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THE EFFECT OF FINANCIAL RATIOS ON COMPANY VALUE IN REAL ESTATE COMPANIES IN MAKASSAR CITY

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Abstract

This study aims to analyze the effect of financial ratios on company value in real estate companies in Makassar City. In a dynamic and challenging industry such as real estate, efficient management of financial ratios is essential to increase competitiveness and company value. The financial ratios analyzed in this study include liquidity, profitability, and solvency ratios, which are considered to reflect the financial health and overall performance of the company. Company value is measured using indicators such as Price to Earnings Ratio (PER) and market capitalization. The method used in this study is multiple linear regression, with a sample of real estate companies listed in Makassar City during the period 2019 to 2022. The results of the study show that financial ratios, especially the profitability ratio (Return on Assets/ROA) and the solvency ratio (Debt to Equity Ratio/DER), have a significant effect on company value. In particular, companies with higher profitability ratios tend to have better market value. On the other hand, the liquidity ratio does not show a significant effect on company value. This study fills a gap in the existing literature, by providing insights into how real estate companies in developing regions such as Makassar can leverage financial ratios to enhance their value in the market. The findings also provide important implications for financial managers and investors, by demonstrating that proper management of financial ratios can be a key strategy in enhancing the performance and attractiveness of companies in the real estate sector.

Keywords: Financial Ratios, Company Value, Real Estate, Makassar

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A. Introduction

The real estate industry in Indonesia, especially in big cities like Makassar, has experienced rapid development in recent years. Real estate as an important sector in



the Indonesian economy plays a vital role in job creation, investment, and its contribution to the national Gross Domestic Product (GDP). However, this sector is also very vulnerable to global economic fluctuations, changes in government policies, and the dynamics of the property market which are often unpredictable. Therefore, to ensure the continuity and growth of real estate companies, a deep understanding of the factors that can affect the value of the company is very important. One of the most significant factors in measuring and assessing the health and performance of a company is the financial ratio.

Financial ratios are tools used to assess the financial position of a company, which includes various aspects such as liquidity, profitability, solvency, and operational efficiency. These ratios provide an overview of how a company can manage its assets, debts, and income to create optimal value for shareholders. In the context of real estate companies, financial ratios play a crucial role because this sector often involves large, risky investments, and requires efficient financial management to maintain long-term continuity and growth.

Based on existing observations, many real estate companies in Makassar focus on managing financial ratios to improve their position in the market. However, there is still a lack of research that specifically identifies the influence of financial ratios on company value in real estate companies in Makassar. Although some studies have been conducted in other sectors, research on this in the local real estate sector is still limited. Therefore, this study is expected to provide a significant contribution to understanding how financial ratios, such as liquidity, solvency, and profitability ratios, affect company value in the real estate market in Makassar City.

This study raises novelty by focusing on real estate companies listed in Makassar City in a specific period. Previous studies have focused more on larger companies or those listed on the stock exchange, while real estate companies in medium-sized cities such as Makassar often have not received the same attention. This makes this study relevant, because it fills the research gap related to the dynamics of local real estate companies that have different characteristics and challenges compared to large companies in metropolitan cities.

In addition, this study also develops a more holistic approach to measuring company value. Most previous studies have used methods that are limited to stock market value as a single indicator. However, this study uses a combination of several indicators of company value, such as Price to Earnings Ratio (PER) and market capitalization, to provide a more comprehensive picture of the influence of financial ratios.

The theory underlying this study is the Signaling Theory developed by Michael Spence in 1973. This theory states that information provided by a company through financial statements and reported ratios can be a signal to investors regarding the condition and prospects of the company in the future. In this context, a good financial ratio can send a positive signal to the market, which in turn can increase the value of

the company in the eyes of investors. On the other hand, a bad financial ratio can give a negative signal, which has the potential to reduce the value of the company. Therefore, this signaling theory provides a basis for research to examine how changes in financial ratios can affect market perceptions of real estate companies in Makassar City.

In addition, the Agency theory developed by Jensen and Meckling (1976) is also relevant to this study. This theory focuses on the relationship between managers and shareholders, where managers act as agents who manage the company on behalf of shareholders as principals. One of the main challenges in this relationship is how to ensure that managers act in the interests of shareholders, especially in terms of managing financial ratios that can affect the value of the company. This theory helps explain how managerial decisions related to managing financial ratios can have a direct impact on the reported value of the company.

B. Method

This study uses a quantitative approach with multiple linear regression methods to analyze the effect of financial ratios on company value. Here are the details:

- Population and Sample: The population used in this study were all real estate companies registered in Makassar City. The sample of this study was selected using a purposive sampling technique, with the criteria of companies that have complete financial reports for the last three years.

Research Variables:

- Independent Variable (X): Financial Ratios (liquidity, profitability, solvency, and activity).
- Dependent Variable (Y): Company Value (measured using the company's stock price and the price to earnings per share ratio, PER).

Data Collection Method: Data were collected through annual financial reports published by real estate companies in Makassar, as well as stock market data if available.

Data Analysis: Using multiple linear regression analysis to test the relationship between financial ratios and company value.

C. Result

This study aims to examine the effect of financial ratios on firm value in real estate companies in Makassar City. After conducting multiple linear regression analysis, several significant results were found that indicate the relationship between financial ratios and firm value. This study analyzes three main types of financial ratios, namely liquidity ratios, solvency ratios, and profitability ratios, which are measured

using the Current Ratio (CR), Debt to Equity Ratio (DER), and Return on Assets (ROA), as well as firm value measured by Price to Earnings Ratio (PER) and market capitalization.

1. Liquidity Ratio (Current Ratio)

The liquidity ratio, measured using the Current Ratio (CR), measures a company's ability to meet its short-term obligations using current assets. Based on the results of the analysis, the liquidity ratio does not show a significant effect on the value of the company in real estate companies in Makassar City. Although a higher liquidity ratio generally indicates that a company can more easily meet short-term obligations, in this context there is no clear relationship with the company's market value.

Interpretation: This could be due to the nature of the real estate industry which is more focused on long-term asset management and large investments, where liquidity is not a major factor in influencing market perceptions of company value.

2. Solvency Ratio (Debt to Equity Ratio)

The solvency ratio, as measured by the Debt to Equity Ratio (DER), shows the extent to which a company finances its operations through debt compared to its equity. The results of the study indicate that the DER ratio has a significant effect on firm value. Specifically, companies with a lower DER ratio tend to have a higher market value.

Interpretation: A low DER ratio indicates that the company has a lower financial risk, which can increase investor confidence and increase the company's value in the market. This suggests that investors are more interested in companies with a more stable capital structure, especially in the real estate sector which is vulnerable to market fluctuations.

3. Profitability Ratio (Return on Assets)

The profitability ratio, as measured by Return on Assets (ROA), shows the extent to which a company generates profit from its assets. Based on the analysis results, the ROA ratio has a very significant influence on the company's value. The higher the ROA ratio, the higher the company's value as reflected in market capitalization and Price to Earnings Ratio (PER).

Interpretation: A high ROA ratio reflects the company's efficiency in managing assets to generate profit. This is very important for investors, because it shows that the company is able to generate consistent income from its assets, which in turn increases the company's attractiveness in the eyes of the market.

4. Price to Earnings Ratio (PER) Analysis

Price to Earnings Ratio (PER) is used to assess whether a stock is overvalued or undervalued, by comparing the company's stock price to net income per share. The results of the analysis show that PER is positively related to the profitability ratio (ROA) and negatively related to the solvency ratio (DER). The higher the ROA ratio, the higher the PER recorded, indicating that investors tend to give higher valuations to companies that are able to generate profits effectively.

Interpretation: A high PER indicates that investors consider the company to have good profit prospects, and they are willing to pay more for the company's shares. Conversely, companies with high DER have lower PERs because investors see greater risk in the investment.

5. Market Capitalization

Market capitalization, which reflects the total market value of a company, is also influenced by the financial ratios tested. The profitability ratio (ROA) shows a strong positive effect on market capitalization, while the solvency ratio (DER) shows a negative effect. Market capitalization is greater in companies with high profitability ratios, while companies with higher DER tend to have smaller market capitalizations.

Interpretation: This shows that investors tend to assess companies with high profit potential as more valuable, while companies with high debt are considered riskier. Therefore, this financial ratio plays an important role in determining investment decisions related to company valuation.

D. Conclusion

Based on the results of the study, it can be concluded that financial ratios, especially ROA and DER, have a significant influence on the company value of real estate companies in Makassar City. A high profitability ratio can increase the company value, while a lower solvency ratio indicates a smaller risk, thus increasing the company's market value.

The results of this study provide important implications for financial managers and investors. Real estate company managers need to focus on increasing profitability and efficient debt management to increase company value and attractiveness in the market. Investors can also use these financial ratios as indicators to assess investment potential in the real estate sector, especially in areas such as Makassar City which are developing.

This study contributes to the literature on financial ratios and company value, with a focus on real estate companies in Makassar City which previously received less attention. With these findings, it is hoped that it can be a reference for further, more in-depth research in this sector.

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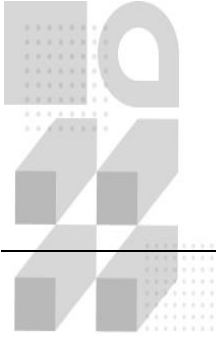
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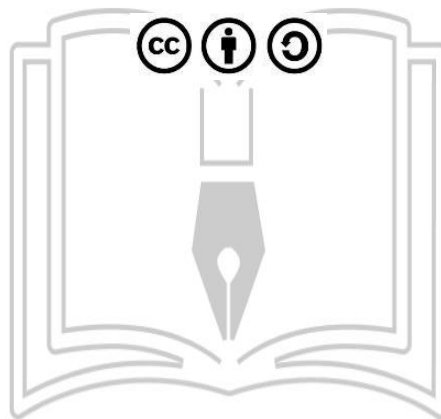
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