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Fundamental Ratios and Company Value in Potentially Delisted Firms on IDX 2019-2023

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ABSTRACT

This study discusses the impact of the CR, DER, ROA, and FAT ratios on the company's value, focusing on the condition of the company that is experiencing financial difficulties. The companies studied are companies listed on the Indonesia Stock Exchange (IDX) during the period 2019 to 2023. Tobin's Q is an important metric for investors to assess a company's value, providing an overview of the growth prospects and operational efficiency of management. This research is motivated by the condition of companies that have the potential to experience delisting from the IDX, one of which is caused by financial distress. The research sample consisted of 14 non-financial companies that experienced financial distress and had complete annual reports for the 2019-2023 period, which were selected using purposive sampling techniques from a population of 44 non-financial companies that have the potential to be delisted according to the IDX. Secondary data is obtained from the annual report on the IDX's official website. The results of the hypothesis test show that the current ratio and return on assets do not have a significant influence on the company's value in companies experiencing financial distress. On the other hand, the debt-to-equity ratio was found to have a negative and significant effect on

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the value of the company. Meanwhile, the ratio of fixed asset turnover activities has a positive and significant effect on the company's value. This research model has a strong capability, with an R-squared value of 70%. This research provides a new perspective on the importance of operational efficiency even in crisis conditions for companies experiencing financial distress.

Keywords: Current ratio, Debt to equity ratio, Return on asset, Fixed aset turnover, Tobins Q, Financial distress

1. INTRODUCTION

Company value is a representation of business performance and prospects perceived by the market (Salihi, Ibrahim, & Baharudin, 2024). The higher the value of the company, the greater the level of market confidence in the company's future performance, stability, and growth ability (Brigham & Houston, 2022). In the context of Indonesia as a developing country with a growing capital market, the value of a company is a complex strategic issue. Although there has been a significant increase in the number of companies going public on the Indonesia Stock Exchange (IDX), many of them have experienced sharp fluctuations in market value, which are not always in line with fundamental financial performance. One of the main problems is the high level of leverage in many Indonesian companies. Data from the OJK (2023) shows that the manufacturing and construction sectors have a relatively high debt-to-equity ratio (DER), which reflects companies' dependence on external financing. Excessive leverage can increase the risk of bankruptcy and negatively impact a company's value because investors see it as a signal of a lack of managerial efficiency and a high risk of default (Arifianto et al., 2023). In addition, the low level of profitability is also an important issue. Many companies in Indonesia show low Return on Assets (ROA) and Return on Equity (ROE) due to operational inefficiencies, high-cost burdens, and weak product innovation. In the long term, unstable or declining profitability can hinder the company from generating significant added value for shareholders (Putra & Gantino, 2021). In a capital market that is increasingly sensitive to financial indicators, this condition has the potential to cause depreciation of the company's stock value and financial problems and lead to bankruptcy.

Financial distress is a condition of a company's financial decline where the company is considered unable to pay off its debt obligations and has the potential to reach the stage of liquidation or bankruptcy (Younas, et al. 2021; (Singh and Rastogi 2022). Financial difficulties factors can arise from within the company or from outside the company. Causes that originate within the company include inefficient financial management, failure to develop a proper funding plan, suboptimal debt management, and managerial weaknesses in executing the

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business strategy that has been designed (Altman & Hotckiss, 2010). External factors include global economic uncertainty, changes in government policies, fierce market competition, and unstable macroeconomic conditions (Sandi & Amanah, 2019). Companies that are experiencing financial difficulties are shown by a decline in the company's work ability, starting from interrelated systems, components, processes, and resources, so that when a mistake occurs in one part, the impact will spread to all levels in the company (Sandi & Amanah, 2019). As of December 30, 2024, the IDX has announced several companies that have the potential to be delisted and have been suspended, including PT Sri Rejeki Isman Tbk (SRIL) or Sritex and PT Bakrie Telecom Tbk (BTEL) from the Bakrie Group (Izzuddin, 2025). PT Sritex showed a drastic decline in financial performance, triggered by the COVID-19 pandemic, global competition, and product invasions from China. The company's debt overruns significantly beyond the value of its assets, resulting in negative equity (CNN Indonesia, 2024; Muhid, 2025) In addition, the revelation of a corruption case committed by the president director of Sritex made the company's performance worsen until it ended in bankruptcy (Rachman, 2025)

Theoretically, fundamental ratios provide important information about a company's performance and financial condition. A high ROA shows the efficiency of using assets in generating profits and is often associated with increasing company value (Akbar & Nugraha, 2025). DER indicates the level of leverage; A high DER indicates a dependence on debt, which, if not managed in a healthy manner, can increase the risk of default and trigger financial distress (Mahardika & Mulyawan, 2023). Meanwhile, the Current Ratio (CR) shows short-term liquidity capability, and the PBV shows the market view of the company's fair value compared to its book value (Darmayanti & Nurhuda, 2024)

However, in reality, the correlation between the fundamental ratio and the value of a company is not always linear. For example, a company with a ROA does not necessarily mean that the company's value is also high if the company is facing liquidity difficulties, a large debt burden, or an early indication of bankruptcy. In this situation, financial distress conditions can negatively impact the market's expectations of future cash flows, thereby lowering the company's valuation (Utami, et al., 2021). This condition is increasingly relevant in the post-pandemic context, where many Indonesian companies are still in the financial recovery phase. Reports from the Indonesia Stock Exchange (IDX) and the Financial Services Authority (OJK) in 2023 noted that around 20% of listed non-financial companies still show symptoms of distress, including decreased cash flow, delayed payment of obligations, and decreased net profit margins. Sectors such as construction, retail, and transportation show a consistent trend of declining corporate values due to these factors.

Seeing the complexity of the relationship between fundamental ratios and company values that

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are not always linear, as well as the number of companies in Indonesia that are still showing symptoms of distress, a more in-depth study is needed in the context of the Indonesian market. Post-pandemic economic instability, high debt ratios, and weak financial structures are real challenges for companies in maintaining their market value. Therefore, this study is intended to analyze the impact of the fundamental ratio to the value of the company on non-financial entities that have the potential to be delisted. The findings of this study are expected to make a tangible and useful contribution in understanding how company value is formed, as well as becoming a strategic reference for management, investors, and policymakers in the Indonesian capital market.

2. THEORETICAL AND HYPOTHESIS FOUNDATIONS

2.1 Signal Theory

Signal theory was developed by Michael Spence (1973) and states that those who have more access to information, in this case company management, can signal to less informed parties, such as investors or the market, to reduce information inequality. In the corporate world, these signals are usually in the form of financial statements, public information disclosures, dividend policy announcements, capital structures, or other financial indicators used by the market to evaluate the company's future performance and prospects. Companies that perform well strive to send positive signals to the market through the disclosure of credible information, one of which is through fundamental financial ratios. Ratios such as Current Ratio (CR), Debt to Equity Ratio (DER), Return on Assets (ROA), and Fixed Asset Turnover are the main tools used by companies to demonstrate operational efficiency, healthy capital structure, sufficient liquidity, and market perception of the company's value. When a company shows good financial signals through fundamental ratios, investors become more confident, which can then drive an increase in the stock price and ultimately add to the overall value of the company (Brigham & Houston, 2022).

Nevertheless, the effectiveness of the signal is highly dependent on the reliability of the information and the real conditions of the company. In situations where companies are facing financial distress, signals sent through fundamental ratios can be ineffective or even misleading. For example, a company with an accounting-looking high ROA but facing severe liquidity difficulties may not be able to sustain its operations in the long term. This can cause investors to doubt the validity of the signals provided, and lead to a decline in the company's value even though financial indicators look positive (Utami, et al., 2021). In this context, financial distress can be a distortion in the mechanism of delivering signals to the market. When investors are aware of the possibility of distress, they will assess financial signals more carefully or even

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ignore them.

2.2 Company Values

The company's value is a crucial indicator that reflects how effectively management manages existing resources and generates added value for shareholders. Conceptually, a company's value describes how much the market values a company based on its current performance and expectations of future performance. This value is not only influenced by the company's internal conditions such as profitability, capital structure, and liquidity, but also by external elements such as the macroeconomic situation, political stability, and market perception (Brigham & Houston, 2022). In financial practice, a company's value can be evaluated through a variety of methods. One of the most commonly applied in empirical research is Tobin's Q, which is a ratio that compares a company's market value to the replacement value of its assets. Tobin's Q value > 1 indicates that the market values a company higher than the value of its asset books, which is usually interpreted as a positive signal against the company's prospects. In contrast, Tobin's Q < 1 can indicate that the market rates the company as undervalued or has weak growth prospects (Tobin, 1969)

The value of the company is the main focus for the shareholders because it is directly related to the wealth of the owners. The higher the value of the company, the greater the possibility of profits that can be obtained by shareholders in the form of capital gains and dividend distribution. Therefore, management has the responsibility to manage business and financial strategies optimally in order to create maximum value for capital owners. However, the value of a company is dynamic and is heavily influenced by the financial signals captured by the market. From a signal theory perspective, financial ratios such as Current Ratio, Debt to Equity Ratio, and Fixed Asset Turnover act as signals that represent the company's financial condition. If these signals are considered strong and credible by investors, then the value of the company will increase. Conversely, if the signal is perceived as weak or misleading (e.g. due to indications of financial distress), then the market will respond negatively, and the value of the company may decline (Spence, 1973; Utami, et al., 2021). Therefore, the value of a company depends not only on the size of the profit or capital structure, but also on the market's confidence in the sustainability and stability of the company's financial performance. A comprehensive analysis of a company's value must consider fundamental factors as well as underlying financial conditions, including potential risks such as distress or bankruptcy.

3. PENURUNAN HYPOTHESIS

3.1 The Effect of Liquidity on Company Value

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A company's ability to meet its short-term obligations with available assets is called liquidity. The Current Ratio (CR), a ratio that compares current assets with current liabilities, is commonly used to measure this. This ratio shows how well the company can pay short-term debt without the need to seek external financing (Darmayanti, 2008; Harahap, 2021). In the context of a company's valuation, liquidity is considered one of the important indicators by investors and creditors alike. Healthy liquidity in a company creates a positive perception where financial risk is considered lower and operational stability is more guaranteed, thus having an impact on increasing the company's value. High liquidity can increase investors' confidence in a company's ability to carry out its business activities and meet its obligations without experiencing financial stress (Brigham & Houston, 2022). In the study Arjuna, et al. (2025), the current ratio has a positive influence on the company's value in mining sector companies.

However, some studies show that too high liquidity can also be interpreted as an indication that companies are less able to utilize their current assets for productive investments. This can lead to the perception that the company is inefficient in managing its assets, which in the end actually decreases the company's value (Christianty & Latuconsina, 2023); which is reinforced by the research results of Nurwulandari, et al. (2021) & Zhang, et al. (2021) showing that the current ratio turns out to have a significant negative impact on the company's value. The results of this research are in line with Maria & Kosasih (2022) based on research findings, the current ratio is proven to have a negative relationship with the company's value, but this relationship is not statistically significant, which indicates that when funds are not operated sustainably, it will have an impact on the high-value current ratio, which will not have an impact on the company's value. However, the results of Wahid, et al. (2022) & Afinindi, et al. (2021) are different, because the results of the study they obtained show that the current ratio has no influence on the company's value. Based on this explanation, the hypothesis proposed is:

H1: Liquidity as measured by the current ratio has a positive effect on the company's value

3.2 The Effect of Solvency on Company Value

Solvency shows how able a company is able to meet its long-term obligations (Darmayanti, 2008; Harahap, 2021). One of the main measures for assessing solvency is the Debt-to-Equity Ratio (DER), which is a comparison between a company's total debt and total equity. The DER shows how much a company relies on debt compared to its own funds to fund operations and investments. In financial theory, the capital structure seen through DER directly affects the value of the company. The use of debt in capital structures can increase a company's value through the benefits of tax savings, as described in the trade-off theory. However, if the proportion of debt is too large, financial risk and the likelihood of default will increase, which can reduce investor

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confidence and adversely impact the company's value (Brigham & Houston, 2022). In research conducted by Arjuna, et al., (2025) it was found that the Debt-to-Equity Ratio (DER) has a positive and significant influence on the company's value, where the better the debt-to-equity ratio, the better the company's management in managing its debt, so that it can increase the company's value and influence investors' decision to buy company shares.

Research by Kanaan, et al. (2023) shows that a high DER increases the financial risk profile and can lower a company's value due to high interest expense and potential default. This is in line with the findings Arhinful & Radmehr (2023) that increased leverage has a significant negative effect on Tobin's Q, an indicator of a company's market value. In addition, a higher risk of bankruptcy due to excessive DER can cause investor concern and lower perceptions of the company's long-term value. If in a situation of high DER, the company must be able to be efficient in managing its assets, including financing. According to Bon & Hartokob (2022), DER has a negative and significant influence on the value of the company, the results of which show that the more the amount of debt that the company must admit, the more the value will decrease, and the company can overcome this by covering the debt with its total equity or assets. Based on this explanation, the hypothesis proposed is:

H2: Solvency as measured by debt-to-equity ratio has a negative effect on the company's value.

3.3 The Effect of Profitability on Company Value

Profitability is one of the important measures in evaluating a company's financial performance (Darmayanti, 2008) because the ratio describes how effective the company is in creating profits from its main activities, as well as showing the extent to which management performs its functions efficiently and (Harahap, 2021). Within the framework of signal theory, the level of profitability serves as an important signal sent by management to the market. High profitability is a positive signal that the company is managed efficiently, has bright prospects, and is able to generate stable cash flow. Investors usually respond to these signals by increasing interest in the company's stock, which in turn increases the company's stock price and value (Spence, 1973; Brigham & Houston, 2022).

A study conducted by Arjuna, et al. (2025) revealed that profitability has a good and important influence on company value in developing countries, including Indonesia. This shows that companies that have good profitability are usually valued higher in the market. These findings are in line with research by Mahardika & Mulyawan (2023) which found that profitability has a positive and significant influence on company value. This statement is in line with the research of Kanaan, et al. (2023) showing that a high ROA indicates operational effectiveness and optimal

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utilization of company resources. As a result, investors' views on the company's prospects will be even better, which has an impact on increasing the company's market value. On the other hand, if profitability is low, prospective investors are likely to be reluctant to invest because they are worried about facing the risk of loss (Sihombing, et al., 2023). Based on this explanation, the hypothesis proposed is:

H3: Profitability measured by return on assets has a positive effect on the company's value

3.4 The Effect of Asset Turnover on Company Value

Asset turnover indicates how efficiently a company leverages its assets to generate sales (Brigham & Houston, 2022; Harahap, 2021). This ratio, often measured through Fixed Asset Turnover (FAT), shows management's ability to manage assets in order to generate maximum revenue. The higher the FAT value, the better the company's operational efficiency in converting assets into sales, which will logically have a positive impact on profitability and ultimately the value of the company. In the context of financial theory, operational efficiency reflected in high asset turnover indicates a company's capacity to generate profits from each unit of asset it owns. This can attract investors' attention because it indicates growth prospects and optimal resource management. Conversely, low asset turnover can signal the presence of unproductive assets or a lack of operational efficiency, which has the potential to lower the investment attractiveness and perception of the company's value.

Several studies support this view. Research by Susellawati, et al. (2022) found that asset turnover has a positive and significant influence on the value of the company. These results are consistent with the findings Pratiwi, et al. (2023) which state that the higher the efficiency in the use of assets, the higher the value created for the company. Optimal asset efficiency not only increases short-term profitability but also strengthens the company's competitive position in the market, which in turn increases investor confidence and the company's value. However, there are also studies that show different results. Sandi & Amanah (2019) in his research indicates that asset turnover does not always have a significant positive influence, because high asset turnover does not always reflect high profits. While asset turnover is generally positive, the impact on a company's value can vary depending on the industry's sector and the company's strategy. In some cases, companies with very high asset turnover may operate with thin profit margins. Based on the explanation and review of the literature, the hypothesis proposed is:

H4: Asset turnover measured by Fixed Asset Turnover (FAT) has a positive influence on the company's value.

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4. RESEARCH METHOD

This empirical study utilizes secondary data obtained from the annual reports of non-financial companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period. Data is collected through the IDX website (idx.co.id) and the company's public reports are collected through the company's official website. The population of the data used is 44 non-financial companies that have the potential to experience delisting of the Exchange version. The sampling technique is carried out by purposive sampling, namely: a) companies that are included in the list of companies that are suspended as of December 31, 2024; b) companies that are included in the non-financial category; c) have a complete financial statement for the 2019-2023 period. From these criteria, a sample of 14 non-financial companies that meet these criteria was obtained.

This study applies a quantitative method to analyze how fundamental ratios affect the value of a company. The fundamental ratios used include the current ratio (for liquidity), debt to equity ratio (for solvency), return on asset (for profitability), and fixed asset turnover (for activities). Meanwhile, the company's value is measured using Tobin's Q. Measurements of each variable are detailed in the table below:

Table 1: Variable Operational Measurement

No	Variable	Measurement
1	Liquidity Ratio (Current Asset)	Current Asset assesses the company's ability to meet its short-term obligations. (Diyanto, 2020): $\frac{Aktiva\ Lancar}{Utang\ Lancar}$
2	Rasio Solvabilitas (Debt to Equity Ratio)	The Debt-to-Equity Ratio shows the extent to which a company finances its operational activities and investments using loan funds or capital. (Gao, 2025): $\frac{Total\ Liabilities}{Total\ owners\ equity}$
3	Rasio Profitabilitas (Return On Asset)	The ratio used to determine how effective a company is in generating profits from all assets it owns. (Rehman, 2013): $\frac{Net\ \ Income\ after\ Tax}{Avarage\ total\ assets} \times 100$
4	Fixed Asset Turnover Ratio	A ratio that shows how efficiently a company utilizes its fixed assets. (Kurniasari, 2020): $\frac{Sales}{Total\ asset\ of\ firm}$

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5	Company Value (Tobin's Q)	This ratio gives an idea of how the market values the wealth that a company creates for its shareholders. (Dey, Hossain, & Rahman, 2018): $\frac{Total\ market\ value\ of\ firm}{Total\ asset\ of\ firm}$

The data analysis tool uses SmartPLS version 3, with the following stages: a) outer model testing, which includes convergent validity test (Average Variance Extracted > 0.5), construct reliability test (Composite Reliability and Cronbach's Alpha > 0.7), and discriminant test; b) internal model testing, including evaluation of R2 values, Q2 predictive relevance, and hypothesis tests. The model of the research equation is as follows:

$$Tobin's\ Q\ (Y) = \beta_0 + \beta_1 CR + \beta_2 DER + \beta_4 FAT + \beta_5 ROA + \epsilon$$

Where:

Y (Tobin's Q)	= Company Value
β_0	= constant
$\beta_1 - \beta_4$	= regression coefficient
CR	= current ratio
DER	= debt to equity
FAT	= fixed asset turnover
ROA	= return on asset
ϵ	= error

5. FINDINGS AND DISCUSSIONS

5.1 Descriptive Statistic

Descriptive statistics are used to provide an overview of the data characteristics of the research variables.

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Table 2: Descriptive Statistic

	Mean	Min	Max	Standard Deviation
Liquidity (CR)	1.345	0.000	11.820	1.810
Solvabilitas (DER)	-5.686	-101.000	53.500	27.050
Profitability (ROA)	-52.703	-3.311.000	469.330	380.977
Activity (FAT)	7.122	0.000	85.320	16.270
Company Values (Tobins' Q)	24.667	0.000	463.730	77.217

Based on Table 2, it is known that the characteristics of the data in this study sample show conditions that reflect companies that are experiencing financial distress or financial difficulties. For the liquidity variable, an average value of 1,345 indicates that the current ratio indicates a very low composition of current assets to current debt (close to total current debt), while the minimum and maximum values show values of 0.000 to 11,820 and a fairly high standard deviation of 1,810 indicates a wide variation where some companies may still have little ability to meet short-term obligations, while others do not at all. The solvency variable also showed an average value of -5,686 and a minimum value of -101,000. This shows that the company has negative equity potential as a result of accumulated losses. The profitability variable showed a very low average value, which was -52,703, with an extreme minimum value of -3,311,000. This indicates that most of the companies in the sample suffered significant losses. The activity variable showed an average of 7,122, with a range from 0.000 to 85,320. This shows variations in the efficiency of asset use among suspended companies. The company's value variable has an average of 24,667 with a very wide range of 0.000 to 463,730 and a standard deviation of 77,217. This reflects large fluctuations in the market valuation of companies that are under financial pressure.

5.2 Hypothesis Testing

Hypothesis testing was carried out to determine the influence of each exogenous variable on endogenous. The results of the hypothesis testing are presented in Table 3.

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Table 3: Hypothesis Testing Summary

	Original Sample	Standard Deviation	T Statistics	P Values	Conclusion
Liquidity (CR) -> Company Value (Tobins' Q)	-0.053	0.050	1.066	0.287	H_1 rejected
Solvency (DER) -> Company Value (Tobins' Q)	-0.816	0.189	4.328	0.000	H_2 accepted
Profitability (ROA) -> Company Value (Tobins' Q)	0.344	0.272	1.266	0.206	H_3 rejected
Activity (FAT) -> Company Value (Tobins' Q)	0.404	0.172	2.348	0.019	H_4 accepted
R Square	0.700				

Source: Data processed by the researchers, 2025. Notes: N=80

Based on Table 3, the results of the hypothesis test show that the influence of liquidity on the company's value is negative with a path coefficient of -0.053, a t-statistical value of 1.066, and a p-value of 0.287. Because of this p-value, the H1 hypothesis is rejected, which means that liquidity does not have a significant influence on the company's value in companies experiencing financial distress. Meanwhile, the relationship between the solvency ratio and the company's value showed a negative path coefficient of -0.816, with a t-statistical value of 4.328 and a p-value of 0.000. Therefore, the H2 hypothesis is accepted, identifying that the higher the company's solvency level tends to lower the company's value for companies experiencing financial distress. For profitability, the relationship with the company's value shows a positive path coefficient of 0.344, a t-statistic of 1.266, and a p-value of 0.206, so the H3 hypothesis is rejected. This shows that profitability does not have a significant influence on the company's value for companies experiencing financial distress. Finally, the relationship between activity and company value shows a positive path coefficient of 0.404, with a t-statistical value of 2.348 and a p-value of 0.019, so the H4 hypothesis is accepted. This states that the higher the company's activity, the more likely it is to increase the company's value. The R2 value for the company's value-dependent variable is 0.700, which means that 70% of the variation in the company's value can be explained by the variables of liquidity, solvency, profitability, and activity in this model. This shows the powerful capabilities of the model.

5.3 Discussion

5.3.1 The effect of liquidity ratio on the value of the company

It was found in the study that the Current Ratio (CR), as a measure of liquidity, has no significant

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effect on the value of the company. In theory, liquidity refers to a company's capacity to meet its current obligations in the short term. However, a company's value is more influenced by market expectations of the company's long-term prospects, such as profit-making ability, asset management efficiency, and growth strategy (Isnaeni et al., 2021). Therefore, although liquidity is important from an operational perspective, its contribution to the perception of a company's value by investors may not be too large, especially if the company does not experience significant cash problems (Brigham & Houston, 2022). A high liquidity ratio is not always considered a positive signal. In the context of signal theory, financial information will only be considered valuable if it provides an indication of the future of the company. A Current Ratio that is too high can be perceived negatively, because it can indicate that the company holds too many current assets that are not invested productively, resulting in low asset utilization efficiency (Silanno & Loupatty, 2021). As such, the market may not respond to liquidity ratios directly in determining the value of a company. Empirically, several studies also support similar findings. A study by Siahaan and Herijawati (2023) shows that CR does not have a significant influence on the value of companies in the F&B sector in Indonesia.

5.3.2 The effect of solvency ratio on company value

The results of the study show that the Debt-to-Equity Ratio (DER) has a significant effect on the value of the company, as measured by Tobin's Q. These findings support the theory of capital structure, especially the trade-off theory, which states that an optimal capital structure, i.e. the balance between debt and equity, can maximize the value of the company. Too high DER reflects a company's dependence on external financing (debt), which increases financial risks and the potential for financial distress (Silanno & Loupatty, 2021). These risks will be negatively responded to by the market, thereby lowering the value of the company. Practically, investors pay attention to DER as an important indicator in evaluating a company's risk profile. A high DER often signals that a company has a large interest expense and long-term liabilities, which can limit financial flexibility and negatively impact the company's growth prospects. This is in line with signal theory, where a high DER can be a negative signal regarding financial risk management and a company's ability to maintain the sustainability of its business (Spence, 1973).

The findings of this study are in line with Ibrahim's (2020) study on the Nigerian stock exchange, which also concluded that the Debt-to-Equity Ratio (DER) has a negative and significant influence on the value of companies. In emerging markets such as Indonesia, investors are particularly sensitive to debt ratios due to macroeconomic uncertainty and high market turmoil. This explains why companies with high DERs tend to be undervalued in the capital market. Thus, this study confirms that a healthy and controlled capital structure is essential to increase

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the value of the company. Management must be careful in deciding on the debt-to-equity ratio, as these choices directly affect investors' views and market valuations of the company.

5.3.3 The effect of profitability ratio on company value

The results show that the profitability ratio, measured through Return on Assets (ROA), does not have a significant effect on the company's value. These findings contradict most of the previous theories and findings that stated that profitability is one of the main determinants of a company's value. However, the insignificance of this relationship can be justified through several theoretical and contextual considerations. First, in the context of emerging markets such as Indonesia, investors do not always use the profitability ratio as the main reference in assessing companies. The valuation of a company's value is more often influenced by external factors such as market sentiment (Aggarwal, 2022), economic fluctuations, monetary policy (Nuryani et al., 2021), or even speculation, which tend to be more dominant compared to financial fundamental considerations.

Second, a high level of profitability does not necessarily reflect a company's long-term growth prospects, especially if the resulting profits are not accompanied by efficient asset management, productive reinvestment policies, or sustainable business strategies. In other words, high profits do not necessarily guarantee an increase in company value if they are not accompanied by investor confidence in the company's strategic direction and sustainability (Brigham & Houston, 2022). Third, from a signal theory perspective, ROA as a financial indicator can be considered a weak signal if the information is not supported by a strong context (e.g. when profitability is volatile, unstable from year to year, or comes from non-operational components such as asset sales profits). In situations like these, investors tend to ignore profitability signals because they do not reflect the strength of core operational performance.

In addition, financial distress conditions or hidden financial risks can also neutralize the positive influence of profitability on the company's value. A company may be making a profit but structurally facing financial problems, such as high debt, cash flow problems, or potential defaults. In these conditions, investors focus more on long-term risk than just the current rate of return. These results are consistent with the findings of Sihombing et al (2023) who found that there was no effect of profitability on company value in coal mining companies during the pandemic.

5.3.4 The effect of activity ratio on company value

The study revealed that activity levels, measured by Fixed Asset Turnover (FAT), significantly

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affect a company's value. This reinforces the opinion that efficiency in asset management, especially fixed assets, is a crucial factor in creating company value. This discovery is in line with modern financial theory which argues that a company's ability to manage assets well will increase investor confidence in operational performance, which in turn will have a positive effect on market valuations. In particular, the high rate of asset turnover shows how effectively a company uses its fixed assets to generate revenue (Mahardika and Mulyawan, 2023). This indicates that companies can optimize the use of infrastructure and machinery so that there are no idle assets and at the same time increase productivity. This contributes to sustainable income creation and increased profitability. This efficiency is seen by investors and the capital market as a positive indication that reflects the company's operational health and managerial quality, thereby increasing the perception of company value (Brigham and Houston, 2022).

From a signal theory standpoint, a good asset turnover rate also serves as a signal that indicates that the company has an efficient asset management and production strategy. This signal increases the market's confidence that the company is able to maintain stable and efficient revenue in the use of resources, which in turn makes the company seen as having brighter long-term prospects (Spence, 1973). In addition, these results are also in line with previous research by Mahardika and Mulyawan (2023) which showed that the activity ratio, in this case asset turnover, has a positive and significant influence on company value, especially in industrial sectors that require large capital or are heavily dependent on fixed assets. Efficiency in asset management reflects operational capabilities and control of capital use, which is a crucial factor for investors when making investment decisions. Therefore, these findings show that companies that are able to manage their assets efficiently not only improve operational performance, but also create added value in the eyes of the market and shareholders.

6. CONCLUSIONS

Based on the results of the test that has been carried out regarding the relationship between the basic ratio to the value of a company listed on the Indonesia Stock Exchange (IDX) during the period 2019 to 2023, the conclusion that can be drawn is: the liquidity ratio (Current Ratio) does not have a significant impact on the value of the company. This suggests that even if a company has a lot of current assets, it does not guarantee an optimal increase in value because those assets could be considered unused. On the other hand, the solvency ratio (Debt to Equity Ratio) has a negative and significant impact on the company's value. This means that the greater the company's debt, the higher the financial risk it has to face, which can ultimately lower the market's view of the company's value. For the profitability ratio (Return on Assets), it was found that there was a positive but not significant influence on the company's value. These findings show that asset management capabilities and operational performance have a positive impact, but

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there are still other external factors such as growth opportunities or company size that also affect investor valuations. The activity ratio (Fixed Asset Turnover) shows a positive and significant influence on the company's value. This shows that the efficiency of companies in managing fixed assets directly helps to increase the value of the company through improvements in liquidity and operations. Overall, the ratio of liquidity, solvency, profitability, and activity has a significant influence on the company's value with a value of R^2 of 0.700. This means that 70.0% variation in the company's value can be explained by all four basic ratios.

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