Financial Performance and Firm Value
Lesson from Mining Sub-sector Companies
on the Indonesia Stock Exchange

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Abstract
This study aims to provide an overview of investor behavior on the current condition of the capital market in Indonesia and want to examine signal information about financial performance and prove directly the relation to firm value. This research was conducted on the issuer of mining sub-sector companies that has been listed in Indonesia Stock Exchange from 2015 to 2018. Using purposive sampling this research get 100 data observed. The data obtained were analyzed using multiple linear regression with PLS SEM statistical tools. We found that capital structure and profitability affect the firm value, but not for asset growth. Thus, it can be concluded that if two of three hypotheses accepted, can be interpreted that the signal information of financial performance from sample still hold interesting by an investor in the Indonesian Capital Market.

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INTRODUCTION

The current economic development has created a tough competition among companies, which requires each company to improve the performance in order to achieve the company's goals (Stucke, 2013). This condition demands the issuers in the country able to manage various functions of the best management, especially management function in the field of finance. Every company need effective and efficient sources of funding, one of the way is selling the company's shares to the public in domestic or overseas capital markets. Management seeks to inform the effectiveness of their performance in the form of financial statements to invest. This is a form of signal expressed by the company to interested parties, especially investors. Whether investors react to this information signal, the better impact or failure of a reaction can be used to test the existence of signal theory.

When we thinking about capital structure in current situations; Antwi, Mills, & Zhao, (2012) that measured by leverage is not related to firm value, but if associated with tax obligations, leverage becomes relevant to the firm value, Ross, (1977) and also Modigliani & Miller, (1958).

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Perhaps it means will give bad news or bad signal to investors, so that investors who get the news will not take action to increase the firm value through the company's stock price. Theoretically, this revelation is in accordance with the research conducted by Chowdhury & Paul Chowdhury, (2010) which states that the capital structure obtained through company's debt affects the firm value negatively. But it is in the contrary to the researches conducted by Kodongo, Mokoaleli-Mokoteli, & Maina, (2015) which state that the capital structure obtained through laverage or company's debt does not affect the firm value negatively.

Several previous studies that explored information on the relationship between capital structures and firm values have found inconsistent results (Gharaibeh & Sarea, 2015). When viewed from the perspective of the relationship theory both appear to have positive or negative directions as their findings, and they are such as Chowdhury & Paul Chowdhury, (2010); Ross, (1977); Pyle, Hayne E. Leland, (1977);, Rajan & Zingales, (1995); Ramadan & Ramadan, (2015); Gharaibeh & Sarea, (2015); Mugosa, (2015) and also Malinić, Denčić, & Ljubenović, 2013). A company that has capital structure of bank debt, will have positive impact if the company is able to pay off all its obligations, and can get maximum profit, then it will increase the profitability of the company.

High profitability is expected to be able to increase the firm value, reflected on its stock price that increases gradually, but this is not in accordance with the research conducted by Azmi, Andini, & Raharjo, (2016) stating that profitability does not affect the firm value in LQ45 company. The research is not in line with the research conducted by Mantari & Nuryasman, (2017) stating that the profitability of the company can affect the firm value in all issuers listed in Indonesia Stock Exchange (ISE) and Based on the result, profitability can influence the firm value using Tobin's Q (Sucuahi & Cambarihan, 2016). The increasing profitability of the company means it can be indicated that the company is experiencing the growth of assets owned by the company. The growth of the company it self can be interpreted as the growth of assets which is calculated as presentation of assets changes in particular year against the previous year (Fu, 2011).

The increased share price can reflect that the market provides a good assessment for the company's management. This statement is in accordance with the research conducted by Dewi, Yuniarta, & Atmadja, (2014) stating that the growth of the company affect the firm value significantly. While the research conducted by Soedarsa & Arika, (2015) which gets result that the growth of the company can not affect the value of a company (firm value) namely the stock price.

Many of these scholars have shown and reinforced the positive effects of debt financing and a few have argued the opposite (Akhtar M, Khan, Shahid, & Ahmad, 2016). The previous researches which state that the variables of capital structure, profitability, and company's growth described above can affect the firm value in the present or future such as the researches conducted by Mantari & Nuryasman, (2017) and also Dhani & Utama, (2017) with the same variables but have different calculations. Other research conducted by Akhtar M et al., (2016) in Pakistan in companies listed on KSE (Karachi Stock Exchange) found that capital structure affects the overall value of a company (firm value), stated Campbell & Abdul Rahman, (2010), a similar study conducted at the KSE (Kuwait Stock Exchange) by Gharaibeh & Sarea, (2015) also found a significant negative structure of capital towards firm value, while Shekhar, Mishra, Agrawal, & Sahu,(2017) found a positive relationship for equation (1) and (3), Another study conducted at the GSE (Ghana Stock Exchange) by Antwi et al.,(2012) and found a relationship between capital structure and firm value, while a study was conducted in companies incorporated in the Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) Bangladesh by Chowdhury & Paul Chowdhury, (2010) found a significant positive relationship, another study conducted on TSE (Tehran Stock Exchange) by Fumani & Moghadam, (2015) found a negative relationship, in the case of the NSE (Nigerian Stock Exchange) conducted by Ogbulu & Emeni, (2012) found a positive significant relationship and research conducted on the KSE (Kenya Stock Exchange) conducted by Owen et al., (2016) found a significant negative relationship, while another was done by Hutabarat, Fitrawaty, & Nugrahadi, (2018) found a significant negative relationship.

Another variable in this study is asset growth, then from the results of previous research conducted by Anastasia, (2012) found that the growth of assets that are proxied by NITA (Net Income / Total Asset) positively influences the firm's value. Other research conducted on public companies in Indonesia by Hestinoviana & Handayani, (2010) found a significant negative effect, while the opposite results were found by Hutabarat et al., (2018) where asset growth was found to have no significant effect on firm value.

Profitability also proved to have an influence on the company, it can be found in the research Hutabarat et al., (2018) where profitability has a negative effect on the value of a company (firm value) used with the price book value, Other research conducted in the Philippines Stock Exchange (PSE) by Sucuahi & Cambarihan, (2016) found profitability, positively influencing the value of a company (firm value), as well Sarita & Takdir, (2009) found the same thing for IDX (Indonesia Stock Exchange), then L. J. Chen & Chen, (2011) and also found the same, research on companies registered in Taiwan from 2005 to 2009, the same thing was also found by Tui, Nurnajamuddin, Sufri, & Nirwana, (2017) in the banking industry in Indonesia, the same thing was found by Varaiya & Kerin, (2016) with data on the standard and 400 list of industrial companies.

Signaling theory is useful for describing behavior when two parties (individuals or organizations) have access to different information (Connelly, Certo, Ireland, & Reutzel, 2011). Therefore, investors understand the quality of the company's securities and can attract investors to buy the company's securities at high price. This is in line with what, Akerlof, (1970) says, adverse selection can be reduced if the sellers communicate their products by giving signal in the form of information about the quality of the products they have and other also found that the cost of signal in bad news information is higher than good news information and the companies that have bad news send signals that are not credible, likewise the reverse, if good news then this can be interpreted as a credible signal (Spence, 1973).

For example in the event of underpricing where the information presented regarding the value of capital participation from the founders or owners of the initial shareholders to potential investors even though the scope can be reduced by a number of 'information or signals' related to governance that might potentially increase the value of the company (Filatotchev & Bishop, 2002). The signal was also informed by Board of Direction when they decided to increase share ownership in their company, they communicated it to the market that a diversification strategy was in the best interests of the prospective owner of the company (Goranova, M.Alessandri, Brandes, & Dharwadkar, 2007).

Theories have been proposed and empirical researches were conducted for showing the relationship between Firm's value and its Capital Structure. It represents the claim of the creditors on the assets of a firm in the events of liquidation (Akhtar M et al., 2016). In theory, the relationship between both predict either positively, negatively as stated in the previous studies conducted in this regards (Obeid Gharaibeh & Sarea, 2015). For instance, Modigliani & Miller, (1963); Ross, (1977); Rajan & Zingales, (1995); Chowdhury & Paul Chowdhury, (2010); Booth, Aivazian, Demirguc-kunt, & Maksimovic, (2001) and also Ramadan & Ramadan, (2015). Meanwhile With each measurement of Firm Value such as Tobins Q, EPS, ROA and ROE, here the following are previous studies who get proving the relationship between capital structured with firm value was conducted by H.chung & W.Pruitt, (1994); Naceur & Goaied, (2002); Abor, (2005); L. Chen & Chen, (2011); Lin & Chang, (2011); Gill, Biger, & Mathur, (2011); Gill et al., (2011); Ogbulu & Emeni, (2012); Cuong & Canh, (2012); Kodongo, Mokoaleli-Mokoteli, & Maina, (2015); Aggarwal & Padhan, (2017) and also Sidhu, (2018). So in this study the capital structure as a good signal can be hypothesized as follows

H1: Capital Structure can affect firm value on non-financial issuers.

By using profit information or corporate profitability can be a signal for investors, in order to lift the value of the company through its share price (Atmaja, 2009). In the perspective of signal theory expressed by Spence, (1973) states that companies that have good news send a credible

signal, so the research is done by Rasyid (2015), which states that the news about the profitability of the company has an influence on the value of the company and also, Sarita & Takdir, (2009); L. Chen & Chen, (2011); Sucuahi & Cambarihan, (2016); Varaiya & Kerin, (2016); Tui, Nurnajamuddin, Sufri, & Nirwana, (2017); Purwohandoko, (2017); Aggarwal & Padhan, (2017); Hakim, (2018) and Hutabarat, Fitrawaty, & Nugrahadi, (2018) So in this study profitability as a good signal can be hypothesized as follows.

H2: Profitability can affect firm value on non-financial issuers.

Growth of companies managed by agents or management companies have a direct influence on the company's stock price because the principle provide a response by buying shares of the company. It affects the increase in stock price of the company or can be interpreted that information about the growth of the company has been responded by investors, so the stock price experienced an increase in value (Mantari & Nuryasman, 2017).

In the perspective of signal theory stated by Spence, (1973) it is said that companies with good news are assumed to send credible signals, as well as research conducted by Constantinou, Karali, dan Papanastasopoulos (2017) which states that the news about company growth is measured using company assets have an influence on the value of the company (Firm Value) and also previous research conducted by Anastasia, (2012); Aggarwal & Padhan, (2017) and also Hestinoviana & Handayani, (2010). So in this study the growth of the company as a good signal can be hypothesized as follows:

H3: Asset Growth of the company can affect firm value on non-financial issuers.

METHODOLOGY

The population in this study is all issuers of mining sub-sector companies listed in Indonesia Stock Exchange (IDX) PT. BEI from 2015-2018. The identification on the basis of predetermined criteria was conducted through purposive sampling. One of the criteria used is to delete company data that has a profitable level of more than 30% for finding the samples. This method got 100 data observed as samples for 4 years. The data were tested by PLS_SEM and use techniques, multiple linear regression to answer the hypothesis.

Firm value can give the maximum welfare to shareholder if the company's stock price increases. The higher the stock price, the higher the shareholder's welfare. Firm value variables are proxied using the stock closing price at the time of the publication of audited annual financial statements. Capital structure has regarded as an important parameter from a financial economics stand point since it is linked with a firm's ability to meet the demands of various stakeholders (Jensen, 1986). The purpose of all company actions is to maximize wealth and the way to measure these actions is making some test the effect of these actions on the company's performance (Mwangi, Makau, & Kosimbei, 2014). Capital structure is a term used in corporate finance to describe the mix of a company's long-term debt, some short-term debt, common and preferred equity (Obeid Gharaibeh & Sarea, 2015). Financial leverage refers to the proportion of debt in the capital structure (Mwangi et al., 2014).Capital structure also can be interpreted as permanent financing consisting of long-term debt. Based on this understanding, the capital structure can be defined as the comparison between short-term debt financing and long-term financing to equity itself, H.Murphy, R.Ofer, & A.Satterthwaite, (1975) with the following formula:

DER = total liabilities / total equity

Profitability is a measurement of management effectiveness in managing its investment. It means, this ratio is used to measure the effectiveness of the company's overall operations (Kasmir, 2012). Profitability of the company can also be said as the company's ability to generate profits. Profitability ratio is a ratio to measure the ability of the company makes a profit in relation to sales, total assets and own capital; Sarita & Takdir, (2009) the profitability ratio used in this research is return on equity and can be formulated as follows:

ROE = Total Profit / Total Equity

Asset Growth represents the growth of company assets that will affect the profitability of companies which believe that the change percentage in total assets is better indicator in measuring the growth of the companies (Fu, 2011). The growth of the company has direct effect on the company's stock price, which means that information about the growth of the company is responded by the investor, thus increasing the stock price (Sriwardany, 2006). The growth asset itself is the change (increase or decrease) of total assets owned by the company, Bringham, E. F., & Houston, (2001) and can be formulated as follows:

$$\frac{(\text{Total Asset}_{t+1} - \text{Total Asset}_t)}{\text{Total Asset}_t}$$

This research model is used to see what independent variables influence the dependent variable with the basic model used as follows:

$$\text{Ln.F.V} = a + b_1 CS + b_2 PF + b_3 AG + e_{1-3} \ \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \textbf{(1)}$$

Ln.F.V = Log of Firm Value
CS   = Capital Structure
PF   = Profitability
AG   = Asset Growth
a   = Constants
b   = Regression Coefficient
e   = Error

RESULT AND DISCUSSION

Descriptive statistics in this study include independent variables and dependent variables as shown in table 1. As below :

Table 1. Statistic Descriptif

Variable	Indicator	N	Minimum	Maximum
CS	DER	100	-0.633	5.350
PF	ROE	100	-1.752	3.566
AG	ΛTot Asset	100	-0.949	9.636
Ln.FV	Closing Price	100	1.581	2.826

Data source results from PLS SEM processing 2019

Based on the above table for the Capital Structured independent variable, the minimum value is -0.633, the maximum value is 5.350. For Profitabilities variables, the minimum value is -1.752, the maximum value is 3.566. For the Asset Growth (AG) variable, the minimum value is –0.949, the maximum value is 9.636. While the dependent variable Ln. Firm Value minimum -1.581, maximum value 2.2826..

Designing The Inner Model

The goodness of fit models is measured using R-square dependent latent variables with the same interpretation as regression. Q-Square predictive relevance of structural models, measuring how well the observed value is generated by the model and also its parameter estimation. R-square value> 0 indicates the model has the opposite predictive relevance if the R-square value = 0 indicates the model lacks predictive relevance. The results of the inner model measurements with PLS are as follows

Table 2. Determinant coefficient

	R Square	Adjusted R Square
Y1	0.252	0.281

Data source results from PLS SEM processing 2019

From the R Square table above, the R Square value is 0.252. The R Square results can be explained that the influence of Capital Structured/CS (X1), Profitabilities/PF (X2), Asset Growth/AG (X3) gives a value of 0.252 which can be interpreted that Dependent latent variables can be explained by independent latent variables of 25.2%, while 74.8% is explained by other variables outside the study. From these figures, it can be categorized that the dependent variable can be explained by an independent variable with a lower scale. Adjusted R Square value has a value with an interval between 0 to 1. If the Adjusted R Square value is getting closer to 1, it shows that the independent latent variable (X) explains the variation of the dependent latent variable (Y) getting better. In this study, the Adjusted R Square value was 0.281 or 28.1%. Then it can be concluded that 28.1% of the variations that occur in the Y variable can be explained by independent latent variables, while the rest can be explained by other variables

Inner Model Evaluation

Evaluation is done by testing the suitability of the model, path coefficient and R2. In the model match test, there are 3 test indices, namely the average path coefficient (APC), the average R-Squared (AVR) and average variance factors (AVIF), with the APC and AVR criteria accepted with more p-value <0.05 and AVIF smaller than <= 5. The following table is presented in the results of the evaluation data processing inner model:

Table 3. Model Fit and Quality Indices

| Quality Indices	Result	P Value	Information
Average Path Coeficient (APC)	0.252	P = 0.002	Model Fit
Average R Squared (ARS)	0.284	P = 0.001	Model Fit
Average Adjusted R-Squared (AARS)	0.261	P = 0.001	Model Fit
Average Block VIF (AVIF)	1.015	Acceptable if <=5, Ideally <=3.3	Model Fit
Average Full Collinearity VIF (AFVIF)	1.080	Acceptable if <=5, Ideally <=3.3	Model Fit
Tenenhaus Gof (GoF)	0.533	Small >= 0.1.Medium >=0.25, Large >= 0.36	Large
Sympon's Paradox Ratio (SPR)	1.000	Acceptable if >= 0.7, Ideally = 1	Model Fit
R-Square Contribution ratio (RSCR)	1.000	Acceptable if >= 0.9, Ideally = 1	Model Fit
Statistical Suppression Ratio (SSR)	1.000	Acceptable if >= 0.7	Model Fit
Non Linear Bivariate Causality Direction ratio (NLBCDR)	1.000	Acceptable if >= 0.7	Model Fit

Data source results from PLS SEM processing 2019

Based on these data it can be said that the APC p-value value is 0.002 and the ARS p-value value is 0.001 which means both are <0.05, thus the APC and ARS values meet the model fit requirements. The p-value of AVIF is 1,015 and is stated to meet if AVIF <= 5, thus the value of AVIF meets the requirements of the Fit model. Thus, it can be concluded that the model in this study meets the model fit rules.

Hypothesis Testing

The hypothesis, the value analyzed is the value that exists in the p-value generated from the PLS output, which is an estimate of the latent variable which is a linear aggregate of the indicator. The hypothetical significance level (α) of 5% is determined, If the p-value is <0.05, then the hypothesis is accepted. And If p-value> 0.05, the hypothesis is rejected. The output of

Bootstrapping PLS to test the research all hypothesis is as follows:
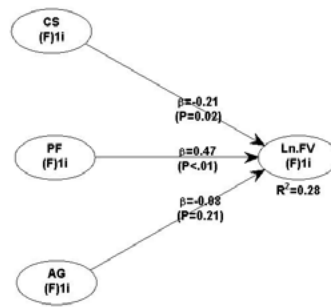
Data source results from PLS SEM processing 2019

Figure 1. Research model

Based on figure 1. Above, it can be displayed in Table 4.

Table 4. Path Coefficient and P Values

Path- Coefficient	CS	PF	AG
Ln.FV	-0.21	0.47	-0.008
P-Value	CS	PF	AG
Ln.FV	0.02**	<0.001*	0.21

Data source results from PLS SEM processing 2019, P value : * Sig = 1% and ** Sig = 5%.

Variable of capital structure (CS) has an effect on the dependent variable of firm value (FV), and the capital structure has p-value 0.02. It can be interpreted that the increase of the capital structure variable will make the decrease in value of firm value. When the capital structure of the firm's debt rises, investors will feel alert, because investors think whether the company is able to pay off all its obligations or not. Therefore, it will cause the company's price can not increase maximal because shareholders or investors wait a better signal about the company's hard work in paying off all its long-term or short-term obligations. The results of this study are also supported by previous researches, i.e the researches conducted by Rahmawati, Topowijono, & Sulasmiyati, (2015); Abdullah et al. (2015); Chowdhury & Paul Chowdhury, (2010) stating that the capital structure affects the firm value.

Variable of profitability (PF) has effect on the dependent variable of firm value (FV) and profitability has p-value <0.001. This can be interpreted that the increase of profitability variables will make decrease for firm value variables. When the company gets great profit from its operational activities, it will result in increasing the stock price of the company. The investors have perception that when the company gets high profit then the opportunity of shareholder in getting profit sharing (dividend) will be bigger. This will trigger shareholders in buying the company's shares and can increase the stock price of the company. This research is in line with the researches conducted by Mantari & Nuryasman, (2017); Abdullah et al. (2015); Soedarsa & Arika, (2015) which state that profitability has significant effect on firm value.

Variable of Asset Growth (AG) does not have an effect on the dependent variable of firm value (FV), because p-value 0.21 more than >0.05. It means the faster the growth of the company will result in decrease in the firm value. In the view of the researchers, this can happen because the faster the growth asset the greater the funds that must be available for company investment activities, both sources of funds from within and outside the company. In this position the company is in a condition of development that requires a lot of funding (Suwardika & Mustanda, 2017). Thus the profit earned from the company's business will be used for reinvestment activities

not for dividend payout to the shareholders. Such activities will get an unfavorable response from the investors and will result in decline in the purchase of shares of companies in the capital market. The results of this study are in accordance with the research conducted by Dhani & Utama,(2017) and also Purwohandoko (2017) which states that the growth asset proxied using the growth of company assets does not affect the firm value proxied using the company's stock price, although different results were found by (Anastasia, 2012) that asset growth was significant to firm value.

CONCLUSION

In reality, the variable of capital structure, profitability, and growth asset simultaneously have an effect on the firm value, but based on the results and discussion above, partially the profitability of the company variable has a dominant effect on the firm value. In addition the company's capital structure derived from debt, also has an effect on firm value, but the effect is not dominant. With this, investors can pay more attention on the profitability of the company and the capital structure of non-financial companies listed in Indonesian stock exchange, so that investors are easier in choosing liquid stocks and can provide maximum returns for the investors. Considering the results of this study, it can be considered that the information or signal of the financial performance, which company provides is still considered relevant by investors when they decided to purchase the company's stock, especially information about profitability that still considered as a positive signal from the company by investors. For future research, it is expected to be able to prove that the asset growth variable can affect firm value, or suggested to put capital structure also profitability as mediating variables to proof the continuity of this research for firm value.

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