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The Effect of Capital Structure and Profitability on Company Value in Property and Real Estate Sector Companies Listed on the Indonesia Stock Exchange for the 2019-2023 Period

Leonardo Gianfranco Jeharut [1*], Elly Lestari [2], and Fitria Setyaningrum [3]
* *Correspondence Author: leonardogjeharut13@gmail.com*
[1,2,3] Management, Faculty of Economics, University of Tribhuwana Tunggadewi, Malang, Indonesia

INDEXING	ABSTRACT
Keywords: Keyword 1; Capital structure Keyword 2; Profitability Keyword 3; Company Value Keyword 4; Effect Keyword 5; Property	This study aims to determine the influence of capital structure and profitability on the value of companies in the property and real estate sectors listed on the Indonesia Stock Exchange for the 2019–2023 period. A sample of 17 companies was selected using the purposive sampling method. Data analysis was carried out by multiple linear regression using SPSS version 21. The study results show that first, capital structure has a partial significant effect on company value, which means that effective management of capital structure can increase company value. Second, profitability also has a partial positive effect, where increased profitability will increase the company's value, reflecting good financial performance and the ability to generate future cash flow. Third, simultaneously, capital structure and profitability significantly influence the company's value, emphasizing that the combination of good capital structure management and increased profitability is a key strategy to maximize the company's value.

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INTRODUCTION

In today's era, economic growth, infrastructure development, and information technology developments worldwide are increasing rapidly. This requires very tight competition between companies. Companies must be able to adapt, compete, and keep up with changes to survive and improve their value in running their businesses. The company was formed to maximize profitability with minimal operational costs, survive and grow sustainably, and benefit shareholders and company owners. (Mayklisyani *et al*., 2023).

The property and real estate industry is a very competitive industry where the IDX is listed. Population growth in Indonesia has resulted in an increase in demand for housing, offices, shopping centers, and recreational areas, which ensures that the demand for real estate products will be higher without an increase in the amount of land. This causes land prices and loan interest rates to get higher year after year in the real estate industry. According to this, many investors then invest in land or real estate. (Mayklisyani *et al*., 2023).

Nowadays, many cases relate to using company values, especially in real estate companies. One example is PT Bumi Serpong damai Tbk, ticker (BSDE), which experienced a sharp decline in performance in the first quarter of 2020. Revenue in the first quarter of 2020 using BSDE issuers' ticker decreased by 57.1% compared to the fourth quarter of 2019. Meanwhile, it decreased by 8.2% year-on-year or YOY (year on year). The decline in revenue was caused by a decline in revenue from the sale of land, buildings, and levels in all sales segments.

The company recorded a decrease in sales of IDR 1.1 trillion or a reduction of 4.17% YOY (year on year). This amount is equivalent to using 76.4% of total revenue. Meanwhile, BSDE's net profit in the first quarter of 2020 fell from IDR 699 billion to IDR 259.6 billion, a decrease of 62.8%, while the YOY (year-on-year) comparison showed a decline of 58.9%. The reduction in net profit was caused by the interest expense of sales discount interest, which only arose in the first quarter of 2020 at IDR 115.1 billion. (Mayklisyani *et al*., 2023).

Property and Real Estate companies, in addition to providing houses, buildings, and land, also open a funding system through the sale of shares owned by the company. When buying stocks, investors will look at several things before purchasing shares of the company that sells. Some things that can be analyzed and considered before making investments are the company's value, capital structure, and profitability of the company's financial statements in the Property and Real Estate sector. (Dewi *et al.,* 2014).

The first factor is that capital structure is a comparison between companies that can increase the company's value and be superior in the face of business competition. The company's long-term goal is to optimize the company's value by minimizing the company's capital costs. Based on the theory of capital structure, if the position of the capital structure is above the target of the optimal capital structure, then every increase in debt will reduce the company's value. In capital structure research, the debt-equity ratio (DER) is used to measure the ability of companies to meet their obligations to pay their debts with their capital guarantees.

Research conducted by Setiawan et al., (2021) shows that capital structure positively and significantly affects company value. The results of this study show that higher debt use will increase the company's value because the use of debt is considered a form of business expansion in the company, and the company is considered to have good business prospects in the future. Meanwhile, research conducted by Wardhani *et al*., (2021) shows that capital structure hurts company value. When the capital structure increases, debt will also increase; debt will cause a fixed burden regardless of the company's income. The company must return the debt along with the interest. This decreases investors' interest in buying stocks. Furthermore, research conducted by Irawan and Kusuma (2019) states that the capital structure does not affect the company's value. This is because increasing the capital structure will increase the company's debt. The higher the company's debt level, the higher the interest on debt will increase compared to tax savings.

The second factor is profitability, namely the final value of several company policies and management decisions. Profitability can be measured by Return on Assets (ROA). ROA describes a company's ability to earn profits by utilizing the total assets it owns. The ROA ratio measures the level of efficiency of a company's operational activities in generating net profit from the use of the company's assets. Profitability affects company value. This is because increased profitability will give a good signal to investors, which has an impact on the high demand for stocks by investors. Furthermore, research conducted by Dwiastuti and Dillak (2019) shows that profitability positively affects company value. Increasing company profits will positively impact the company, such as increasing stock prices and showing good company conditions, so that it can attract investors to buy company shares. Meanwhile, Fauzi and Aji (2018) research shows that profitability hurts company value. When profitability increases, the company's value decreases because it does not distribute its profits as dividends but chooses to hold them as retained profit. So, investors believe they will not benefit from investing in the company.

In the industrial sector, competition is created because of the increasing number of companies born there. This is a sign of economic development in Indonesia. To face various competitions, companies compete to improve each other's performance to achieve their goals and growth. A company's long-term goal is an effort to optimize its value, while the short-term goal is the optimization of the resources it has to get maximum profit. The value of a company is closely related to the value of shares in the capital market, where the stock price is directly proportional to the company's value. In other words, a company's management is said to be successful when it can provide welfare to its shareholders. One good way to assess the level of financial performance of a business in financial management is to use profitability ratio analysis. This is necessary to determine how much the level of business productivity of a company is. Profitability is the ability of a company to generate profits in a given period. If profitability tends to decrease and is unstable, it will endanger the existence of a business. (Sasongko et al., 2020).

The value of the company needs to be increased with the aim of attracting investors to invest in the company. The increase in the company's value is the achievement desired by the company owners because the increase in the company's value will have an impact on the welfare of the company owner. PBV (Price Book Value) is one of the benchmarks used to measure a company's value level. Investors can also know the company's value through the theory of signals from a company; if the company's value is high, it will be used as a signal by the company to invite investors in investment. Various factors affect the company's value, including company size, capital structure, profitability, dividend policy, liquidity, and others. That factors that affect the company's value are profitability, company size, liquidity, dividend policy, and capital structure. (Dewi *et al*., 2014)

A company is a body established by an individual or institution with the primary goal of maximizing profits. The company can be seen and measured through financial statements by analyzing the financial statements issued by the company concerned. The results of the analysis of financial statements will also provide information about the weaknesses and strengths of the company. They can see financial productivity because the existence of financial statements can make it easier for a company to run its business. (Lestari, 2017)

Therefore, based on the background and previous research that has been presented, and considering the importance of corporate value for investors and the company itself, the purpose of this study is to analyze the influence of capital structure and profitability on company value in property and real estate sector companies listed on the Indonesia Stock Exchange for the 2019–2023 period.

LITERATURE REVIEW

Capital Structure

Capital structure is a comparison between debt and capital that a company uses to finance its operational activities. This structure becomes important because funding decisions, especially those involving debt, impact the company's value, especially through the reduction of tax burden. An optimal capital structure occurs when the cost of capital and risk are at a minimum, which can drive an increase in the stock price and the overall value of the company.

Capital structure involves selecting the proportion of internal and external funds to meet the company's spending needs. External sources such as debt have a higher liquidity risk, so managers must be careful to maintain financial stability. Capital structure is the key to increasing productivity and performance and can be measured through the sepe ratio.

Capital structure is an important factor affecting a company's value. An optimal capital structure will balance debt and equity to maximize the company's value. A sound capital structure can increase the company's value because it gives a positive signal to investors about the company's ability to manage financing. This is in line with signal theory, which states that a company's funding decision can be a signal to investors about the company's prospects. The proper use of debt can increase shareholder returns due to the leverage effect, which can encourage an increase in the company's value.

Profitability

Profitability is a ratio used to measure a company's ability to generate profits and evaluate management's effectiveness in managing operations and investments. This ratio is important for monitoring profit growth, knowing the position of profits from time to time, and assessing the productivity of funds used from own capital and loans. The types of profitability ratios that are commonly used include Gross Profit Margin (GPM), Net Profit Margin (NPM), Return on Asset (ROA), and Return on Equity (ROE), each of which is useful for assessing production efficiency, cost management, ability to generate profits from assets, and added value to owner's capital.

In addition to the capital structure, profitability also plays a significant role in determining the company's value. Profitability indicates the company's ability to generate profits from its operational activities. Companies with a high level of profitability will be more trusted by investors because they have good prospects and low risk. Profitability can provide an overview of the efficiency of a company's management in managing its resources. The higher the profitability, the greater the potential profit that shareholders will receive, which can encourage an increase in the company's value. Thus, both capital structure and profitability positively influence the company's value as both reflect managerial efficiency and good growth prospects.

RESEARCH METHOD

This study aims to examine the influence of capital structure and profitability on the value of companies in the Property and Real Estate sector listed on the Indonesia Stock Exchange. The type of data used is quantitative data with a secondary data approach obtained from the financial statements of these companies during the 2019-2023 period. The research location includes Property and Real Estate sector companies listed on the Indonesia Stock Exchange, and this research will be carried out in January 2025. The research population includes 92 companies in the Property and Real Estate sector listed on the Indonesia Stock Exchange, with a sample taken through the purposive sampling method, namely 17 companies meeting specific criteria. The variables used in this study are capital structure, which is measured through the debt-equity ratio (DER); profitability, measured using Return on Assets (ROA); and company value, as measured by Price to Book Value (PBV).

RESULT AND DISCUSSION
Multiple Linear Regression Analysis
Coefficient of Determination Test (R2)

Table.1 The Result of Coefficient of Determination Test (R^2)

Model	R Square
1	.590

Source: Data Processed 2024

The variables of capital structure and profitability have an influence of 0.590, which means that both affect the company's value by 59%.

F Test

Table.2 Results of the F test

F Count	F Table
10,079	3,74

Source: Data Processed 2024

The results showed that F count (10.079) > F table (3.74), so H0 was rejected, and H3 was accepted. This means that the free variable had a significant effect simultaneously on the dependent variable (Y).

t-test and multiple regression test

Table.3 Results of the t-test and the multiple regression test

Model 1	**B**	**t count**	**t table**
(Constant)	1,141		
Struktur modal	0,523	4,470	2,131
Profitabilitas	0,490	4,260	2,131

Source: Data Processed 2024

Conclusion:
Column B (Beta) of the Non-Standard Coefficient displays the coefficient of the regression equation.
The regression equations derived from this column are:
$Y = 1.141 + 0.523X1 + 0.490X2 + e$

The explanation of this regression is as follows:

1. Intercept (Constant) = 1,141

This value indicates the initial or constant value of the dependent variable (company value) when both independent variables (capital structure and profitability) are zero. In other words, if capital structure and profitability do not influence the company's value, it is predicted to be 1.141.

2. Capital Structure Coefficient (X1) = 0.523

This coefficient indicates that every unit increase in the capital structure variable will increase the company's value by 0.523, assuming the profitability variable remains constant. This indicates that the capital structure has a positive effect on the company's value.

3. Profitability Coefficient (X2) = 0.490

This coefficient indicates that every unit increase in the profitability variable will increase the company's value by 0.490, assuming the capital structure variable remains constant. This shows that profitability also has a positive effect on the value of the company.

The results of the t-test showed that the variable of capital structure (X1) with t calculated of 4.470 and t of table 2.131, as well as the profitability variable (X2) with t calculation of 4.260 and t of table 2.131, both had t calculation of > table. Therefore, H0 is rejected, and H1 and H2 are accepted, which means that the variables of capital structure (X1) and profitability (X2) have a noticeable partial effect on the value of the company (Y).

Capital structure to Company Value

The results of the H1 test show that the capital structure has a significant effect on the company's value partially, where the higher the capital structure, the higher the company's value, with t calculated as 4.470 which is greater than the t table 2.131, so H0 is rejected and H1 is accepted. This research is in line with the research of E. Rosmiati & Kartini (2023), who also found that the capital structure (Debt Equity Ratio) has a significant influence on the company value (Price to Book Value) in real estate property companies listed on the Indonesia Stock Exchange. Therefore, in this study, the lower the capital structure, the lower the company's value.

Profitability to Company Value

The results of the H2 test showed that profitability had a partial positive effect on the value of the company, where the higher the profitability, the higher the value of the company, with t calculated as 4.260, which is greater than t in Table 2.131, so H0 is rejected, and H2 is accepted. This research is in line with the research of Ramadhan et al. (2022), which also found that profitability positively affects the value of companies in property and real estate companies listed on the Indonesia Stock Exchange. Therefore, the lower the profitability, the lower the company's value in this study.

Capital Structure and Profitability to Company Value

The results of the H3 test showed a significant simultaneous influence between capital structure and profitability on the company's value, with a Fcal of 10.079, which was greater than the Ftable of 3.74, so H0 was rejected, and H3 was accepted. This research is relevant to Sianipar and Ibrahim (2017) research, which also found a significant influence between capital structure and profitability on company value in the food and beverage sector. Thus, capital structure and profitability factors influence this study's capital structure.

CONCLUSION

The conclusion of the results of the study on the influence of capital structure and profitability on company value in the property and real estate sectors listed on the Indonesia Stock Exchange for the 2019-2023 period shows that first, capital structure has a partial significant effect on company value, which means that effective management of capital structure can increase company value. Second, profitability also has a partial positive effect, where increased profitability will increase the company's value, reflecting good financial performance and the ability to generate future cash flow. Third, simultaneously, capital structure and profitability significantly influence the company's value, emphasizing that the combination of good capital structure management and increased profitability is a key strategy to maximize the company's value.

Property and real estate companies should focus on managing an effective capital structure and increasing profitability to maximize the company's value. Managing a balanced capital structure between debt and equity can increase investor confidence and profitability through efficiency and innovation, boosting financial performance. These two factors must be managed simultaneously to have an optimal impact, and periodic evaluations are carried out to ensure that the strategies implemented remain practical and relevant in increasing the company's competitiveness.

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