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The Influence of Liquidity and Solvency on Company Value (Studi of Sharia Banking Listed on The BEI 2021-2023)

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Abstract. This research aims to determine the effect of liquidity and solvency on company value in sharia banking companies listed on the Indonesia Stock Exchange (BEI) in 2021-2023. In this research, the method used uses secondary data. Data analysis in this study used stationarity test analysis, model selection test, multiple linear regression test, and coefficient of determination test using the eviews 10 program. The sampling method used purposive sampling. So the samples obtained were 4 Islamic banks that met the criteria and the research data collected was 132 data. The results of this research show that liquidity has a positive and significant effect on company value. Meanwhile, solvency has a negative and insignificant effect on company value.

Keywords: Liquidity, Solvency, Company Value

1 Introduction

In order for the banking sector to develop into a large corporation and banking system, the right strategy is needed, especially in decision making. Therefore, the company's financial management is expected to take appropriate steps to ensure that the bank survives with high profits and increases the value of sharia bank **shareholders** (Anggreini & Kartika Oktaviana, 2022)**.** The research focuses on the banking sector because banking is one sector that prioritizes increasing company value. Through its activities, banks increase public interest in investing their funds. If a bank is unable to maintain company value, then the trust of customers and institutions that invest capital in the bank may decline, and the bank may not be able to manage its funds profitably.

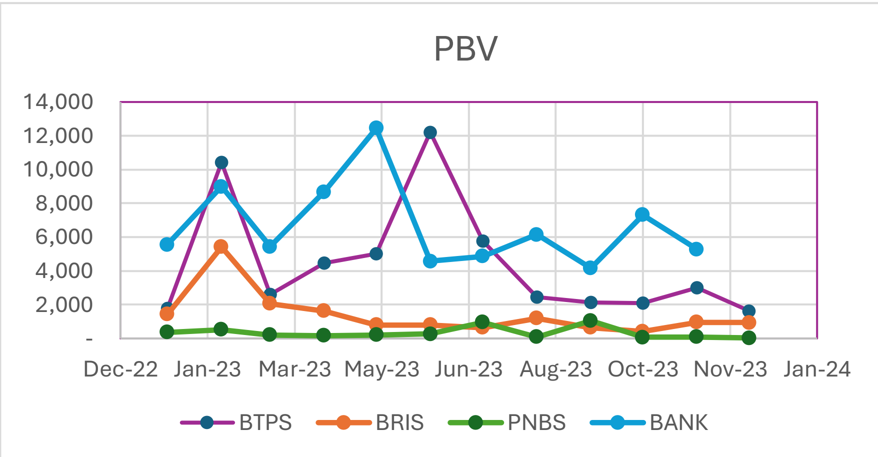

Fig. 1. PBV of sharia banks registered on the IDX

Company value as measured by the PBV of the four sharia banks that have been listed on the IDX shows that Bank Syariah Indonesia (BRIS) has just gone into retirement in February 2021. Throughout 2023, the company value has been relatively stagnant until the end of the year, but in February 2023 had experienced an increase. Even though Bank Syariah Indonesia (BSI) has merged, the company value is still in a stagnant condition. By carrying out a merger, it should be possible to create a better bank and ultimately have a positive impact on the banking system because the bank will have strong company assets. Apart from Bank Syariah Indonesia (BSI), the company value of Bank Panin Dubai Syariah (PNBS) also shows a stagnant condition from the beginning to the

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end of 2023. Apart from the two Islamic banks whose company value is in a stagnant condition, there is still Bank BTPN Syariah (BTPS) and Bank Aladin Syariah (BANK), these two banks have fluctuating company values. Where Bank BTPN Syariah (BTPS) experienced an increase in June 2023. Then Bank Aladin Syariah (BANK) also experienced an increase in May 2023. By looking at the PBV of a company, investors will be able to consider it before making a decision to invest in their shares.

One of the entity's objectives is to maximize shareholder welfare in order to grow company value. Company values are very important for company sustainability. High company value is directly related to shareholder welfare, an increase in company value indicates that the company's share price is rising (Sutama & Lisa, 2018).

Company value can be projected by the Price to Book Value (PBV) ratio. PBV is an indicator that shows whether the promised share price (market price) is above or below the book value of the shares. If there is an increase in the PBV ratio, it means that the market's confidence in a company's prospects is higher, and vice versa (Diyah et al., 2022). There are several factors that are assumed to influence company value. In this research there are 2 factors that influence it, namely; liquidity and solvency.

The first factor that can influence company value is liquidity. The level of liquidity, in this study, is proxied by the current ratio (CR), which measures current assets divided by current liabilities. According to Sugiono (2009:67), "liquidity ratios measure a company's ability to fulfill its short-term obligations". An increase in the liquidity ratio means that a company is able to pay its short-term debt at maturity. Investors assess that a company with a high level of liquidity means the company has good performance, so the higher the liquidity, the higher the company value (Dewi & Rahyuda, 2020).

Solvency is the second factor that can influence company value. In this research, solvency is proxied by the Debt to Equity Ratio (DER). According to Kasmir (2008:152), in his calculations, companies that have a high solvency ratio face a greater risk of loss but also have the opportunity to gain significant profits. Conversely, a low solvency ratio also indicates a lower chance of loss for the entity. Therefore, to maintain a balance between high returns and potential risks, financial managers must manage solvency ratios effectively. This can increase company value. The solvency ratio is a ratio that shows how much of a company's assets are financed by debt. This means how much debt a company has compared to its assets (Silitonga, 2022) .

As for previous research regarding liquidity (CR). Research conducted by (Iman et al., 2021)explains that liquidity (CR) has a positive and significant influence on company value. However, in contrast to research by (Lumoly et al., 2018), the research results show that liquidity does not have a significant effect on company value. Furthermore, (Zuliyanti et al., 2022)research on solvency (DER) in her research shows that solvency (DER) has a positive and significant effect on company value. Meanwhile, (Sahyu & Kristianti, 2023)explain that solvency has a significant negative effect on company value.

2 Literature Review

2.1 Signaling Theory

According (Brigham & Houston, 2010) Signaling theory is the action of company management in directing investors' opinions about the company's future prospects. Signal theory relates to the value of a company. If the information is a positive signal, investors will respond positively and it is hoped that they will be interested in buying company shares, so that share prices will increase. Increasing share prices are indicated to increase company value.

2.2 Liquidity

Liquidity shows a company's ability to fulfill its short-term financial obligations in a timely manner. The company's finances are in good health if the company is able to fulfill its obligations. However, if a company is unable to fulfill its financial obligations on time, then the company is in liquid condition (Permana & Rahyuda, 2019). The formula used to calculate the Current Ratio is as follows:

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

A high or low liquidity ratio can influence the way investors view a company. An increase in CR means the company is performing well, thereby increasing share prices, which in turn reflects the value of the company (Khikmah et al., 2020).This may be a positive indication for management when trying to attract investors to invest in the company. So the hypothesis in this research is that liquidity has a positive and significant effect on company value.

2.3 Solvency

Solvency refers to a company's ability to meet its short-term and long-term financial obligations if the company is liquidated. The higher this ratio, the smaller the amount of equity compared to debt. The smaller this ratio, the better. This means that the lower the debt to equity ratio, the safer it is (Ridhoni, 2017). The formula used to calculate the Debt to Equity Ratio is as follows:

$$\text{Dept to Equity Rario} = \frac{\text{Total debt}}{\text{Total equity}}$$

If the company is able to fulfill its obligations, then the company can be said to be in good reputation. This will have an impact on investors' desire to invest. The investor's perspective is that an investment is riskier the greater the DER ratio. So many investors avoid companies with high levels of debt. When a company is unable to pay off its debts, it is not a good value for the company (Komala et al., 2020). So the hypothesis in this research is that solvency has a negative and significant effect on company value.

2.4 The value of the company

Company value can provide maximum prosperity for its shareholders. When the share price of a company increases, the prosperity of shareholders also increases. The method used to measure company value is Price to Book Value (PBV).

$$\text{Price to Book Value} = \frac{\text{Price per share}}{\text{Book value per share}}$$

According to Agus Sartono (2001) PBV describes how successful a company is in being able to create value in relation to the capital that has been invested. When the share price exceeds the book value per share, the PBV is high. The company's success in generating value for shareholders is demonstrated by increasing share prices. Increasing profits is one way for the company's performance in creating value to provide hope for shareholders.

3 Research Method

This research uses quantitative data. The data used in the research are Current Ratio (CR), Debt to Equity Ratio (DER) and Price to Book Value (PBV) obtained from monthly financial reports published on the respective Sharia Banking websites listed on the BEI in 2021-2023. processed by researchers. The research includes panel data using a panel approach with several stages of analysis including stationarity test, model selection test, multiple linear regression test, and coefficient of determination test. Tools for processing data using Eviews 10.

4 Result and Discussion

4.1Result

The stationarity test is carried out to avoid non-stationary data which will produce pseudo-regression, so the stationarity test on panel data is considered very important (Ghozali & Ratmono, 2017). Stationarity is tested with the unit root test. In order to find out the level of stationarity, it is first tested at the Level level. If it is not stationary, then a first difference level test is carried out. If it is still not stationary, a test is carried out using a second difference.

Table 1 Stationarity Test

No	Variable List	Information	Probability
1	PBV (Y)	*First difference*	0.0000
2	CR (X1)	*First difference*	0.0000
3	DER (X2)	*First difference*	0.0000

4.2Test Chow

Chow test to choose between the common effect model and the fixed effect model. This test compares models by looking at the p-value of the F statistic. The common effect model is said to be correct if the probability is >0.05. Furthermore, fixed effects are an appropriate model if the probability value is <0.05.

Table 1 Chow

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.175263	(3,122)	0.9130
Cross-section Chi-square	0.550463	3	0.9077

The test results show that the cross section f prob value is 0.9130, meaning the prob value is greater than 0.05. So it can be concluded that the common effect is a more appropriate model than the fixed effect. Therefore, the Housman test does not need to be carried out.

4.3Lagrange Multipier Test

This test is to identify common effects and random effects. Random effect is most appropriate if the probability value is less than 0.05. Likewise, if the probability result is greater than 0.05 then the best choice is the common effect.

Table 2 Lagrange Multipier Test

Null (no rand. effect) Alternative	Cross-section One-sided	Period One-sided	Both
Breusch-Pagan	1.562212	3.98E-05	1.562252
	(0.2113)	(0.9950)	(0.2113)
Honda	-1.249885	-0.006306	-0.888261
	(0.8943)	(0.5025)	(0.8128)
King-Wu	-1.249885	-0.006306	-1.195343
	(0.8943)	(0.5025)	(0.8840)
GHM	--	--	0.000000
	--	--	(0.7500)

The output results in this test show that the Breusch Pagan value is 0.2007 because it is much greater than 0.05. Thus, it can be said that the common effect model is more appropriate to apply.

Panel data regression equation

Estimation Command:
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LS(?) D(Y) C D(X1) D(X2)

Estimation Equation:
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D(Y) = C(1) + C(2)*D(X1) + C(3)*D(X2)

Substituted Coefficients:
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D(Y) = 1925.12824666 + 17324.7225791*D(X1) - 17246.4001723*D(X2)

The explanation is as follows:

a. The constant value is 1925.1282, meaning that without the liquidity (X1), solvency (X2) variables, the company value variable (Y) will increase by 1925.1282.
b. The beta coefficient value of the liquidity variable (X1) is 17324.7225, if the values of other variables are constant and variable X If there is an increase of 0.01, the company value variable (Y) will increase by 17324.7225.

c. Nilai koefisien beta variabel solvabilitas (X2) sebesar -17246.4001,if the values of other variables are constant and variable X If there is an increase of 0.01, the company value variable (Y) will decrease by -17246.4001.

4.4 Coefficient of Determination Test

According to Gozali, (2016) The coefficient of determination is a tool for measuring the ability of a model to explain the dependent variable. 0 to 1 is the coefficient of determination value. A low number indicates that the capacity of the independent variable to explain the related variable is very limited. Likewise, if the result is close to 1, this indicates that the independent variable provides almost all the information expected to predict the dependent variable.

Table 3 Coefficient of Determination Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1925.128	5281.791	0.364484	0.7161
D(X1)	17324.72	5539.948	3.127236	0.0022
D(X2)	-17246.40	16106.25	-1.070789	0.2863

R-squared	0.098792	Mean dependent var	-601.5625
Adjusted R-squared	0.084373	S.D. dependent var	61902.15
S.E. of regression	59233.19	Akaike info criterion	24.83951
Sum squared resid	4.39E+11	Schwarz criterion	24.90635
Log likelihood	-1586.729	Hannan-Quinn criter.	24.86667
F-statistic	6.851358	Durbin-Watson stat	2.969747
Prob(F-statistic)	0.001502		

The regression test equation table shows that the Adjusted R-squared value of each independent variable can explain the variation in the PBV variable of 0.084373. So the Adjusted R-squared value of 8.43% shows that all independent variables can explain 8.43% of the variation in the PBV variable, while the remaining 91.57% is explained by other variables not included in the research.

4.5 F Test

The f test is used to calculate the influence of all independent variables together on the dependent variable. With the prerequisite of an F value <0.05, the explanatory variable has a significant effect on the attachment variable at once. Meanwhile, if the F value is >0.05, the attachment variable is not significantly influenced by one of the explanatory variables simultaneously. From the results of the panel data regression test equation, it is known that the coefficient value is 6.851358 and the probability value is 0.001502, which is smaller than 0.05. So, with these numbers it can be concluded that all independent variables simultaneously have a significant influence on the dependent variable (PBV).

4.6 T Test

4.6.1 The effect of liquidity on company value.

From the results of the calculations that have been carried out, the variable (X1) Liquidity (CR) has a positive and significant influence on the variable (Y) Company Value (PBV), with a coefficient value of 3.127236 and a probability of 0.0022 > 0.05 so that H1 is accepted. Liquidity is an indicator of a company's ability to pay all short-term obligations at maturity using available current assets. This means that the greater the company's liquidity, it shows that the company has a good level of liquidation or is able to fulfill its obligations so that it can provide a positive perspective to investors. A high level of liquidity indicates that the company is in good condition or can meet its short-term obligations. Rising share prices will certainly increase company value. The condition of a company that has a high level of liquidity can be a positive signal for investors to invest in their shares, which can be followed by an increase in the value of the company.

4.6.2 The influence of solvency on company value.

From the calculation results that have been done, the variable (X2) Solvency (DER) has a negative and insignificant effect on the variable (Y) Company Value (PBV), with a coefficient value of -1.070789 and a probability of 0.2863> 0.05 so that H2 is rejected. DER is a ratio to determine the capacity of a company to pay its obligations, both short-term and long-term debt. DER or debt to capital ratio compares all total debt with total equity. The higher the DER ratio, the greater the risk of an investment. When a company is unable to pay off its debts, it can affect the value of the company and be bad in the eyes of investors. However, the size of the debt is not a factor that is considered by investors, but rather the effectiveness and efficiency in achieving a balance between expenses and income. If this can be maintained or maximized, the value of the company can increase. In contrast to the research conducted by Anggraeni & Rahmayanti, 2023 that DER has a significant negative effect on the profits of companies listed on the Jakarta Islamic Index.

5 Conclusion

Based on the results obtained, it is stated that Liquidity (CR) has a positive and significant influence on Company Value with a coefficient value of 3.127236 and a probability of 0.0022. Meanwhile, Solvency (DER) has an insignificant negative effect on company value with a coefficient of -1.070789 and a probability of 0.2863. Company value is one of the factors that investors pay attention to when making an investment. To find out the value of the company, you can look at the condition of the company's debt ratio.

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