The Effect of Liquidity and Profitability on Firm Value at PT Adhi Karya (SOE) Public Listed Company During 2012–2023

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Abstract

This study revisits the relevance of liquidity and profitability as financial indicators of firm value in the context of a state-owned enterprise (SOE). Focusing on PT Adhi Karya (Persero) Tbk, a publicly listed construction SOE in Indonesia, the research covers the 2012–2023 period using a longitudinal approach. Liquidity is proxied by the Current Ratio (CR), profitability by Return on Assets (ROA), and firm value by the Price to Earnings Ratio (PER). Data were obtained from audited financial statements and analyzed using multiple linear regression. Results show that CR and ROA have no significant partial or simultaneous effect on PER. These findings suggest that conventional financial ratios may not fully capture market valuation in SOEs, where performance is shaped by both commercial and public-policy objectives. This study contributes to understanding the limitations of traditional valuation models in politically influenced firms.

Keywords: *SOE; liquidity; profitability; firm value; financial performance;*

JEL Classification: G30, L32

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Introduction

Firm value represents the market's assessment of a company's financial performance, risk profile, and long-term growth prospects, serving as a key benchmark for capital allocation decisions (Brigham & Houston, 2018; Sherman, 2015). One of the most common proxies is the Price to Earnings Ratio (PER), which reflects the market's valuation of a firm relative to its earnings capacity. A high PER indicates investor optimism, while a low PER suggests underperformance or declining confidence.

Two internal indicators frequently affecting firm value are liquidity, measured by the Current Ratio (CR), and profitability, measured by Return on Assets (ROA). According to *Signaling Theory* (Spence, 1973; Ross, 1977), financial ratios convey signals about internal conditions; *Agency Theory* (Jensen & Meckling, 1976) views profitability as a means to align management and shareholder interests; while *Trade-Off Theory* (Myers, 1984) emphasizes balancing liquidity to avoid financial distress against the opportunity cost of idle assets.

However, in state-owned enterprises (SOEs), particularly in capital-intensive sectors such as construction, traditional financial indicators may lose relevance, as financial decisions are often shaped by non-commercial objectives. High liquidity may result from government support rather than efficient cash management, and high profitability may not necessarily reflect managerial discipline in politically influenced environments. These conditions raise doubts about the predictive validity of CR and ROA in explaining firm value in SOEs (Abang'a et al., 2022; Kaunda & Pelser, 2023).

This study examines the partial and simultaneous effects of CR and ROA on PER in PT Adhi Karya (Persero) Tbk, a construction SOE listed on the Indonesia Stock Exchange, over the 2012–2023 period, including the COVID-19 disruption. The analysis applies multiple linear regression with a robustness check using Partial Least Squares Structural Equation Modeling (PLS-SEM) to address small sample size, multicollinearity, and the inclusion of control variables such as GDP growth (Li, 2025). Secondary data are sourced from audited financial statements, with incomplete or unaudited years excluded.

By revisiting traditional financial theories within an infrastructure SOE, this study offers new insights into valuation mechanisms in politically influenced business environments and provides practical implications for investors, policymakers, and analysts in emerging economies where state ownership remains significant.

Literature Review

This study applies a conceptual framework linking liquidity and profitability to firm value This quantitative, explanatory, and longitudinal study examines the effects of liquidity and profitability on firm value over time, using PT Adhi Karya (Persero) Tbk—a publicly listed Indonesian SOE in the infrastructure sector—as a single-firm case. The firm was chosen for its strategic role in government projects, long project cycles, and complex governance, making it suitable for testing *Signaling Theory*, *Agency Theory*, and *Trade-Off Theory* in a public sector context. The sample covers 12 annual observations (2012–2023) drawn from the Indonesia Stock Exchange and the company's audited reports.

Table 1 Research Map: Influence of CR and ROA on Firm Value in the Context of SOEs

No	Author(s) & Year	Sector / Focus	Method	Key Findings	Relevance to This Study
1	Siringoringo & Hutabarat (2019)	Transportation (IDX)	Linear Regression	CR has a significant positive effect on firm value	SOE context not explored
2	Akbar et al. (2022)	ESG Quality 45 Index (Non-financial)	Linear Regression	CR and ROA have no significant effect on firm value	Similar to current findings
3	Firdaus & Tanjung (2022)	Infrastructure & Manufacturing	Linear Regression	ROA significant, CR not significant	Sectorally relevant
4	Mardianti & Sunandar (2022)	Multi-sector (Panel data)	Panel Regression	CR and ROA have a significant joint effect on firm value	Does not focus on SOEs
5	Hikmat et al. (2022)	Manufacturing (IDX)	Linear Regression	ROA has no significant effect on firm value	Matches findings of this study
6	Iqbal (2023)	Public companies in Indonesia	PLS-SEM	Governance factors, firm size, and access to information have greater	Supports the use of a structural approach (PLS-SEM) in this study and

No	Author(s) & Year	Sector / Focus	Method	Key Findings	Relevance to This Study
				influence on firm value than traditional financial ratios	highlights the importance of non-financial variables in explaining firm value
7	Lee & Lukman (2023)	Indonesian SOEs	Governance-based Regression	GCG is more predictive than ROA in explaining firm value	Strong contextual match
8	Li (2025)	Hong Kong SOEs	PLS-SEM	ESG outperforms traditional financial indicators	Reinforces non-financial indicator importance

This study positions itself within the broader literature by synthesizing empirical findings on the link between liquidity (CR), profitability (ROA), and firm value, particularly in SOEs. Results across prior studies are mixed: *Siringoringo and Hutabarat* (2019) found a significant positive CR–firm value relationship in transportation firms, while *Akbar et al.* (2022) and *Hikmat et al.* (2022) reported no significant effects, consistent with this study's results. Research on SOEs, such as *Iqbal et al.* (2023) and *Lee and Lukman* (2023), highlights that governance, innovation, and strategic alignment often outweigh financial ratios in driving performance, with *Iqbal et al.* (2023) using PLS-SEM to show the role of innovation capability and business environment in long-term value creation. Similarly, *Li* (2025) found ESG indicators to be stronger predictors of valuation than traditional ratios in Hong Kong SOEs. These insights support this study's finding of the limited influence of CR and ROA on firm value in a state-owned infrastructure firm and its methodological contribution through the combined use of regression and PLS-SEM, reinforcing the need for context-sensitive valuation frameworks in SOEs.

Research Methods

This quantitative, explanatory, and longitudinal study examines the effects of liquidity and profitability on firm value over time, using PT Adhi Karya (Persero) Tbk, a publicly listed Indonesian SOE in the infrastructure sector, as a single-firm case. The firm was chosen for its

strategic role in government projects, long project cycles, and complex governance, making it suitable for testing *Signaling Theory*, *Agency Theory*, and *Trade-Off Theory* in a public sector context. The sample covers 12 annual observations (2012–2023) drawn from the Indonesia Stock Exchange and the company's audited reports.

Variables and Operationalization

The study employs the following variables:

Table 2 The Operational Definition of Variables

No	Variables	Types	Indicators	Measurement Formula	Scale	Research Sources
1	Firm Value	Dependent	Price to Earnings Ratio (PER)	Stock Price / Earnings per Share (EPS)	Ratio	Ross (1977); Akbar et al. (2022); Hikmat et al. (2022)
2	Liquidity	Independent	Current Ratio (CR)	Current Assets / Current Liabilities	Ratio	Myers (1984); Siringoringo & Hutabarat (2019)
3	Profitability	Independent	Return on Assets (ROA)	Net Income / Total Assets	Ratio	Jensen & Meckling (1976); Erlina & Situmeang (2023)
4.	Macroeconomic	Control	GDP Growth and Inflation	Annual National Statistics	Ratio	BPS Indonesia (2024); World Bank (2024)

Analytical Procedure

The study employs a multiple linear regression (MLR) model to test the hypothesized relationships between internal financial indicators and firm value. To ensure robustness of the results and account for potential issues such as small sample bias and multicollinearity, the

study also conducts a robustness check using Partial Least Squares Structural Equation Modeling (PLS-SEM) via SmartPLS 4 (Ringle, Wende & Becker, 2022). This dual approach enhances the methodological rigor by validating the findings across two complementary analytical techniques.

The analysis is carried out in two stages: First, Primary Analysis – Multiple Linear Regression, the main analysis uses multiple linear regression to estimate the partial and simultaneous effects of CR and ROA on PER, while controlling for GDP growth.

In this study, Gross Domestic Product (GDP) growth is included as a control variable because it reflects macroeconomic conditions that may significantly influence firm value. Higher GDP growth is generally associated with increased economic activity, purchasing power, and government infrastructure spending, which can affect the performance and market perception of construction companies, particularly state-owned enterprises (SOEs) such as PT Adhi Karya (Gu et al., 2020; Tandelilin, 2019). The inclusion of this variable aims to reduce omitted variable bias, namely to isolate the impact of internal financial ratios (CR and ROA) on firm value from the external influence of national economic dynamics. In the context of SOEs, fluctuations in GDP growth are often linked to fiscal policies and government project priorities, which can affect stock price volatility (Lee & Lukman, 2023; Li, 2025). Therefore, using GDP growth as a control variable is expected to enhance the validity of the model and produce more accurate estimates regarding the relationships among the research variables.

The regression model is specified as:

$$PER_t = \beta_0 + \beta_1 CR_t + \beta_2 ROA_t + \beta_3 GDP_t + \epsilon_t$$

To ensure the robustness of the model, all classical assumptions of the Ordinary Least Squares (OLS) method were tested: Normality: Kolmogorov–Smirnov Test; Multicollinearity: Variance Inflation Factor (VIF); Heteroscedasticity: Glejser Test; Autocorrelation: Durbin–Watson Statistic

Second, Robustness Check – PLS-SEM Modeling
To validate the findings from the regression analysis and address potential limitations from small sample size and variable intercorrelations, a Partial Least Squares Structural Equation Modeling (PLS-SEM) approach is employed using SmartPLS 4. PLS-SEM is well-suited for this study because: It does not assume normality; It is appropriate for small samples ($n < 30$),

It handles complex models involving multiple predictors and control variables, It provides path coefficients, R^2 values, and effect sizes that enhance interpretability.

In the PLS-SEM model, CR and ROA are modeled as exogenous constructs predicting PER, while GDP, serve as control constructs. Bootstrapping with 5,000 subsamples is used to test the significance of the paths.

Justification for Mixed Methods Approach

While multiple linear regression remains the primary inferential method due to its transparency and interpretability in public sector performance management, the inclusion of PLS-SEM as a robustness check adds rigor to the model by confirming structural validity and testing the relationships under distribution-free assumptions. This triangulation of methods strengthens the credibility of the findings and allows for deeper theoretical reflection on financial signaling and valuation in SOEs. Recent applications of PLS-SEM in SOE studies show its effectiveness in modeling latent constructs and institutional influences (Phi et al., 2021; Jahja et al., 2024).

Result and Discussions

Before conducting the regression test, a descriptive statistical analysis was first performed to provide a general overview of the characteristics of each variable, both independent and dependent. Descriptive statistics present the minimum, maximum, mean, and standard deviation values of each variable used in this study. These variables include Liquidity as proxied by the Current Ratio (CR), Profitability as proxied by Return on Assets (ROA), and Firm Value as proxied by the Price Earning Ratio (PER). The results of the descriptive statistics are presented in the following table:

Table 3 Statistical Descriptive Variables

Variabel	N	Minimum	Maksimum	Mean	Std. Deviation
Current Ratio (CR)	12	101.52	156.05	127.68	15.76

Variabel	N	Minimum	Maksimum	Mean	Std. Deviation
Return On Assets (ROA)	12	0.06	4.20	1.92	1.36
Price Earning Ratio (PER)	12	6.27	219.28	44.00	60.94
Valid N (listwise)	12				

Source : SPSS 26

Descriptive statistics for 2012–2023 show that the Current Ratio (CR) ranged from 101.52 to 156.05 (mean = 127.68; SD = 15.76), indicating generally sufficient liquidity to meet short-term obligations (Kasmir, 2019). The large variation suggests fluctuations from project-related financing, and while high liquidity signals stability, excessive levels may indicate inefficiency (Myers, 1984).

Return on Assets (ROA) varied between 0.06% and 4.20% (mean = 1.92%; SD = 1.36), reflecting relatively low profitability. Higher ROA signals better asset utilization (Hery, 2018) and aligns with the view that profitability measures managerial effectiveness (Jensen & Meckling, 1976).

Price to Earnings Ratio (PER) ranged from 6.27 to 219.28 (mean = 44.00; SD = 60.94), indicating volatile investor perceptions. High PER reflects optimism (Brigham & Houston, 2018), though extreme values may imply overvaluation—such as in 2020 when earnings fell but prices remained high during COVID-19 (Tandelilin, 2019).Overall, these statistics reveal significant variability in liquidity, profitability, and valuation, providing a foundation for analyzing their influence on firm value.

Results

Before performing multiple linear regression analysis, several classical assumption tests were conducted to ensure the validity and reliability of the model.

Normality Test

The normality test using the Kolmogorov-Smirnov method resulted in a significance value of 0.239, which is greater than the threshold of 0.05. This indicates that the residuals of the regression model are normally distributed, thus fulfilling the assumption of normality.

Multicollinearity Test

The results showed that all independent variables had tolerance values above 0.10 and Variance Inflation Factor (VIF) values below 10. Specifically, CR, and ROA, all met the multicollinearity criteria, 1.838. These findings suggest that there is no multicollinearity problem among the independent variables in the model, ensuring that each variable provides unique and non-redundant information.

Heteroscedasticity Test

The Glejser test was used to assess heteroscedasticity. The results indicated that all independent variables had significance values greater than 0.05, CR (0.638) and ROA (0.227), suggesting homoscedasticity or constant variance of the residuals. Therefore, the assumption of homoscedasticity is satisfied.

Autocorrelation Test

The Durbin-Watson value was 2.192, which falls within the acceptable range (1.5 < DW < 2.5), indicating the absence of autocorrelation in the residuals of the regression model. These classical assumption tests confirm that the regression model meets the necessary conditions for further analysis.

Model Multiple Regression

Table 4 Multiple Regression, T-test, F-test, R^2

Variable	Coefficient (B)	Std. Error	Beta	t-Stat	Sig. (p-value)
(Constant)	171.826	178.839	—	0.961	0.362
CR	-0.809	1.562	-0.193	-0.518	0.617
ROA	-19.317	17.362	-0.415	-1.113	0.295
F-statistic	**2.100**	—	—	—	**0.178**
Adjusted R^2	**0.167**	—	—	—	—
R Square (R^2)	**0.318**	—	—	—	—
Std. Error (Estimate)	**—**	—	—	—	**54.62066**

Sources : SPSS 26

Regression results (Table 4) show that liquidity (CR) and profitability (ROA) have no significant effect on firm value (PER) during 2012–2023. CR's coefficient was –0.809 (p = 0.617), consistent with *Akbar et al.* (2022), who also found CR insignificant in certain sectors. ROA's coefficient was –19.317 (p = 0.295), aligning with *Hikmat et al.* (2022), who noted that profitability may not raise valuation when external factors dominate. Jointly, CR and ROA were also insignificant (F = 2.100, p = 0.178), with $R^2 = 0.318$, indicating that 31.8% of firm value variation is explained by these variables, and 68.2% by other factors. These results suggest that macroeconomic conditions, investor sentiment, and industry-specific risks, rather than internal liquidity or profitability, may have been more influential in shaping PT Adhi Karya's market valuation.

Robustness Check Using PLS-SEM

To validate the reliability and consistency of the linear regression findings, a robustness check was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4 (Ringle, Wende, & Becker, 2022). This approach is particularly suitable for small-sample studies, allowing for relaxed distributional assumptions and better handling of multicollinearity compared to OLS regression.

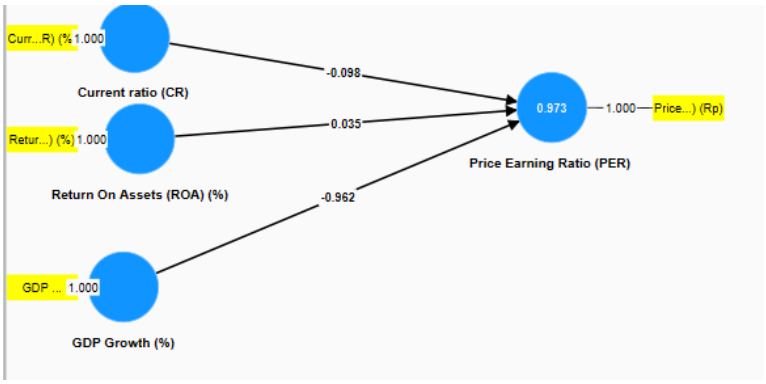

Figure 1 PLS-SEM with GDP as Control Variable

The PLS-SEM model ($R^2 = 0.973$) found CR's effect on PER negative and insignificant (β = –0.098) and ROA's effect minimal (β = 0.035), while GDP growth had a strong negative impact (β = –0.962), indicating investor skepticism toward macroeconomic recovery in PT Adhi Karya's project-based model, especially during fiscal tightening or political transition. This underscores the contextual limits of *Signaling Theory* in SOEs, where growth may not lead to higher valuations under policy-driven constraints. The results challenge the universal applicability of *Signaling Theory* and *Agency Theory*, suggesting that external expectations and public policy outweigh internal financial efficiency. Managerially, SOE leaders should integrate

non-financial indicators—such as project reliability, policy continuity, and public trust—into performance reporting, as investors may prioritize transparency and governance credibility over short-term ratios.

Discussion

The multiple linear regression results show that liquidity (CR) and profitability (ROA) have no significant effect on firm value (PER) during 2012–2023 ($p > 0.05$; CR = 0.617; ROA = 0.295) with $R^2 = 0.318$, meaning only 31.8% of firm value variation is explained by these variables. This challenges the predictive validity of *Agency Theory* (Jensen & Meckling, 1976) and *Signaling Theory* (Spence, 1973; Ross, 1977) in the SOE context, where government funding, political priorities, and long project cycles can weaken financial signals. Governance quality and stakeholder expectations may be more decisive (Lee & Lukman, 2023).

The findings are consistent with Hikmat et al. (2022) and Akbar et al. (2022), who reported that financial fundamentals do not always influence firm value in environments characterized by unstable earnings, subsidies, or external shocks. During COVID-19, Adhi Karya's PER rose despite declining ROA, reflecting investor sentiment, perceived state guarantees, or project expectations (Gong & Choi, 2021). Conversely, Siringoringo & Hutabarat (2019) and Firdaus & Tanjung (2022) in other sectors found significant effects, underscoring differences in sectoral context and ownership structure.

For investors, particularly in emerging markets, valuing SOEs solely on traditional ratios may be misleading. A broader framework is needed, encompassing institutional credibility, government support, project stability, and long-term macroeconomic prospects. For managers and policymakers, enhancing non-financial disclosures and strategic transparency is crucial, as liquidity and profitability metrics may fail to reflect actual performance (Sayidah et al., 2020).

A robustness check using PLS-SEM (Hair et al., 2017) confirmed no significant effects of CR ($\beta = -0.098$) or ROA ($\beta = 0.035$) on PER but found a strong negative effect of GDP growth ($\beta = -0.962$), suggesting that economic expansion can heighten perceived risk in infrastructure SOEs. The model's $R^2 = 0.973$ indicates high explanatory power.

Theoretically, these findings question the universality of *Agency Theory* and *Signaling Theory* in hybrid-economy SOEs, where institutional and political factors dominate. Practically, they support developing integrated reporting that includes project risk, stakeholder engagement, and strategic alignment with public objectives.

Conclusions

This study examined the effect of liquidity (CR) and profitability (ROA) on firm value (PER) in PT Adhi Karya (Persero) Tbk over 2012–2023. Multiple regression showed both CR and ROA had no significant impact ($p > 0.05$; $R^2 = 0.318$), a result confirmed by PLS-SEM. The PLS-SEM also revealed a strong negative effect of GDP growth on PER, indicating that macroeconomic factors may outweigh internal financial metrics in shaping investor valuations.

The findings challenge the applicability of *Agency Theory* and *Signaling Theory* in SOEs, where political mandates, public service roles, and long project cycles can weaken financial signals. Managerially, the results highlight the need for broader disclosure that integrates financial and non-financial indicators aligned with investor expectations. Policy-wise, they support developing SOE-specific reporting frameworks for hybrid economies.

Methodologically, the dual use of regression and PLS-SEM strengthens the validity of results, though the single-case design and limited variables remain constraints. Future research should adopt multi-case, panel, and mixed-method approaches to better capture SOE valuation dynamics in emerging markets.

Acknowledgements

I would like to express my gratitude to God Almighty who has given me His mercy and grace so that I can complete this thesis. This thesis was written in order to fulfill one of the requirements for achieving a Bachelor of Economics degree in Management Science at the Faculty of Economics and Business at Pamulang University.

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