increases in the eyes of investors. The results of the study by Mardiyati, et al (2012), show that profitability has a positive effect on a company’s value. This means that the higher the profit value obtained, the higher the value of the company. High profits give an indication of good company prospects which can trigger increased investor demand for shares; increased demand for shares will lead to increased company value.

The research of Wijaya and Sedana (2015) shows that profitability has a significant positive effect on a company’s value. This is because companies that experience an increase in profit reflect a company that has good performance which then gives rise to positive sentiments from investors and can make the company's stock price increase. Increasing stock prices on the market means that the value of the company increases in the eyes of investors. If the company's ability to generate profits increases, the share price will also increase. Thus the higher the ratio, the better the position of the company, which means the greater the company's ability to cover the investment used.

In the research of Rompas (2013) the relationship between liquidity and company value revealed that investors would react positively to an announcement which contained good news. For example, an announcement that there has been an increase in profits that will cause an increase in the company's stock price. The increase in stock prices is a manifestation of more investors' appreciation of the value of the company.

One indicator that investors consider as part of a fundamental analysis is company liquidity. High liquidity will lower the company's risk of bankruptcy. The market will place trust in a company when their level of liquidity is high, as this shows that these companies have good performance (Wulandari, 2013). Research on the effect of liquidity on company value has been investigated by Fadhli (2015), who found that liquidity has an effect on the value of the company as reflected in its' stock price.

Following is the hypothesis of this research:
H_1 : Return on assets affects the value of the company in the coal industry
H_2 : Current ratio affects the value of the company in the coal industry

Research Method

The objects to be examined in this study are return on assets, current ratio and company value. The analysis unit used is a coal company listed on the Indonesia Stock Exchange for the period 2014-2017. The study population is a company incorporated in the coal industry with a total of 23 companies. The sample selection in this study uses a purposive sampling method with sample criteria that the company published their financial report and annual report during the research year. Thus based on these criteria, the number of samples from this study were 18 companies.

Result

Table 3: Statistik Deskriptive

Variabel	N	Mean	Median	Maksimum	Minimum	Std. Dev.
Nilai Perusahaan	18	2.070972	1.270000	12.13000	-0.750000	2.382759
Profitabilitas	18	13.40056	4.785000	254.6100	-64.39000	41.94881
Likuiditas	18	202.0510	170.6700	691.6800	9.900000	142.9287

Source: data proceed

The minimum value of the Company is -0.750000 and the maximum value is 12.13000. This shows that the value of the company in the study sample ranged from the values of -0.750000 to 12.13000 with an average value of 2.070972 at the standard deviation value of 2.382759. Comparison of the average value is greater than the standard deviation value of 2.070972 <2.382759 which means that the distribution of company values is poor. The highest value company is Bayan Resources Tbk. and the lowest value is Darma Henwa Tbk.

The minimum return on assets is -64.39000 and the maximum value is 254.6100. This shows that the amount of return on assets in the study sample ranged from the values of -64.39000 to 254.6100 with an average value of 13.40056 in the standard deviation value of 41.94881. Comparison of the average value is smaller than the standard deviation value of 13.40056 <41.94881 which means that the distribution of return on assets is poor. The highest return on assets value was obtained by Bayan Resources Tbk. The lowest return on assets is obtained by Bumi Resources Tbk. The maximum value of the current ratio is 691,800 and the minimum value is -9,900,000. This shows that the magnitude of the current ratio value in the study sample ranged from the value of 9,900,000 to 691,800 with the mean value of 202.0510 in the standard deviation value of 142.9287. Comparison of the average value (mean) is smaller than the standard deviation value of 202.0510 <142.9287 which can be interpreted as the distribution of current ratio values is poor. The highest current ratio value is Harum Energy Tbk and the lowest is Atlas Resources Tbk.

In testing the model can be done with 3 alternative methods, namely methods with common effect models (CE), fixed effect models (FE), and random effect (RE) models. Model selection is done through three test tools, namely the Chow test, Hausman test and Langrangge Multiplier (LM) test. Based on the results of the three test panel data regression models, the model that is suitable for this study is Random Effect. So that the regression model obtained for this study is

$$Y = 1.805301 + 0.039037\ X1 - 0.001274\ X2 + e$$

Which X1 is return on assets and X2 is current ratio

The coefficient for return on assets is positive, this shows the directional relationship between return on assets and company value. The coefficient for the current ratio independent variable is negative, this shows that the relationship is not in the same direction as that between the current ratio and the value of the company. Simultaneously, the return on asset and current ratio variables have a significant relationship with the company value variable. In other words, the regression model used is correct and can be used for further analysis. The model shows that the magnitude of the effect of the variable return on assets and current ratio is 40.2790% while the remaining 59.721% is influenced by other variables outside the model.

Based on the results of testing the effect of return on assets on firm value shows profitability will give a positive signal to investors that the company produces in favourable conditions. This will cause an increase in attractiveness of investors owning the company's shares. High demand for shares will directly increase the value of the company. It can then be concluded that if there is an increase or decrease in profitability, it has a positive influence on the fluctuation of the company's value in the Indonesian coal industry for the period of 2014-2017.

The influence of the current ratio on the value of the company shows that liquidity does not affect the value of the company. Thus the second hypothesis in this study which states that liquidity has a positive effect on company value is rejected. Additionally, these conditions mean that if there is an increase or decrease in liquidity, it does not affect the rise and fall of the company's value in the Indonesian coal industry for the period 2014-2017. This is because the higher the company's liquidity above the optimal point it will reduce the value of the company. This being due to existence of idle assets that are not utilized by company management in their operational activities. In addition, an investor in investing does not pay attention to the liquidity factor owned by the company because this ratio only shows the company's ability to cover the company's short-term debt. This condition can be interpreted as showing that the value of current assets in comparison with short-term debt does not have a positive influence in increasing the value of the company. Although the current ratio also shows the level of security of short-term creditors or the company's ability to pay short-term debts. High liquidity can cause funds in the company to be unemployed, so investors will see it as a negative signal because the company must bear the risk of capital costs.

Conclusion

1. Return on assets affects the value of the company in the coal industry in Indonesia from 2014 to 2017. The higher the profitability, the higher the company's value and the lower the profitability, the lower the value of the company. High profitability reflects the company's future prospects so that investors are interested in investing. In the future, it will increase the company's stock price so that it increases the value of the company.

2. The current ratio does not affect the value of the company in the coal industry in Indonesia from 2014 to 2017. The higher the liquidity, the lower the value of the company and the lower the liquidity, the higher the value of the company. That is, the higher the use of current assets in meeting short-term obligations, the lower the value of the company. The lower the use of current assets in meeting short-term obligations, the value of the company will increase. Fluctuations in company liquidity are caused by an increase or decrease in current assets and current liabilities of the company.

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