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# Analysis of the Influence of Profitability Performance, Credit Risk, Liquidity Risk and Capital Adequacy on the Value of Banking Sector Companies Listed on the Indonesian Stock Exchange for the Period 2015 – 2021

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A R T I C L E I N F O

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A B S T R A K

The value of a bank can be determined by its level of profitability and risk. Banks also need sufficient capital to continue to develop their business and increase their company value. This research aims to examine and analyze the influence of profitability performance, credit risk, liquidity risk and capital adequacy on the value of banking companies in Indonesia. The population in this research are banking companies listed on the Indonesia Stock Exchange for the period 2015 - 2021. The sampling technique used was the purposive sampling method, while the analysis method used was multiple linear regression analysis using EViews-12. The results of this research show that profitability performance (ROA) and credit risk (NPL) have no effect on company value, while liquidity risk (LDR) and capital adequacy (CAR) have a positive effect on company value.

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## INTRODUCTION

Company assets generally tend to increase along with business growth and company profits. The increase in profits is expected to increase company value as reflected in the company's increasing share price. Fama (Fama, 1978) in Suranto (Suranto et al., 2017) states that the company's value will be reflected in the market price of its shares. In reality, an increase in company profits does not always cause an increase in the company's share price, and vice versa. There are still other factors outside profit that can influence company value according to the characteristics of each industry.

One industry that continues to grow and plays an important role in the Indonesian economy is the banking sector because it contributes to improving people's welfare. The role of collecting funds and distributing credit by banks (financial intermediaries) connects parties who have a surplus of funds with parties who need funds. This bank's business is very sensitive to economic conditions and has special characteristics, namely that it is obliged to maintain public trust as owners of funds to avoid risks that disrupt business sustainability, such as the Money Rush or Bank Run that has been experienced by several banks in Indonesia.

The collection of funds by banks continues to increase from year to year, which has an impact on the increase in banking assets. Meanwhile, banking credit distribution experienced a decline in 2020 as a result of the Covid-19 pandemic that hit Indonesia. This pandemic causes a recession or decline in economic growth which affects the absorption of credit distribution and increases banking credit risk. Even though economic recovery has been seen in 2021, where the amount of credit disbursement has increased again, exceeding the level of credit disbursement before the pandemic (2019), bank credit risk still remains high.

The reduction in bank credit distribution in 2020 was followed by a decline in bank profitability performance. This resulted in a decline in the average banking share price (closing rate). Even though the average share price in the banking sector experienced a decline in 2020, there were several banks that experienced an increase, such as shares of Bank BCA and Bank CIMB Niaga. Improvements in banking profitability performance in 2021 will have no effect on the share prices of CIMB Niaga and Bank Danamon. The above phenomenon can illustrate that the increase or decrease in banking share prices is not only influenced by the rise and fall of profits or profitability performance but there are other factors that influence it.

In the banking industry, the value of a bank can be influenced by the level of profitability achieved and the level of risk it faces. A bank's ability to earn profits (profitability) can be measured using the financial ratio ROA (Return on Assets). The greater the ROA reflects the greater the level of profit achieved by the bank and the better the bank's position in terms of asset use so that the bank's profitability performance will be considered good. The greater the level of profit obtained, the higher the bank's ability to pay dividends and the company's share price will increase (Fadli et al., 2015). In other words, good profitability performance can attract investors to invest thereby increasing company value.

The risks faced describe the opportunity for losses for the bank due to the element of uncertainty in the transactions it carries out. Credit risk arises from

the failure of the counterparty or debtor to fulfill its obligations to the bank when they are due (Riyadi, 2017). An increase in the NPL (Non-Performing Loan) ratio due to delays in loan payments, both principal and interest, can have an impact on decreasing banking performance (Sudarmanto et al., 2021). Meanwhile, liquidity risk arises if a bank is unable to fulfill its maturing obligations from cash flow funding sources and/or from high-quality liquid assets that can be collateralized, without disrupting the bank's financial activities and condition (OJK, 2016). A high LDR (Loan to Deposit Ratio) reflects the bank's low liquidity capacity. On the other hand, high bank liquidity (low LDR) indicates that the large number of idle funds reduces the bank's opportunity to obtain greater income and the bank's intermediation function is not achieved.

Banks need sufficient capital to ensure the bank's business can continue to grow. Capital adequacy will also act as a buffer if the bank experiences risks that threaten business continuity. Sufficient capital allows banks to increase credit exposure or productive assets so that they can increase income and profits. An increase in bank profits provides a good signal for investors, influencing share prices and company value.

Many previous studies have examined the influence of performance profitability, risk and capital adequacy on company value but contradictions were found in some of the research results. Repi's research results (Repi et al., 2016) show that partially ROA has a positive and significant effect on company value, LDR has a negative and significant effect on company value and NPL has a negative and insignificant effect on company value. Research conducted by Murni (Murni & Sabijono, 2018) shows that partially CAR and NPL have a positive and significant effect on company value, while LDR has an insignificant effect on company value. Meanwhile, Kansil's research results (Kansil et al., 2021) show that ROA, NPL, LDR do not have a significant effect on company value and CAR has a significant effect on company value. Research conducted by Muntazah (Mumtazah & Purwanto, 2020) shows the results that CAR, LDR and NPL do not have a significant effect on company value, ROA has a significant effect on company value.

The different results in several previous studies indicate that there is a research gap in this research. Therefore, the author is motivated to examine the influence of factors that influence the value of banking companies, especially through internal bank factors. In this research, the author will also only focus on two types of bank risk, namely credit risk and liquidity risk in looking at the influence of risk on banking performance which ultimately affects company value.

## TINJAUAN PUSTAKA

### *Agency Theory*

Agency Theory proposed by Jansen & Meckling (Jensen & Meckling, 1976) explains a contractual relationship in which one or more people (principals) involve other people (agents) to carry out several actions on their behalf and involve delegating decision-making authority to the agent. . The principal is represented by the shareholders and the agent is represented by the company management (manager). The principal hands over the management of the

company to the agent to obtain maximum business results and provide profits on the capital that has been paid in so as to increase the value of the company. Meanwhile, agents work to fulfill the principal's wishes by making business decisions that can improve profitability performance, control risks and increase company resources.

The contractual relationship between shareholders and managers can increase the emergence of conflict between the two because it is possible that the manager's actions are not always in accordance with the wishes of shareholders (Asyik & Thaharah, 2016). In addition, managers who manage the company's operational activities have more information than owners or shareholders. The difference in information held by managers and shareholders gives rise to information asymmetry. Therefore, managers as administrators are required to provide signals regarding the condition of the company to shareholders. The signals provided can include information on the company's business conditions, finances, achievements and obstacles either through financial reports, annual reports or other published company reports.

***Signaling Theory***

Signaling Theory (Signal Theory) put forward by Spance explains that the sender (owner of information) provides a signal or signal in the form of information that reflects the condition of a company and is beneficial for the recipient (investor). This theory was later developed by Ros (1977) who stated that company executives who have better information about their company will be encouraged to convey this information to potential investors so that the company's share price increases.

According to Brigham and Hauston (Brigham & Houston, 2018) a signal is an action taken by a company to give investors a clue about how management views the company's prospects. This signal is in the form of information about what management has done to realize the wishes of the owners (shareholders). Lack of information for outside parties about the company causes them to protect themselves by giving a low price for the company's shares.

**The Effect of Profitability Performance on Company Value**

Bank profitability performance can be seen from the ROA (Return on Assets) ratio which describes the comparison between bank profits and total bank assets. A high ROA indicates that management is effective in managing the company using its assets to provide profits to shareholders so that it is considered a good signal for outside parties which can increase the value of the company. The research results of Fadli (Fadli et al., 2015), Sambul (Sambul, 2016), Sari (Sari & Denies, 2018), Suranto (Suranto et al., 2017), and Mumtazah (Mumtazah & Purwanto, 2020) state that ROA influence the company value or share price. Meanwhile, research by Sugianto (Sugianto et al., 2020) and Asyik (Asyik & Thaharah, 2016) states that profitability performance (ROA) has no effect on company value.

Based on the description above, the first hypothesis in this research is:

**$Ho_1$: Profitability Performance (ROA) does not have a significant effect on Company Value**

**$Ha_1$: Profitability Performance has a significant effect on Company Value**

**The Effect of Credit Risk on Company Value**

Credit risk is an inherent risk in the bank's business in carrying out the financial intermediary function where the distribution of third-party funds to debtors may result in default. Bank credit risk is seen from the Non-Performing Loan (NPL) ratio, namely the comparison between the number of collectible loans 3 to 5 (Non-Performing Loans) with the total credit provided. Good credit risk management is indicated by the low NPL ratio, which signals that prudential banking principles are being implemented by management so that it can influence share prices and company value. Sugianto's research results (Sugianto et al., 2020) state that NPLs have a negative effect on company value, while Sri Murni's research results (Murni & Sabijono, 2018) state that NPLs have a positive effect on company value. Other research states that NPL has no effect on company value, including research by Mumtazah (Mumtazah & Purwanto, 2020), Sari (Sari & Denies, 2018), and Suranto (Suranto et al., 2017).

Based on the description above, the second hypothesis in this research is:

**$Ho_2$: Credit Risk (NPL) does not have a significant effect on Company Value**

**$Ha_2$: Credit Risk (NPL) has a significant effect on Company Value**

**The Effect of Liquidity Risk on Company Value**

Bank business activities can pose a liquidity risk if the bank disburses excessive credit without paying attention to the need for third party funds which can be withdrawn at any time by customers, so that management has the potential to look for other sources of funds at high costs. On the other hand, loose liquidity (a lot of idle funds) means that management is not optimal in managing third party funds into productive assets so that the resulting business income is not optimal. Bank liquidity risk can be seen from the LDR (Loan to Deposit Ratio), namely the comparison between the total credit provided and the bank's total Third-Party Funds (DPK). Maintained liquidity signals that bank management is running its business with prudence and good risk management. Good signals received by shareholders and investors can influence company value through increases in bank share prices.

The research results of Mumtazah (Mumtazah & Purwanto, 2020) and Rido (Rido Raiza Fahlevi et al., 2018) show that LDR has a negative effect on company value, while Fadli's research (Fadli et al., 2015) shows the results that LDR has a positive effect on company value. company. Other research shows that LDR has no effect on company value (Lubis et al., 2017) (Murni & Sabijono, 2018) (Sugianto et al., 2020).

Based on the description above, the third hypothesis in this research is:

**$Ho_3$: Liquidity Risk (LDR) does not have a significant effect on Company Value**

**$Ha_3$: Liquidity Risk (LDR) has a significant effect on Company Value**

**The Effect of Capital Adequacy on Company Value**

The level of bank capital adequacy can be seen from the CAR (Capital Adequacy Ratio) calculation, which compares bank capital with risk-weighted assets (RWA). A high CAR indicates strong capital and provides room for management to expand its business to increase productive assets and bank income. Bank capital will absorb losses suffered by the bank if risks occur so that the bank's business can continue to run and grow. Sustainable bank business growth is a good signal for shareholders and investors, thereby influencing company value through an increase in bank share prices.

The research results of Murni (Murni & Sabijono, 2018) and Rido (Rido Raiza Fahlevi et al., 2018) show that CAR has a positive effect on company value, while the research of Sugianto (Sugianto et al., 2020), mumtazah (Mumtazah & Purwanto, 2020), and Sambul (Sambul, 2016) show the results that CAR has no effect on company value.

Based on the description above, the fourth hypothesis in this research is:

**Ho4: Capital Adequacy (CAR) has no significant effect on Company Value**

**Ha4: Capital Adequacy (CAR) has a significant effect on Company Value**

The fifth hypothesis in this research is:

**Ho5: Profitability Performance, Credit Risk, Liquidity Risk and Capital Adequacy simultaneously do not have a significant effect on Company Value**

**Ha5: Profitability Performance, Credit Risk, Liquidity Risk, and Capital Adequacy simultaneously have a significant effect on Company Value**

The conceptual framework in this research is depicted in the figure below:

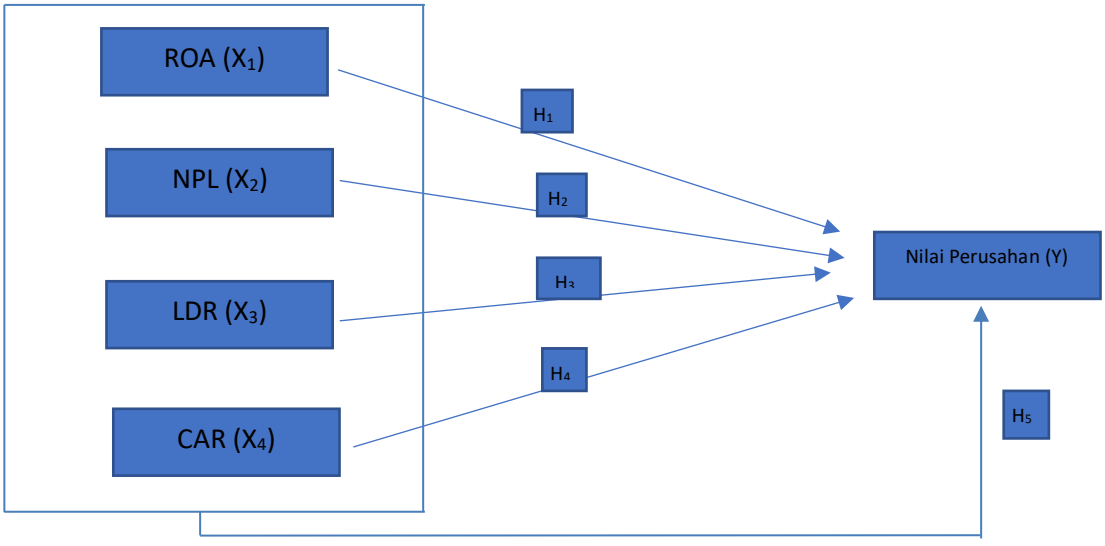


**Figure 1. Conceptual Framework**

## METHODOLOGY

This type of research is causal research with a quantitative approach to find out whether there is a significant influence between the independent variable and the dependent variable on a specific research subject. The independent variables studied include profitability performance which is proxied by the ROA ratio, credit risk which is proxied by the NPL ratio, liquidity

risk which is proxied by the LDR ratio, and capital adequacy which is proxied by CAR. Meanwhile, company value is the dependent variable which is proxied by Ln (natural logarithm) of the market price of the company's shares times the number of shares outstanding.

The population in this research is banking companies listed on the Indonesia Stock Exchange for the period 2015 - 2021, with sample determination using a purposive sampling method, namely a sample of 10 conventional commercial banks with the largest asset value listed on the BEI at the end of 2021. The author took data from these 10 banks. over a period of 7 years so that the data samples analyzed totaled 70 samples.

The data analysis used is the classic assumption test, hypothesis testing uses multiple linear regression analysis which includes the t test (partial test) and the F test (simultaneous test) with the help of EViews-12 software. The regression equation model in this research is as follows:

$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \varepsilon_{it}$

Where:

Y = The value of the company
i = Cross section data (Company Data)
t = Time series data (Time Period)
α = Constant (intercept)
β = Regression Coefficient (slope)
$X_1$ = Profitability Performance (ROA)
$X_2$ = Credit Risk (NPL)
$X_3$ = Liquidity Risk (LDR)
$X_4$ = Capital Adequacy (CAR)

## RESEARCH RESULT

### *Descriptive Statistical Analysis*

This analysis is used to provide information regarding the condition of the independent variables and dependent variables as depicted in table 1.

**Table 1. Descriptive Statistical Analysis**

| | ROA | NPL | LDR | CAR | Ln Nilai Perusahan (harga saham x jumlah saham beredar |
|---|---|---|---|---|---|
| **Mean** | 2,27 | 2,54 | 92,11 | 21,45 | 31,86 |
| **Maximum** | 4,19 | 4,78 | 163,10 | 29,86 | 34,43 |
| **Minimum** | 0,13 | 0,70 | 62,00 | 16,28 | 30,25 |
| **Std Deviation** | 0.98 | 0,98 | 14,41 | 2,98 | 1,37 |
| **Total of Data** | 70 | 70 | 70 | 70 | 70 |

### *Classic assumption test*

### *Multicollinearity Test*

This test is used to find out whether there is a correlation or strong relationship between 2 independent variables (independent variables) in the regression model. In this test there are 2 types, namely the VIF test and the

correlation test. The results of the multicollinearity test can be seen in Table 2 and Table 3.

**Table 2. VIF Test**

| Variabel | Coefficient Variance | Uncentered VIF | Centered VIF |
|---|---|---|---|
| **C** | 1.930117 | 184.1146 | NA |
| **ROA** | 0.020485 | 12.00566 | 1.864371 |
| **NPL** | 0.021386 | 14.97799 | 1.777856 |
| **LDR** | 0.06E-05 | 50.23405 | 1.183727 |
| **CAR** | 0.001316 | 58.87341 | 1.100521 |

**Table 3. Corellation Test**

| Correlation | | | | |
|---|---|---|---|---|
| | **X1** | **X2** | **X3** | **X4** |
| **X1** | 1.000000 | -0.602322 | -0.251739 | 0.265447 |
| **X2** | -0.602322 | 1.000000 | -0.089422 | -0.273274 |
| **X3** | -0.251739 | -0.089422 | 1.000000 | -0.048263 |
| **X4** | 0.265447 | -0.273274 | -0.048263 | 1.000000 |

Based on the data above, the Centered VIF value in table 2 shows <10, and the correlation value between independent variables in table 3 shows a value below 0.90 so it can be concluded that there is no multicollinearity problem.

***Heterokedastisity Test***

This test is carried out to determine whether in a regression model there is inequality in residual variance from one observation to another. Because the panel data used by the author involves many cross sections and tends to contain heteroscedasticity, the author uses heteroscedasticity testing with the Glesjer test manually in the EViews 12 application by creating a new variable Resabs (residual absolute) whose equation is resabs=abs(resid). From the data in table 4, it is known that the probability value for each variable x is > 0.05, so it can be concluded that there is no heteroscedasticity problem.

**Table 4. Heterokedastisity Test**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| **C** | 0.258686 | 0.354262 | 0.730212 | 0.4683 |
| **ROA** | 0.028246 | 0.039806 | 0.709585 | 0.4809 |
| **NPL** | -0.050273 | 0.049631 | -1.012928 | 0.3155 |
| **LDR** | -0.000786 | 0.001894 | -0.414970 | 0.6797 |
| **CAR** | 0.003327 | 0.009729 | 0.342023 | 0.7336 |

***Regression Model Selection***

Panel data regression estimates are formed using 3 approaches, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Then the Chow test and Hausman test were carried out to find out the best regression model to use with the results in tables 4 and 5.

***Chow Test***

The Chow test was carried out to determine which panel data regression estimation model is most appropriate between the Common Effect Model and the Fixed Effect Model. Table 5 shows the prob values. The cross-section chi-square is 0.0000, which is lower than 0.05, so the best model according to the Chow test is the Fixed Effect Model.

**Table 5. Chow Test**

| Effects Test | Statistic | d.f. | Prob |
|---|---|---|---|
| **Cross-section F** | 62.702543 | (9,56) | 0.0000 |
| **Cross-section Chi-square** | 168.342191 | 9 | 0.0000 |

***Hausman Test***

The next step is to carry out a Hausman test to determine which is the best regression model between the Fixed Effect Model and the Random Effect Model. Table 6 shows the prob values. The random cross-section is 0.0000, which is lower than 0.05, so the best model according to the Hausman test is the Fixed Effect Model.

**Table 6. Hausman Test**

| Test Summary | Chi.Sq. Statistiq | Chi.Sq.d.f | Prob |
|---|---|---|---|
| Cross Section Random | 148.265416 | 4 | 0.0000 |

Based on the results of the two tests above, this research uses a panel data regression model from the Fixed Effect Model approach which can be seen in table 7.

**Table 7. Model Regresion – Fixed Effect Model**

| Variable | Coefficient | Std. Error | t-Statistik | Prob. |
|---|---|---|---|---|
| Konstanta | 29,68167 | 0.653281 | 45,43473 | 0,0000 |
| ROA | 0,117439 | 0.073406 | 1,599865 | 0,1153 |
| NPL | 0,122204 | 0.091523 | 1,335230 | 0,1872 |
| LDR | 0,008616 | 0.003493 | 2,467007 | 0,0167 |
| CAR | 0,036004 | 0.017940 | 2,006896 | 0,0496 |

Based on the data above, the form of the equation for panel data regression in this research can be written as follows:

The value of the company = 29,68167 + 0,117439 ROA + 0,122204 NPL + 0,008616 LDR + 0,036004 CAR

***Multiple Linear Regression Analysis***

The results of regression tests carried out using the Fixed Effect Model are used to see the influence of profitability performance, credit risk, liquidity risk and bank capital adequacy on company value. Some of the results obtained are as follows:

***Regression Coefficient Test (R2)***

The coefficient of determination (R2) is used to measure how far the ability of the independent variables in the regression model explains variations in the dependent variable.

**Table 8. Regression Coefficient Test (R2)**

| | | | | |
|---|---|---|---|---|
| R-squared | 0.967171 | | Mean dependent var | 31.82629 |
| Adjusted R-squared | 0.959549 | | S.D. dependent var | 1.378739 |
| S.E.of regression | 0.277297 | | Akaike info criterion | 0.449399 |
| Sum squared resid | 4.306032 | | Schwarz criterion | 0.899098 |
| Log likelihood | -1.728950 | | Hannan-Quin criter | 0.628025 |
| F-statistic | 126.9065 | | Durbin-Watson Stat | 1.165162 |
| Prob(F-statistic) | 0.000000 | | | |

Based on the data in table 8, the results of the coefficient of determination test with an Adjusted R-squared value of 0.95 can be interpreted as saying that the independent variables, namely ROA, NPL, LDR and CAR, are able to explain the dependent variable, namely company value, by 95.95%. Meanwhile, the remaining 4.05% is explained by other variables not included in this study.

***F Test (Model Feasibility Test)***

The F test is used to determine the effect of the independent variable on the dependent variable simultaneously (together). The results of the F test can confirm whether the selected regression model is suitable or not for interpreting the influence of the independent variable on the dependent variable.

**Table 9. F Test**

| | | | | |
|---|---|---|---|---|
| R-squared | 0.967171 | | Mean dependent var | 31.82629 |
| Adjusted R-squared | 0.959549 | | S.D. dependent var | 1.378739 |
| S.E.of regression | 0.277297 | | Akaike info criterion | 0.449399 |
| Sum squared resid | 4.306032 | | Schwarz criterion | 0.899098 |
| Log likelihood | -1.728950 | | Hannan-Quin criter | 0.628025 |
| F-statistic | 126.9065 | | Durbin-Watson Stat | 1.165162 |
| Prob(F-statistic) | 0.000000 | | | |

The data in table 9 of the F-test results shows the value of Prob. (F-statistic) is 0.000, namely <0.05, so it can be interpreted that ROA, NPL, LDR, and CAR simultaneously (together) have an effect on company value, and the estimated regression model is suitable for use.

***T-Test***

The t statistical test is used to determine whether or not there is a partial influence of the independent variable on the dependent variable. The t-test results can be seen from table 7 above. The conclusion from the author's t-test results is summarized in table 10 below.

| **Regression Test** | | | | |
|---|---|---|---|---|
| **Variable** | **Coefficient** | **t-Statistik** | **Prob.** | **Kesimpulan** |
| Konstanta | 29,682 | 45,435 | 0,000 | Signifikan dan Positif |
| ROA | 0,117 | 1,599 | 0,115 | Tidak Signifikan |

| | | | | |
|---|---|---|---|---|
| NPL | 0,122 | 1,335 | 0,187 | Tidak Signifikan |
| LDR | 0,009 | 2,467 | 0,017 | Signifikan dan Positif |
| CAR | 0,036 | 2,007 | 0,049 | Signifikan dan Positif |

Based on table 10, only LDR and CAR partially have a significant effect on company value because they have a value of Prob. < 0.05, while ROA and NPL do not have a significant effect on company value.

## DISCUSSION

### *The Effect of Profitability Performance on Company Value*

Based on the results of the hypothesis test that has been carried out, profitability performance projected by ROA does not have a significant influence on company value. This finding is not in accordance with agency theory where information asymmetry involving the principal and agent can be minimized by using signaling theory through profitability performance information in company reports. A high profitability performance or ROA ratio illustrates management's effectiveness in managing the company so that outsiders will consider this as good news (a good signal). This good signal can increase company value through an increase in stock market prices.

The results of this research are in line with the research results of Sugianto (Sugianto et al., 2020) and Thaharah (Asyik & Thaharah, 2016) which stated that profitability performance (ROA) has no effect on company value. This can happen because investors not only pay attention to the company's internal ability to generate profitability but also pay attention to other risk factors and market conditions.

The results of this research are in contrast to previous research conducted by Mumtazah (Mumtazah & Purwanto, 2020), Sambul (Sambul, 2016), Sari (Sari & Denies, 2018), and Suranto (Suranto et al., 2017) where ROA has a positive effect significant and indicates that the increase in profits by the company provides a good signal to outside parties thereby increasing the value of banking companies.

### *The Effect of Credit Risk on Company Value*

Based on the results of the hypothesis test that has been carried out, the credit risk projected by the NPL ratio does not have a significant effect on company value. This finding is not in accordance with agency theory where information asymmetry can be minimized by using signaling theory where parties outside the company can see the level of bank credit risk in bank reports as a signal from the company. The lower the NPL value, the smaller the credit risk faced by the bank. The increase in NPL indicates a decline in the quality of bank credit due to an increase in non-performing loans which can erode bank profits. An increase in the NPL ratio can be interpreted by parties outside the company as a bad signal (bad news) so that it can reduce the value of the company.

The results of this research are in line with the research results of Mumtazah (Mumtazah & Purwanto, 2020) and Sambul (Sambul, 2016) which

stated that NPLs have no effect on company value or share prices. This could be because investors do not pay too much attention to credit risk factors as reflected in the bank's NPL ratio when making investment decisions in banking shares because they consider other factors such as the bank's capital adequacy in absorbing banking credit risk. Apart from that, based on the author's observations, the NPL ratio of the 10 banks in the research sample for 7 consecutive years was still below the maximum ratio determined by the regulator of 5%.

The results of this research contradict previous research conducted by Sugianto (Sugianto et al., 2020) where NPL had a negative and significant effect on company value, indicating that an increase in the NPL ratio would be followed by a decrease in company value. Other research conducted by Sri Murni (Murni & Sabijono, 2018) states that NPL has a positive effect on company value.

***The Effect of Liquidity Risk on Company Value***

Based on the results of hypothesis testing that has been carried out, liquidity risk projected with LDR has a positive and significant influence on company value. The increase in LDR is considered as an increase in credit distribution or optimization of third party funds collected by banks in creating additional productive assets for the company.

The results of this research are in line with the research results of Sambul (Sambul, 2016) and Fadli (Fadli et al., 2015) which state that LDR has a positive and significant effect on company value. An increase in LDR can increase company value through an increase in share prices. This could be because investors do not pay too much attention to liquidity risk factors which are reflected in the bank's high LDR ratio in making investment decisions in banking shares. Investors assume that the increase in LDR reflects management's ability to increase the bank's productive assets through increasing credit distribution, in other words. A low LDR reflects the large number of idle funds that management cannot manage to generate profits for the company. An increase in the LDR ratio will increase company profits and increase stock market prices. This increase in share prices can increase the value of banking companies.

The results of this research are in contrast to previous research conducted by Repi (Repi et al., 2016) where LDR has a negative and significant effect, meaning that an increase in the LDR ratio will be followed by a decrease in company value, whereas a decrease in LDR will be followed by an increase in company value.

***The Effect of Capital Adequacy on Company Value.***

Based on the results of the hypothesis test that has been carried out, bank capital adequacy projected by CAR has a positive and significant influence on company value. This finding is in accordance with agency theory where information asymmetry can be minimized by using signaling theory through information on bank capital adequacy levels in financial reports and company annual reports. The increase in the CAR ratio reflects an increase in the bank's ability to absorb bank losses caused by the company's business activities so that business continuity can continue. A CAR that is high above the minimum 8% required by the regulator will be considered good news (a good signal). This

good signal can increase company value through an increase in stock market prices.

The results of this research are in line with the research results of Kansil (Kansil et al., 2021) and Murni (Murni & Sabijono, 2018) which state that CAR has a positive and significant effect on company value. With a high CAR, apart from being able to absorb losses faced by the bank, it can also be considered as sufficient bank capital to expand its business through increasing credit distribution and other banking products which will increase company profits and share prices. This increase in share prices can increase the value of banking companies.

The results of this research are in contrast to previous research conducted by Srihayati (Srihayati & Tandika, 2015) and research conducted by Sari (Sari & Denies, 2018) where CAR does not have a significant effect on company value, which means that an increase in the CAR ratio is not always followed by increase in company value.

## CONCLUSION AND RECOMMENDATION

### *Conclusion*

Based on the results of the data analysis and discussions carried out, several conclusions can be drawn as follows:

1. The bank's ability to generate profits using the assets it owns does not have a significant effect on the value of banking companies through changes in stock market prices. An increase in Return on Assets (ROA) is not always followed by an increase in banking share prices, and vice versa, a decrease in ROA is not always followed by a decrease in banking share prices.

2. The size of the credit risk which describes the number of non-performing loans does not have a significant effect on the value of banking companies through changes in stock market prices. The level of return on loans disbursed by banks can be relatively maintained with Non-Performing Loans (NPL) still below the maximum requirement of 5% so that even though they fluctuate, they do not disrupt the continuity of the bank's business. An increase or decrease in Non-Performing Loans (NPL) is relatively not accompanied by a decrease or increase in banking share prices.

3. Optimal bank liquidity management is able to influence the value of banking companies through changes in stock market prices. An increase in the Loan to Deposit Ratio (LDR) is not considered an increase in liquidity risk but an increase in management's ability to manage third party funds into productive assets in the form of credit. An increase in LDR will be followed by an increase in banking share prices, and vice versa, a decrease in LDR can reduce banking share prices.

4. Capital adequacy that allows banks to continue to develop through increasing productive assets can influence the value of banking companies through changes in stock market prices. Bank capital will be a buffer in absorbing risks and dealing with losses that may occur. An increase in the Capital Adequacy Ratio (CAR) will increase banking share prices, and vice versa, a decrease in CAR can reduce banking share prices.

***Recomendation***

The recommendations that the author can convey regarding the results of the research that has been carried out are as follows:

1. Banks must carry out balanced liquidity management between collecting public funds and lending, reducing idle funds and preventing liquidity difficulties so that the financial intermediary function can be carried out optimally, which ultimately increases company value.
2. Banks are expected to have sufficient capital to support the development of company business operations and absorb the risk of bank losses so that company value can continue to increase and help maintain financial system stability.
3. Future research needs to develop and add other independent variables that have not been included in the variables of this research, such as economic growth rate, inflation rate and bank interest rates to find out whether there are variables that theoretically influence the value of banking companies.

## ADVANCED RESEARCH

This research still has several limitations. First, the research sample is only 10 banking companies with the largest assets listed on the Indonesian Stock Exchange. Second, the model's ability to explain independent variables is 95.95%, so there are other factors outside the variables studied, namely 4.05%, which can influence the value of banking companies. Third, the panel data used by the author involves many cross sections and tends to contain heteroscedasticity, so the author uses heteroscedasticity testing with the Glesjer test manually in the EViews 12 application by creating a new variable Resabs (residual absolute) whose equation is resabs=abs(resid) . Therefore, future researchers are advised to increase the research sample, both in terms of objects and research time span, so that they have more observed data and better reflect the actual situation.

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