

Profitability and Leverage as Determinants of the Price to Book Value of Companies Listed on Jakarta Islamic Index

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ABSTRAK

Peningkatan harga pasar saham yang stabil mencerminkan maksimalisasi nilai perusahaan. Rasio *Price to Book Value* berfungsi sebagai metrik untuk menilai pertumbuhan nilai perusahaan. Kebijakan profitabilitas dan *leverage* hanyalah dua dari beberapa aspek yang mempengaruhi nilai perusahaan secara keseluruhan. Penelitian ini bertujuan untuk mengevaluasi pengaruh rasio keuangan khususnya profitabilitas yang diukur dengan *Return on Equity* dan *leverage* yang ditunjukkan dengan *Debt to Equity Ratio* terhadap *Price to Book Value* pada perusahaan yang terdaftar di Jakarta Islamic Index antara tahun 2018 hingga 2023, dimana pada periode tersebut saat Pandemi Covid 19 terjadi. Penelitian ini membedakan dengan penelitian sebelumnya melalui pendekatan metodologisnya. Penelitian ini menggunakan metodologi deskriptif dan kuantitatif. Selain itu, sampel penelitian ini dipilih menggunakan purposive sampling dengan sebelas perusahaan yang secara konsisten terdaftar di Jakarta Islamic Index untuk rentang waktu 2018-2023. Penelitian ini menggunakan regresi data panel sebagai pendekatan analisisnya. Temuan dari uji statistik menunjukkan bahwa Rasio Profitabilitas berpengaruh signifikan terhadap *Price to Book Value*, sedangkan rasio *leverage* tidak menunjukkan pengaruh yang signifikan. Hal ini menunjukkan bahwa meskipun profitabilitas memainkan peran penting, *leverage* tidak. Disarankan agar emiten secara konsisten berusaha untuk mempertahankan atau meningkatkan profitabilitas dalam segala keadaan, yang akan berkontribusi pada peningkatan nilai perusahaan secara keseluruhan untuk menghadapi kejadian yang tidak terduga seperti Covid 19, dunia usaha harus mencermati pembiayaan modal dan utang untuk menjaga kepercayaan pemegang saham. dan pemangku kepentingan lainnya.

Kata Kunci: Profitabilitas; *Leverage*; *Price to Book Value*; *Jakarta Islamic Index*.

ABSTRACT

A steady increase in the stock market price reflects the maximization of corporate value. The Price to Book Value ratio serves as a metric for assessing the growth in a company's value. Profitability and leverage policies are just two of the several aspects that influence the company's overall value. This study aims to evaluate the impact of financial ratios, specifically profitability as measured by Return on Equity and leverage indicated by the Debt to Equity Ratio, on the Price to Book Value of companies listed on the Jakarta Islamic Index between 2018 and 2023, during which time the Covid 19 Pandemic occurred. This study distinguishes itself from previous research through its methodological approach. The research utilized a descriptive and quantitative methodology. Additionally, the sample for this study was selected using a purposive sampling with eleven firms that are consistently listed on the Jakarta Islamic Index for the timeframe 2018-2023. This research employs panel data regression as its analytical approach. The findings from the statistical tests reveal that the Profitability Ratio significantly affects the Price to Book Value, whereas the Leverage Ratio does not exhibit a notable impact. This suggests that while Profitability plays a crucial role, Leverage does not. It is recommended that Issuers consistently strive to sustain or enhance profitability under all

circumstances, which would contribute to an increase in the company's overall value to face unexpected events such as Covid 19, businesses must examine both capital and debt financing to maintain the trust of shareholders and other stakeholders.

Keywords: *Profitability; Leverage; Price to Book Value; Jakarta Islamic Index.*

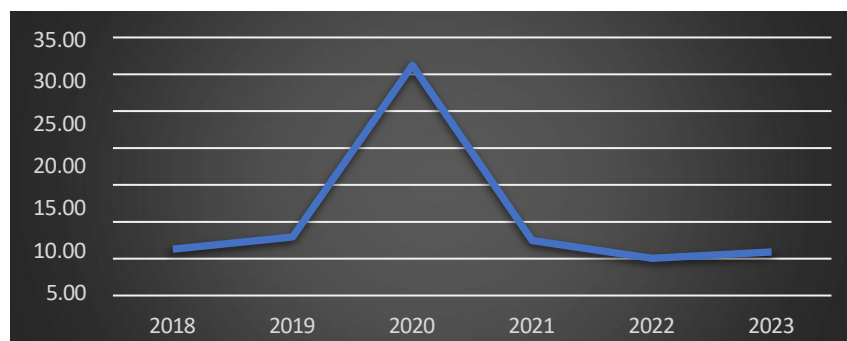
INTRODUCTION

A company is an institution or business entity that engages in profit-generating production activities. The corporation can also be viewed as a system that processes inputs from various sources to produce outputs. Organizations that pursue public offerings have distinct aims regarding the effective execution of financial management to achieve both short-term and long-term objectives. The immediate aim focuses on optimizing profits through the efficient utilization of current resources, while the overarching long-term objective is to enhance the overall value of the corporation. (Hermono, 2017). A continual growth in the stock market price demonstrates the maximization of corporate value.

Assessing the growth of a company's value is not solely reliant on stock prices; it can also be evaluated through the price to book value (PBV) ratio. Pratama & Wiksuana (2016) define this ratio as a comparison between a company's share price and its book value. Furthermore, Dayanti, Primasatya, & Fernando (2024) and Sari & Jufrizen (2019) contend that a higher ratio of share price to book value reflects an elevated level of shareholder welfare. PBV serves as an indicator of a company's capacity to create intrinsic value in relation to the financial resources allocated for investment activities (Nurminda, Isyнуwardhana, & Nurbaiti, 2017). A high PBV suggests that the market price of the shares exceeds their book value per share. Therefore, the company succeeds in realizing value for its shareholders.

The Jakarta Islamic Index (JII) is the first of five (5) sharia stock indexes on Indonesia's capital market, the product of a collaboration between the Indonesia Stock Exchange (IDX) and PT Danareksa Investment Management. The JII only includes the top 30 most liquid stocks listed on the IDX. Liquid stocks are those that are actively traded. This index is expected to serve as a benchmark for sharia-based stock performance and may be of interest to investors who do not desire usury in their profits. In addition to filtering sharia equities, investors must conduct an assessment while making investment decisions, which includes examining financial ratios.

Graph 1 shows an overview of the development of the average value of PBV annual data from 2018 to 2023 in companies that are usually on the JII list. The average PBV value in 2020 was the highest, at 31.22. The most substantial fall in PBV value happened in 2021, at 7.45, followed by a decline in 2022, at 5.04, and a tiny increase in 2023, at 5.91. It is seen that in 2020, the PBV value has climbed rather quickly or experienced the highest peak, which suggests that this phenomenon makes the firm's share price soar or may be called to be costly, and this makes people unwilling to buy the company shares. As it is well known, there was a covid 19 epidemic in 2020, which coincided with an economic slump, causing stock purchases in the next year to fall due to rising prices, resulting in a significant decline in PBV value.



Graph 1. Average Value of PBV Shares of Companies listed in JII in 2018-2023

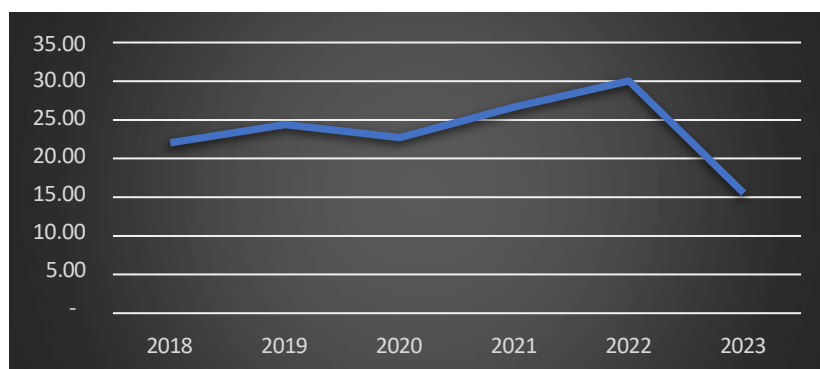
Source: (www.idx.co.id) data processed

Profitability and leverage strategies are critical components influencing a company's overall valuation (Anggorowati & Ilyas, 2022). Return on capital, commonly referred to as return on equity (ROE), serves as a key indicator of a bank's profitability by measuring the earnings before taxes in relation to total capital. This ratio provides insight into the efficiency with which a company generates profit. Another important measure of leverage is the Debt-to-Equity Ratio (DER), which compares the total debt and financial obligations of the company to its total equity held by shareholders. Financial ratios include both ROE and DER values.

Many parties, particularly investors, utilize financial measurements to judge the health of a company before investing their assets. Financial ratio evaluation, like financial statements, can be used as a communication tool to give stakeholders with important information about a company's financial activities during a specific period (Ariesta & Nurhidayah, 2020). Financial ratios involve the examination of the interrelationship between two numerical values found in financial statements, achieved through the division of one value by the other. Investors utilize financial measures to conduct an assessment process before making investment decisions. A company's valuation is determined by how investors regard it.

Return on equity, commonly referred to as ROE or profitability of equity, is a financial metric that assesses the relationship between net income after taxes and shareholders' equity. This ratio illustrates how effectively a company is using its own capital to generate profits. A higher ROE indicates more efficient capital utilization. According to Kasmir (2018), the company owner's position is strengthening as well as vice versa. Graph 2 below depicts the evolution of the average value of ROE annual data for 2018-2023 in companies that are always on the JII list.

Graph 2 shows that the average ROE in 2022 is the greatest, at 30.03. In 2018-2019, the average value of ROE was unstable, and in 2020-2022, the company always experienced an increase, even though in 2023, the average value of ROE experienced a significant decline. This year also shows that the average value of ROE per company is the lowest, at 15.53. This criterion indicates that companies that are consistently listed on the JII have changing average ROE levels. These corporations can be said to be quite good at controlling their debt to make profits, notably in 2020 because this year the world had the covid-19 epidemic in which in general all companies experienced a decrease in value, one of which was in the value of profitability, because the graph above shows that the decline in the average return on equity (ROE) of firms during the Covid-19 pandemic was relatively modest.

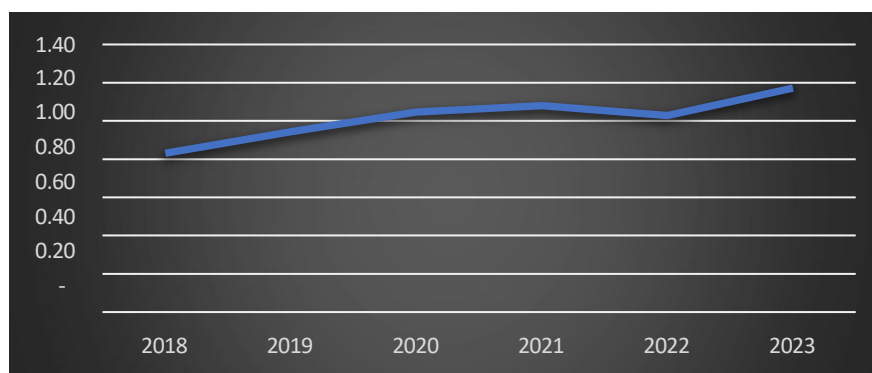


Graph 2. Average Value of ROE Shares of Companies listed in JII in 2018-2023

Source: (www.idx.co.id) data processed

The Debt-to-Equity Ratio (DER) serves as a financial metric that facilitates the comparison between a company's debt and its equity. This ratio is derived by assessing the total debt, which encompasses both short-term and long-term liabilities, in relation to the total equity held by the company. It provides insight into the extent of financial resources that creditors have extended to the owners of the business. Essentially, the DER indicates the proportion of the company's own capital that is utilized as collateral for its debts (Kasmir, 2018). Sartono (2019) posits that this ratio reflects the influence of both debt and equity financing on the overall capital structure of a firm. Furthermore, Brigham & Houston (2019) elucidate that the debt-to-equity ratio reveals the balance between debt and equity that a company employs to support its operational activities. Both debt and equity play a crucial role in shaping a company's capital structure, which determines how it finances its endeavors.

The Debt-to-Equity Ratio (DER) serves as an indicator of the potential risk associated with a company's ability to meet its financial obligations. A higher reliance on DER implies a reduced level of profit available for distribution to shareholders. In contrast, a lower reliance on DER correlates with an increased level of returns for shareholders, thereby enhancing the overall valuation of the company (Hasibuan, Dzulkirom, & Endang, 2016). DER quantifies the company's debt relative to its shareholders' equity as a percentage. A DER value below 1.0 typically indicates a lower risk profile compared to firms with a ratio exceeding 1.0. Companies with a ratio above 1.0 are more dependent on debt for financing their operations than on equity. Conversely, a ratio below 1.0 signifies a greater reliance on equity than on debt. For instance, a company with a DER of 1.25 indicates that it employs Rp.125 in debt financing for every Rp.100 of equity financing. This text outlines the evolution of the average annual data of DER from 2018 to 2023 for companies consistently featured on the JII list.



Graph 3. Average Value of DER Shares of Companies listed in JII in 2018-2023

Source: (www.idx.co.id) data processed

In the figure above, the average value of DER always increased from 2018 to 2021 and then decreased in 2022. However, in 2023, the average value of DER increased again, and that year was the year with the highest average value of ROE with a number reaching 1.17. This condition reflects that companies that are always listed on the JII have a fluctuating average value of DER that tends to always increase. This average value shows that each company's debt has increased compared to its capital and this happens almost every year.

Several studies have been undertaken on the issue of financial ratios and corporate value, with various outcomes. According to Sondakh, et al, (2019), the ROE variable influences PBV. Adhiguna (2023) found that ROE had no influence on PBV, which contradicted previous findings. Nur'Aini, Sa'adah, & Rahmawati (2020) found that DER has an impact on PBV. Meanwhile, Listyawati & Kristiana (2021) found that DER has no influence on PBV.

Previous research has produced inconsistent findings, highlighting the need for further exploration of the influence of financial ratios on Price-to-Book Value (PBV). A key question that emerges is the way financial ratio variables affect PBV in firms listed on the Jakarta Islamic Index (JII) during the period from 2018 to 2023. This study aims to reassess the connection between financial ratios and their effects on a company's PBV. The study's result is expected to produce a concept for the management of financial ratios used in increasing the profitability of companies listed on the JII, as well as empirical evidence for the management of financial ratios that influence the company's PBV level.

Hypothesis

Effect of Profitability (ROE) on Company Value (PBV)

Return on Equity (ROE) serves as an indicator of a company's efficiency in transforming shareholders' equity into net income (Kurniawan & Sudarsono, 2020). A higher ROE signifies that the company is proficient in creating profits and enhancing shareholder value through the strategic reinvestment of its earnings. This assertion is corroborated by findings from Listyawati & Kristiana (2021), which indicate that profitability has a significant impact on firm value. Thus, the following hypothesis can be formulated:

H₁: Profitability affects Company Value

Effect of Leverage (DER) on Company Value (PBV)

The Debt-to-Equity Ratio (DER) serves as a tool for assessing the comprehensive risk profile of a corporation. DER allows the company to fulfill all its obligations using its own capital (Kasmir, 2018). This theory is supported by research from Nadhilah, Hidajat, & Kaban, (2022) which states that leverage affects firm value. Consequently, the subsequent hypothesis may be articulated as follows:

H₂: Leverage affects Company Value

Effect of Profitability (ROE) and Leverage (DER) on Company Value (PBV)

Profitability assesses a firm's capacity to generate earnings by evaluating its operational efficiency in utilizing its capital (Febrianti & Mufidah, 2021). A primary objective for any organization is to achieve high profitability. Consistent enhancements in profit generation can indicate an improvement in the company's overall performance, fostering a positive sentiment among investors and leading to an increase in stock prices. The high share price influences the high value of the company (Yanti & Abundanti, 2019). It is also mentioned that leverage is employed as a key indicator to support operational actions associated with satisfying all the company's financial obligations. The utilization of debt can enhance a firm's profitability by augmenting the capital available to it. Nevertheless, an overreliance on debt poses a risk of diminishing profits. Consequently, it is imperative for corporate managers to employ debt financing judiciously, as the degree of a company's leverage plays a crucial role in determining its overall value (Novari & Lestari, 2016).

Research from Jayaningrat, et al (2017) and Hadi & Kaban (2024) proves that profitability and leverage have a significant influence on firm value. In line with the research from Sutama & Lisa (2018), Profitability exerts a considerable positive influence on firm value, while leverage also demonstrates a significant positive impact on the value of the firm. Research by Rahmadani & Rahayu (2017) and Simanjuntak, et.al (2019) also Kaban, et al (2024) argue there exists a notable positive impact of leverage on the value of a firm. Drawing from both theoretical frameworks and empirical research, this study posits the following alternative hypotheses:

H₃: Profitability and leverage affect Company Value

The theoretical framework can be articulated as follows, drawing upon the theoretical foundations and prior research concerning the diverse interactions between the independent variables and the dependent variable.

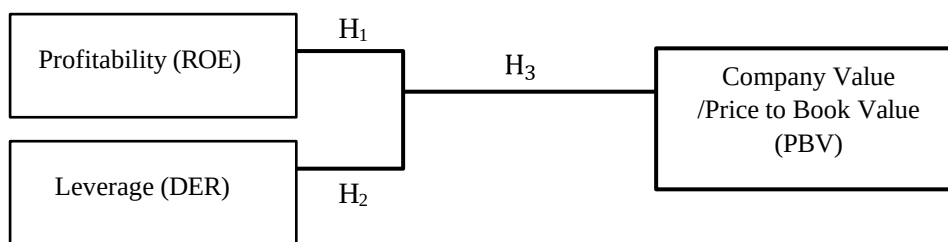


Figure 1. Theoretical framework

METHODS

This research focuses on the financial ratios included in the yearly financial statements of companies that are always listed in the JII. This study employs quantitative data by collecting time series data. The study utilizes secondary data, specifically focusing on the financial ratios of companies consistently listed on the JII from 2018 to 2023. The data, derived from the annual financial statements of these companies during the specified period, was obtained directly from the official JII website, eliminating the necessity for any calculations.

The population for this research comprised enterprises listed on the Jakarta Islamic Index (JII) from 2018 to 2023. A purposive sampling method was employed, which entails the selection of samples from a specific population based on predetermined criteria. The criteria established for this study are first, companies that consistently maintained their registration and submitted annual reports

to the JII throughout the 2018-2023 timeframe. Second, the financial documentation utilized is the annual financial report. Consequently, the study included a total of 11 companies that were consistently listed on the JII, as detailed in Table 1 below.

Table 1. Research Sample: Companies Consistently Featured on the Jakarta Islamic Index

No	Company Name
1.	PT Adaro Energy Tbk
2.	PT Aneka Tambang Tbk
3.	PT XL Axiata Tbk
4.	PT Indofood CBP Sukses Makmur Tbk
5.	PT Vale Indonesia Tbk
6.	PT Indofood Sukses Makmur Tbk
7.	PT Kalbe Farma Tbk
8.	PT Bukit Asam Tbk
9.	PT Telekomunikasi Indonesia (Persero) Tbk
10.	PT United Tractors Tbk
11.	PT Unilever Indonesia Tbk

This research utilizes secondary data, employing document analysis techniques to gather information from reports derived from the financial statements of companies consistently listed and published in the Jakarta Islamic Index (JII) for the period spanning 2018 to 2023. The data is accessed through the official website of the Indonesia Stock Exchange (www.idx.co.id) and literature studies by taking journals, articles, previous research, and books that discuss financial ratio analysis. The secondary data acquired is processed using statistical software, specifically Eviews 12. This study's data analysis included traditional assumption testing, multiple regression analysis, and hypothesis testing. The operational variables, which serve as an interpretation of each variable in this study, are presented in Table 2 below.

Table 2. Operational Research Variables

No.	Financial Ratio Variables	Variable Definition	Size	Scale
1.	Profitability/ ROE (X1)	Profitability serves as a key metric in evaluating a company's operational efficiency, and it is determined by the ratio of net income to total equity. (Kasmir, 2018).	$DER = \frac{Total Liabilities}{Total Equity} \times 100\%$	Ratio
2.	Leverage/ DER (X2)	Leverage is a ratio that estimates the funds presented by creditors using the equation between total liabilities and total equity (Kasmir, 2018).	$ROE = \frac{Net Income}{Total Equity} \times 100\%$	Ratio
3.	Company Value/ PBV (Y)	The value of a firm is determined by investors' perceptions of the company's current stage of success as reflected in its stock price. This valuation can be quantified through the relationship between the stock price and the book value of the company. (Kasmir, 2018).	$PBV = \frac{Stock Price}{Book Per Value}$	Ratio

RESULTS AND DISCUSSION

Descriptive Test

Descriptive tests are employed to finalize the data analysis concerning the variables identified in the research, which encompass profitability (return on equity), leverage (debt to equity ratio), and company value (price to book value). The evaluations conducted in this study included calculations of the mean, minimum value, maximum value, and standard deviation. A summary of the descriptive statistical output is presented in the subsequent table.

Table 3. Summary of Descriptive Statistics for Test Outcomes.

Test	ROE	DER	PBV
Mean	23.56288	1.016970	10.63576
Median	14.33000	0.730000	1.765000
Maximum	145.0900	4.070000	324.5300
Minimum	-17.97000	0.130000	0.590000
Std. Dev.	34.21860	0.918804	41.57956
Observation	66	66	66

Source: EViews 12 Output Results

Table 3 shows that the average profitability is 23.56288. A return on equity (ROE) of 20% or above is regarded as highly favorable. (Tsang, 2024). This suggests that the average profitability value of JII-listed companies from 2018 to 2023 is good. The average value of debt or leverage is 1.016970. This DER value exceeds 100% or one (Awal, 2022). Then the condition is classified as a warning. If a corporation is in good health, its DER value is less than or equal to 100%, or one. For a typical firm, the PBV ratio serves as a critical indicator of valuation. A PBV ratio exceeding 1 suggests that the market price is considerably elevated. An increase in the PBV ratio correlates with a greater market value of the stock in comparison to its book value. (Lyman, 2023). The figures above show that the average value of companies listed in the JII from 2018 to 2023 was 10.63576 or greater than one, indicating that it is relatively costly.

Regression Test

The subsequent phase involves the execution of panel data regression analysis. Initially, it is essential to establish the appropriate estimation model, which may include the Common Effect Model, Fixed Effect Model, and Random Effect Model. The following phase focuses on the selection of the estimation model, utilizing tests such as the Chow Test, Lagrange Multiplier Test, and Hausman Test. The third phase encompasses the evaluation of classical assumptions, which entails conducting tests for normality, multicollinearity, heteroscedasticity, and autocorrelation. However, in this particular study, researchers will only apply the multicollinearity test due to the nature of the data, which integrates both time series and cross-sectional elements. The final phase of the panel data processing involves conducting feasibility tests, which include the F-test, t-test, and the coefficient of determination test.

Determination of Estimation Model

The findings pertain to the assessment of the estimation model, which includes the Common Effect Model, Fixed Effect Model, and Random Effect Model.

Table 4. Results of Estimation Utilizing the Common Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-12.20089	5.579883	-2.186585	0.0325
ROE	0.764818	0.137688	5.554734	0.0000
DER	4.734980	5.127840	0.923387	0.3593
R-squared = 0.486746				
Adj. R-squared = 0.470452				
F-Statistic = 29.87314				
Prob (F-Statistic) = 0.0000				

Source: EViews data processed (2024)

The findings presented in Table 4, which outlines the results of the common effect model estimation, reveal that the probability values for the ROE and DER variables are 0.0000 and 0.3593, respectively. The ROE variable demonstrates a statistically significant influence on the price-to-book value, as evidenced by a p-value of less than 0.05. In contrast, the DER variable exhibits a probability value exceeding 0.05, suggesting that it does not exert any significant effect on the price-to-book value.

Table 5. Results of Estimation Utilizing the Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-26.15504	19.89789	-1.314463	0.1944
ROE	1.077987	0.417153	2.584150	0.0126
DER	11.20027	14.16954	0.790447	0.4328
R-squared = 0.506763				
Adj. R-squared = 0.395087				
F-Statistic = 4.537792				
Prob (F-Statistic) = 0.00006				
Source: EViews data processed (2024)				

According to the results of the fixed effect model estimation presented in Table 5, the probability values for the ROE and DER variables are 0.0126 and 0.4328, respectively. Since the probability value for the ROE variable is less than 0.05, it can be inferred that this variable significantly influences the price-to-book value. In contrast, the DER variable, with a probability value greater than 0.05, indicates that it does not have a significant effect on the price-to-book value.

Table 6. Results of Estimation Utilizing the Random Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-12.20089	5.963744	-2.045844	0.0450
ROE	0.764818	0.147160	5.197200	0.0000
DER	4.374980	5.480603	0.863952	0.3909
R-squared = 0.486746				
Adj. R-squared = 0.470452				
F-Statistic = 29.87314				
Prob (F-Statistic) = 0.00000				
Source: EViews data processed (2024)				

According to the results presented in Table 6 of the random effects model estimation, the probability values for the ROE and DER variables are 0.0000 and 0.3909, respectively. The ROE variable exhibits a value of less than 0.05, indicating a significant influence on the price-to-book value. In contrast, the DER variable, with a probability value exceeding 0.05, suggests that it does not have a significant effect on the price-to-book value.

Panel Data Regression Model Selection

The Chow test serves to ascertain whether the common effect model or the fixed effect model is more appropriate for this study. The findings from this Chow test are presented in Table 7.

Table 7. The Findings from the Chow Test

Effect Test	Statistic	d.f.	Prob.
Cross section- F	0.215092	(10,53)	0.9939
Cross section Chi- Square	2.625586	10	0.9889

Source: EViews data processed (2024)

The results of the Chow test indicate that the cross-section F probability value is 0.9939, which exceeds the threshold of 0.05. This outcome leads to the acceptance of the null hypothesis (H_0) and the rejection of the alternative hypothesis (H_a), thereby suggesting that the common effect model is the appropriate choice for analyzing this panel data. Furthermore, the calculations derived from the Chow test demonstrate that the common effect model is preferable to the fixed effect model.

Consequently, there is no necessity to conduct the Hausman test, as the fixed effect model has been deemed unsuitable. The subsequent step involves performing the Lagrange Multiplier (LM) test to ascertain the most suitable model between the common effect model and the random effect model. The findings of the LM test are presented in Table 8.

Table 8. The Findings from Lagrange Multiplier Test

	Cross Section	Test Hypothesis time	Both
Breusch-Pagan	4.601153 (0.0320)	0.243831 (0.6215)	0.9939
Honda	- 2.145030	10	0.9889

Source: EViews data processed (2024)

Based on the results of the Lagrange Multiplier test, the calculated LM value is $0.0320 < 0.05$, which means that H_0 is rejected, and H_a is accepted, so the decision in testing this panel data uses a random effect model. Therefore, it can be concluded that the random effect model is better to use than the common effect model.

Panel Data Model Feasibility Testing

The F-test, also known as the simultaneous regression test, is designed to assess the collective impact of all independent variables on the dependent variable. The findings from the F-test conducted on the random effects model are presented in Table 4. The analysis reveals a probability value (F-Statistic) of 0.000000, which is significantly less than the threshold of 0.05. Consequently, the null hypothesis (H_0) is rejected in favor of the alternative hypothesis (H_a), indicating that the Return on Equity (ROE) and Debt to Equity Ratio (DER) variables jointly exert an influence on the price-to-book value.

In contrast, the t-test is employed to evaluate the individual effect of each independent variable on the dependent variable. The outcomes of the t-test from the random effects model are also detailed in Table 4.

$$\text{Price to book value} = -12.20089 + 0.764818 \text{ Profitability} + 4.734980 \text{ Leverage} + e$$

The coefficient findings of each variable are:

1. The positive result of 0.764818 for the regression coefficient shows that the Profitability variable has an effect. The researcher rejects H_{01} because this figure shows a 1% increase in profitability, which if everything else is equal, will increase the return on firm value by 0.764818%. When the Profitability value is recorded as 0.0000, which is less than 0.05, it indicates that profitability exerts a significant influence on the value of the firm.
2. With a positive regression coefficient of 4.734980, the leverage variable has an effect. The debt-to-equity ratio figure will be 4.734980% lower with a 1% increase in the leverage variable as shown by this figure. When the values of other variables are *ceteris paribus*, the hypothesis is accepted with H_{02} . The leverage value of 0.3909, which exceeds 0.05, indicates that leverage does not exert a significant influence on the value of the firm.

Coefficient of Determination R^2

The evaluation of the regression model's effectiveness in relation to the independent variables that contribute to variations in the dependent variable is conducted through the analysis of the coefficient of determination, denoted as Adjusted R-squared. Table 6 presents the coefficients of determination for the random effects model. Based on the calculations performed using EViews 12, the Adjusted R-squared value of 0.470452 (47.04%) suggests that the variables Return on Equity (ROE) and Debt to Equity Ratio (DER) collectively account for 47.04% of the variability in the price-to-book value, while the remaining 52.96% is attributed to other factors not incorporated within the research model.

Discussion

The findings from the T test conducted on the random effects model indicate a statistically significant relationship between profitability, as indicated by return on equity (ROE), and the valuation of the company. The analysis reveals that profitability exerts a considerable influence on

business value, with a p-value of 0.0000, which is less than the threshold of 0.05. Significant in this situation means that profitability has a large impact on firm value. The studies evaluated Simanjuntak et al. (2019) and Kaban et al., (2024). The present research indicates that profitability significantly influences business value. The establishment of the initial hypothesis illustrates that profitability serves as a key indicator for investors when making investment choices. This implies that the degree of profitability directly affects the valuation of the company. A strong company can be recognized by monitoring the trends in its profitability ratio; a high profitability ratio indicates that the company is a viable investment opportunity.

The findings from the T test conducted on the random effect model suggest that the debt-to-equity ratio (DER) does not exert a statistically significant influence on the value of the company. The probability value of 0.3909, which exceeds the threshold of 0.05, further implies that profitability does not have a significant impact on business value. Studies undertaken Nurmindia et al., (2017) support these conclusions. In addition, Listyawati & Kristiana (2021) discovered no evidence that leverage affects business value. As leverage increases, shareholders take on increasing investment risk. The rejection of the second hypothesis shows that stakeholders, such as shareholders and potential investors, do not see the leverage variable serves as a mechanism for assessing a company's performance. This implies that investors reviewing financial statements may persist in their investment in a company, regardless of whether it is significantly or excessively indebted.

CONCLUSION

The findings from the data analysis indicate that the Return on Equity (ROE) variable positively affects the price-to-book value, whereas the Debt-to-Equity Ratio (DER) variable does not influence the price-to-book value. This study acknowledges certain limitations, particularly its focus on companies listed on the Jakarta Islamic Index. The results suggest that companies should prioritize delivering substantial returns to their shareholders. It is essential for issuers to consistently sustain or improve profitability under all circumstances, thereby enhancing the overall value of the company. Considering unforeseen events, such as the COVID-19 pandemic, it is crucial for companies to manage their finances effectively, drawing from both equity and debt sources to maintain the trust of shareholders and other stakeholders. For future research, it is advisable to broaden the scope to include companies listed not only on the Jakarta Islamic Index but also on the ISSI, JII70, IDX-MES BUMN 17, and IDXSHAGROW. Additionally, utilizing the most recent data will ensure the relevance of the findings. Future researchers may also consider incorporating a wider array of financial ratios, such as liquidity and solvency ratios, as variables in their studies or employing alternative statistical methods to identify the determinants of price-to-book value in companies.

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