The Impact of Profitability and Capital Structure on The Company Level at PT. Wismilak Inti Makmur, Tbk

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I N D E X I N G	A B S T R A C T
Keywords: Keyword 1; Profitability Keyword 2; Capital Structure Keyword 3; Company Level	The objective of this research is to assess and evaluate how profitability and capital structure affect the value of PT. Wismilak Inti Makmur Tbk. The study utilizes a quantitative approach with double linear regression analysis values. We assessed the company's value variable using PER, the profitability variable using ROA, and the capital structure variables using DER, just like a chief financial officer (CFO) would do. We conducted this research on PT. Wismilak Inti Makmur Tbk, utilizing the annual financial report from the BEI for the period 2019-2023 as the instrument. Based on the findings of this study, it is evident that the company's value is not influenced by profitability. Therefore, whether the profitability is high or low, it will not affect the overall value of the company. Additionally, the study reveals that the capital structure has a noteworthy negative impact on corporate value. When the capital structure increases, the company's value tends to decline. As a top financial executive, the company must decrease its dependence on debt-derived funds to maximize its overall value. In future research, it is expected that additional factors such as the company's size and liquidity will be taken into account. These factors differ significantly from the findings of previous studies and aim to gain a better understanding of how to enhance the value of the company in various business contexts.

INTRODUCTION

Indonesia is the most substantial economy in Southeast Asia and is regarded as one of the burgeoning markets. Indonesia, classified as a middle-income nation and a member of the G-20, was included in the group of industrialized countries (Vasishtha, 2017). Indonesia surpassed India to become the second fastest-growing economy among the G-20 countries (Sundararaman, 2020). Subsequently, the yearly rate of expansion has varied by around 5%. Indonesia is now experiencing a recession as of 2020, with economic growth declining to -2.07% as a result of the COVID-19 epidemic (Purba, 2020). The impact of COVID-19 has all but demolished economic buoyancy through closure of hundreds of thousands of SMEs and millions of workers delegated to the unemployment line (Campbell *et al*., 2021). This is the most severe decline in growth since the 1997 financial crisis. Indonesia's gross domestic product expanded by 3.69% in 2021, driven by the lifting of COVID-19 limitations and a surge in exports fueled by robust commodity prices (Nikkei Asia, 2023).

According to the Ministry of Industry, cigarette firms have a substantial role in bolstering the Indonesian economy. Tobacco firms gain income from the ongoing increase in excise and tax rates (Aini *et al*., 2021) . Despite its significant contribution to state revenue, the government recognizes the negative impact this industry has on public health. The government has issued many policies in order to control the consumption of cigarettes by the community, one of which is the CHT (Tobacco Product Excise) tariff on cigarettes (Khairat, 2023). We expect the increase in excise rates, which impact cigarette prices, to reduce community consumption, particularly among children and adolescents. (Sari, 2023). In addition to being a source of state revenue, cigarette companies also help overcome labor problems. Cigarette companies contribute through their capacity to absorb labor. One of the companies that produces cigarettes in Indonesia is PT. Wismilak Inti Makmur Tbk is one of Indonesia's cigarette producers. (Liman ,2023).

PT. Wismilak Inti Makmur Tbk, an Indonesian tobacco firm, began its activities in Surabaya in 1962. In 2012, Wismilak had a successful initial public offering, making the business's shares available to the public and transforming into a publicly traded company known as PT. Wismilak Inti Makmur Tbk. Wismilak oversees the operations of the cigarette industry, specifically focusing on Hand Kretek Cigarettes (SKT) and Machine Kretek Cigarettes (SKM). The firm is involved in several business sectors, such as the production of cigarette seasonings, filters, and other cigarette accessories. They also engage in the marketing and sales of cigarette goods and their accessories. Additionally, they participate in the manufacturing of clove cigarettes. Wismilak consistently endeavors to adhere to the relevant laws and regulations pertaining to good manufacturing practices, health, safety, security, the environment, corporate governance, and other related matters in conducting its business operations. The website is wismilak.com.

Generally, the founder of a company is the only owner of a company that doesn't go public; however, by going public, the company opens up ownership to outsiders. A company that sells securities to the capital market already has a good and credible business reputation, which means it will sell well, increase the company's profits, and provide investors with more profits than investing in bank notes, which typically have smaller profits. (Damayanti and Darmayanti, 2022).

Firm growth is a central theme in entrepreneurship research and it is generally seen as a positive performance outcome (Mansikkamäki, 2023). As said by Nugroho and Bagana (2023), The main goal of a company is to increase its value, which is defined as its market value. Investors delegate professional managers to maintain their company's value because their shared value increases as the stock price rises. It demonstrates the worth of the company without relying on the owner's implied value. You can use this company value as a benchmark to measure the company's past success. The company can use it as correction material to enhance its performance in the upcoming period.

Profitability is the most important indicator for a company. As said by Supriandiand Masela (2023), He stated in his research that profitability influences the value of manufacturing companies in West Java, The results are consistent with the research Komalasari and Yulazri (2023), current profitability level reflects its productivity and operation in its present condition (Liu et al., 2023). For energy companies on the IDX, profitability has a significant effect on the company's value. However, in some studies such as Muharramah and Hakim (2022), and also Prasetyo and Hermawan (2023) stated that profitability has no influence on the value of the company.

The capital structure optimization is extremely important and complex field in corporate financial management, since the performance success, viability and future survivability depend on financing decisions (Kontuš *et al*., 2023). Capital structure refers to the composition of a company's financing sources, including debt and equity. This is a decision for the company because it affects costs, capital, financial risk, and the ability to make investment opportunities (Supriandi and Masela, 2023). Positive working capital is important to lower the cost of capital and improve companies' profitability (Alarussi and Gao, 2023). Results Supriandi and Masela (2023), stated that capital structure significantly influences the value of companies in the manufacturing sector in West Java, Meanwhile, according to Damayanti and Darmayanti (2022), Capital structure has a significant and negative impact on the value of logistics companies, Based on the analysis results Hirdinis (2019), it was concluded that capital structure has a significant positive effect on firm value while firm size has a significant negative effect on firm value. Profitability has no significant effect on firm value, whilst company size has a significant positive effect on profitability. This is inconsistent with the results of the study Nugroho and Bagana (2023) The capital structure has no effect on the value of the company.

The formulation of the research problem is whether profitability and capital structure affect the value of the company at PT. Wismilak Inti Makmur, Tbk. The purpose of this research is to find out and analyze the influence of profitability and capital structure on the company level at PT. Wismilak Inti Makmur, Tbk.

LITERATURE REVIEW

Company value is the measure of an investor's reaction to the company's successful period, often correlated with the stock price. A high stock price yields a commensurately high corporate value and instills market trust, including both the firm's present performance and its future prospects. Maximizing corporate value is crucial for a company as it directly aligns with achieving the organization's primary objectives (Ananda, 2017). Investors can interpret the company's value as the nominal amount they receive from the company's sales, which fluctuates in response to the stock price's performance (Komalasari and Yulazri, 2023). There are three types of methods used to calculate a company's value, namely TobinsQ, PER (Price Earning Ratio), and PBV (Price to Book Value) (Komalasari and Yulazri, 2023). The higher the market value of a company's stock, the higher the interest for investors to invest in it. The higher the company's value, the greater the investor's welfare.

Profitability is the ability of a company to utilize working capital to generate profits, so the company does not face difficulties in repaying its debts, both short-term and long-term, and in making dividend payments to investors who invest their capital in the company (Iman *et al*., 2021). Profitability is a measure of a company's overall operational effectiveness and its ability to obtain profits within a certain period of time (Muharramah and Hakim, 2022). A company's ultimate goal is to achieve profits, and it uses the profit ratio or profitability ratio to measure its level of profit (Hernawati and Masdalifah, 2022). The profitability ratio used to measure the level of profit is ROE (return on equity), ROA (return on asset), NPM (net profit margin), and GPM (gross profit margin) (Aini *et al*., 2021). The purpose and benefit of profitability ratios are to measure and understand the level of profit generated; to find out and evaluate the amount of net profit after tax deduction based on equity; and to measure and assess the overall productivity of funds used by the company, involving both equity and loans (Kristiadi and Herijawati, 2023).

The blend of debt and equity that a company uses to finance its operations is known as its capital structure. Decisions regarding the optimal capital structure have become a broad topic of research in corporate finance. Capital structure decisions are highly relevant due to the large investment needs and long-term nature of assets. As companies seek to balance the costs and benefits associated with sharing sources of funding, trade-offs between equity and debt financing become very important (Supriandi and Masela, 2023). Debt-to-asset ratio (DAR), debt-to-equity ratio (DER), long-term debt-to-equity, fixed charge coverage, and cash flow adequacy can be used to figure out the structure of a mod. (Damayanti and Darmayanti, 2022). Based on the result Prekazi *et al*., (2023), the capital structure indicators included in the study were total debt and total equity, while performance indicators were represented by return on assets (ROA) and return on equity (ROE).

RESEARCH METHOD

This study utilizes a quantitative research methodology, complemented by secondary data. The techniques employed for variable measurements encompass the utilization of specific methods. The dependent variable, company value, is measured using the PER (Price Earning Ratio) method. On the other hand, the independent variables are measured using the ROA (Return On Asset) method to gauge profitability and the DER (debt to equity ratio) method to assess capital structure. This study used existing data from the Indonesia Stock Exchange and specifically examined the cigarette sector, with a focus on PT. Wismilak Inti Makmur Tbk. The analysis mostly included studying the company's yearly financial records. The financial statements used cover a span of 5 years, namely the period from 2019 to 2023. The data collecting method employs documentation methods, analyzes pre-existing data, and utilizes secondary data from the company's financial statements filed on the Indonesia Stock Exchange. The sample is obtained using a purposive sampling strategy. This sample has been analyzed and evaluated. The statistical method used in this research is multiple linear regression for data analysis. This research use multiple linear regression analysis to ascertain the impact of profitability and capital structure on the value of a firm.

RESULT AND DISCUSSION

Table 1. Multicollinearity Test Results
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.	Collinearity Statistict	
		B	Std. Error				Tolerance	VIF
1	(Constant)	26.192	1.397		18.748	.003		
	ROA	-.068	.046	-.122	-1.457	.283	.425	2.354
	DER	-51.005	4.757	-901	-10.723	.009	.425	2.354

Source: Data Processed, 2024

The VIF for the profitability variable is 2.354, whereas the value for the capital structure variable is also 2.354. If the VIF value of the second independent variable is less than 10, and both the ROA and DER variables have an eigenvalue of 0.425, which is greater

than 0.100, then it can be concluded that the assumption of multicollinearity has been met or no signs of multicollinearity have been observed.

Table 2. Autocorrelation Test Results (Runs Test)

	Unstandardize d Residual
Test Value[a]	.07555
Cases < Test Value	2
Cases >= Test Value	3
Total Cases	5
Number of Runs	3
Z	.000
Asymp. Sig. (2-tailed)	1.000

Source: Data Processed, 2024

The autocorrelation test using the Runs Test resulted in a test value of 0.07555. The significance value was found to be larger than 0.05 by a factor of 1,000, showing the lack of autocorrelation.

Table 3. Results of the Normalization Test (Kolmogorov Smirnov)
One-Simple Kolmogorov–Smirnov Test

			Unstandardize d Residual
N			5
Normal Parameters[a,b]	Mean		.0000000
	Std. Deviaton		.26012053
Most Extreme Differences	Absolute		.214
	Positive		.142
	Negative		-.214
Test Statistics			.214
Asymp. Sig. (2-tailed)[e]			.200[d]
Monte Carlo Sig. (2-tailed)[e]	Sig.		.655
	99% Confidence Internal	Lower Bound	.642
		Upper Bound	.667

Source: Data Processed. 2024

We obtained a value asym.sig. (2-tailed) of 0.200 (> 0.05), indicating a normal distribution of the data.

Table 4. Results of the Heteroscedasticity Test (Park Test)
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5.021	8.676		-.579	.621
	ROA	-.059	.288	-.219	-.204	.857
	DER	4.917	29.538	.179	.166	.883

Source: Data Processed. 2024

The ROA variable has a significance level of 0.857, whilst the DER variable has a significance level of 0.883. The significance value of the independent variable is greater than 0.05, suggesting that there are no symptoms of heteroscedasticity and that the

27

assumption of the heteroscedasticity test is satisfied.

Table 5. Determination Coefficient Test Results
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.997[a]	.994	.998	.36787

Source: Data Processed. 2024

The modified R square value of 0.988 suggests that the profitability and capital structure factors have a significant impact on the company's value, accounting for 98.8% of the influence. Other variables not included in this research have a little impact, accounting for just 0.2% of the influence.

Table 6. Test Result F
ANOVA[a]

Model		Sum of Square	df	Mean Square	F	Sig.
1	Regression	44.853	2	22.426	165.722	.006[b]
	Residual	.271	2	.135		
	Total	45.124	4			

Source: Data Processed. 2024

The resulting significance value is 0.006, which is less than the threshold of 0.05. Therefore, it can be stated that both the profitability variable and capital structure have a substantial simultaneous impact on the company's worth.

Table 7. Hypothesis Test Results (T-Test)

Model		Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
		B	Std. Error			
1	(Constant)	26.192	1.397		18.748	.003
	ROA	-.068	.046	-.122	-1.457	.283
	DER	-51.005	4.757	-901	-10.723	.009

Source: Data Processed. 2024

The table above indicates that the ROA variable has no significant impact on the dependent variable, since the significance value is 0.283, which is more than the threshold of 0.05. The DER variable has a significant impact on the dependent variable, as shown by its significance value of 0.009 (<0.05). However, the multiple linear regression coefficient of -0.901 is negative, indicating that the capital structure has a negative influence on the dependent variable.

When a business borrows cash from a bank, the bank will want a guarantee. If the company fails to repay the loan as agreed, the company will have to surrender the assets used as collateral. This will result in a fall in the firm's overall worth. Initially, the company's value increases with increasing debt, but a continuous increase in debt leads to

a decrease in the company's value, as the risk of bankruptcy outweighs the tax savings (Damayanti and Darmayanti, 2022). As a result, companies' value tends to decline due to excessive capital structures. The results of this study are supported by the findings Damayanti and Darmayanti, (2022)

CONCLUSION

The study's findings indicate that the value of PT. Wismilak Inti Makmur Tbk remains unaffected by profitability. Profitability does not impact the company's value because investors currently consider other factors that could potentially have a long-term impact on the company. This shows that high or low profitability will not affect the company's value; therefore, profitability has no effect on the company's value. Therefore, the results of this study can support and align with the research Muharramah and Hakim (2022). The findings of this study are unsupportive and inconsistent with the research Komalasari and Yulazri (2023).

Based on the findings of this research, the significance level value is 0.009 (<0.05), indicating that the impact is considered statistically significant. The coefficient of the linear regression, which is -0.901, suggests a substantial and negative influence of the capital structure on the value of the firm. The present condition of the capital structure will have a substantial effect on the company's financial status. Investors may become apprehensive about assuming the burden of repayment if the capital structure or debt financing exceeds a certain threshold.

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