Profitability, Liquidity, and Financial Performance: Implications for Company Value in Indonesia’s Mining Industry

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ABSTRACT
This research explores the interplay between profitability, liquidity, financial performance, and company value in Indonesia’s mining industry. A quantitative approach is employed, utilizing path analysis to examine complex relationships and understand how these variables collectively influence the mining companies’ value in Indonesia. The study targets 40 mining companies from a population of 73, using purposive sampling based on the completeness of financial statements from 2018 to 2022. Results from the path analysis are discussed, revealing positive and significant effects of liquidity on financial performance and company value. Profitability also demonstrates a positive impact on both financial performance and company value. The findings align with previous research and contribute to a comprehensive understanding of the financial landscape of Indonesia’s mining industry. The study's implications extend to investors, companies, and regulatory policies, emphasizing the importance of considering liquidity and profitability in strategic planning and decision-making. In conclusion, the research provides valuable insights for stakeholders in the Indonesian mining industry, emphasizing the interconnectedness of liquidity, profitability, financial performance, and company value. These findings contribute to informed decision-making and risk management in the dynamic and volatile environment of the mining sector.

INTRODUCTION
Referring to the PwC Indonesia publication entitled "Mining in Indonesia", Indonesia continues to be an important player in the global mining industry with significant production of coal, copper, gold, tin, and nickel. Indonesia also remains one of the largest thermal coal exporters in the world in 2017. Indonesia was the world's second-ranked producer of mined tin, accounting for 27% of total mine production and 17% of the world's reserves (Chung, 2018). The country is also responsible for a significant contribution to world gold production (Meutia et al., 2022). Apart from its impact on a global scale, this sector also has an impact on the country's economy. The mining industry has been working on land reclamation to restore the land that has been disturbed by mining activities. According to a 2017 report, only 40% of the total area opened for mining has benefited from reclamation work (I. E. Setiawan et al., 2021). The industry provided employment opportunities, improved the standard of living, and contributed to the development of infrastructure (Syahrir, 2022). This industry also plays a significant role in contributing to the national income of Indonesia as it is one of the country’s largest industries, with immense mineral reserves and production (McKay & Bhasin, 2001).

The progress of this industry is also demonstrated by better financial performance over the years, especially in the context of their liquidity and profitability (Putri Dyansyah et al., 2022). The financial performance of mining companies is important because it is the first and main factor for investors in making investment decisions. Investors use financial performance data to evaluate the value of mining industry stocks. They use financial performance data to generate potential investment...
opportunities in the mining sector by evaluating key financial ratios and metrics at the company and project level. They build financial models, access extensive libraries of alpha factors and pre-built templates, and complete portfolio construction with their own proprietary analysis faster with Excel Plug-in. They also evaluate the performance of existing mining investments with the Mine Economics model (Abbas et al., 2023).

This study provides insights into the financial performance of mining companies in Indonesia and can help investors and stakeholders make informed decisions about these companies. Additionally, this study adds to the existing body of research on financial performance in the mining industry, which can help inform future research and policy decisions (C. Setiawan et al., 2021). This research seeks to answer questions related to how liquidity and profitability through financial performance influence the value of companies in the mining industry to produce in-depth and comprehensive findings that can be utilized by investors, internal managerial parties, and also related policy makers.

**Literature Review And Hypothesis Development**

1. **Liquidity on Financial Performance and Company Value**

   Liquidity refers to a company's ability to meet its short-term obligations using its current assets. It is an important aspect of financial management as it ensures that a company has enough cash or cash equivalents to pay its debts as they become due. Liquidity ratios are used to measure a company's liquidity, and some of the commonly used ratios include the current ratio, quick ratio, and cash ratio. A high liquidity ratio indicates that a company has enough current assets to meet its short-term obligations, which is generally viewed positively by investors (Sari et al., 2022).

   The mining industry is marked by cyclical behavior, including booms in the price of metals, which can affect the liquidity, solvency, and profitability of mining companies (Diaz-Becerra et al., 2023). Internal factors, such as the rate of conversion of individual components of current assets to cash, and external factors, such as economic situations and competition on the coal market, can influence the liquidity level in mining companies (Sierpińska-Sawicz, 2021). In the context of Indonesia, there are several studies that have examined the impact of liquidity on financial performance in the mining industry in Indonesia. One study found that liquidity has a positive impact on profitability in mining companies in Indonesia (Hidayat Hadi, 2022). Another study specifically examined the impact of liquidity, capital structure, and firm size on mining industry profitability in Indonesia, and found that liquidity has a significant impact on profitability (C. Setiawan et al., 2021). Additionally, a study on sustainable growth and liquidity on profitability in mining sector companies listed on the Indonesia Stock Exchange in 2018 found that liquidity has a significant influence on profitability (Manullang et al., 2020).

   According to (Yulianty & Nugrahanti, 2020) when liquidity increases, the company's value decreases because investors are worried that a lot of cash will be idle and not productive to generate cash or profit. However, another study on another companies sector listed on the Indonesia Stock Exchange found that a high level of liquidity indicates that the company is in good shape, can meet short-term obligations, and has lots of funds available for the company to pay dividends and finance its operations and investments, thus increasing the company's value (Jamilah et al., n.d.). Therefore, the impact of liquidity on company value in the mining industry in Indonesia is not clear-cut and may depend on other factors such as the company's
size, profitability, and capital structure. From this explanation, a hypothesis can be formed as below:

h1: Liquidity have a positive and significance effect on financial performance of Indonesia’s mining companies

h2: Liquidity have a positive and significance effect on company value of Indonesia’s mining companies

2. Profitability on Financial Performance and Company Value

Profitability refers to a company's ability to generate profits from its operations. It is a key aspect of financial performance as it determines a company's ability to sustain its operations and grow over time. Profitability has a significant positive effect on financial performance in mining companies registered in the Indonesia Stock Exchange (Susiwati et al., 2020). The study conducted on mining companies listed on the Indonesia Stock Exchange found that profitability and activity have a significant effect on financial performance. The study revealed that profitability is directly proportional to financial performance, and the net profit margin in mining companies for the 2014-2017 period has increased, indicating an increase in financial performance. Therefore, profitability is an essential factor in determining the financial performance of mining companies in Indonesia.

h3: Profitability have a positive and significance effect on financial performance of Indonesia’s mining companies.

h4: Profitability have a positive and significance effect on company value of Indonesia’s mining companies.

3. Financial Performance on Company Value

The mining sector in Indonesia is characterized by its substantial endowment of natural resources, which serves as a magnet for potential investors. The valuation of mining industry stocks serves as a crucial metric for investors to allocate their capital and pursue potential profitability in forthcoming periods (Abbas et al., 2023). One study analyzed the financial performance of metal and mineral mining companies listed on the Indonesia Stock Exchange and found that the companies' financial performance had a significant impact on their firm value (Oemar et al., 2020). Another study focused on oil and gas mining companies and found that firm performance, represented by return on equity (ROE), had a positive and significant effect on firm value (Hasanudin et al., 2020). The available studies suggest that financial performance is an important factor in determining the firm value of mining companies in Indonesia. However, it is important to note that the specific factors that contribute to financial performance and firm value may vary depending on the sub-sector of mining and other contextual factors. Based on this explanation, a hypothesis can be built:

h5: Financial Performance have a positive significance effect on company value of Indonesia’s Mining Companies

h6: Financial performance can mediate the relationship between liquidity and profitability on the value of mining companies in Indonesia

4. Conceptual Framework

Based on the hypothesis and review of existing literature, a conceptual framework for this research can be formed, namely as follows:
1. Design
This study would benefit from a quantitative approach. This approach would be suitable for analyzing financial data related to profitability, liquidity, and financial performance, which are the key variables in the study. The use of quantitative methods would allow for the testing of hypotheses and the identification of relationships between variables. Furthermore, the use of a quantitative approach would enable the researcher to make generalizations about the population of mining companies in Indonesia based on the sample data collected.

2. Population and Sample
This study targets the population of all mining companies in Indonesia which are open and whose financial data can be accessed easily. Referring to the annual report of the Indonesian Stock Exchange, there are 73 companies in this sector. Of this number, using a purposive sampling technique, 40 companies who have a complete financial statement during 2018-2022, will be taken as samples. This technique is considered the most appropriate technique because it allows the researcher to select a sample that is representative of the population of interest, which in this case is the mining industry in Indonesia. Purposive sampling is a non-probability sampling method that involves selecting participants based on specific criteria, such as their expertise or experience in the industry (C. Setiawan et al., 2021). This method is appropriate for this study because the researcher is interested in examining the financial performance of mining companies listed on the Indonesia Stock Exchange, and purposive sampling allows the researcher to select companies that meet specific criteria related to profitability, liquidity, and financial performance (Prabowo & Korsakul, 2020)(Permana, 2023).

3. Data Analysis
The data will be processed using path analysis. Path analysis allows for the examination of complex relationships between multiple variables. In the context of this study, it can help in understanding how liquidity, profitability, and financial performance are interrelated and how they collectively impact the company value in the mining industry in Indonesia (Hidayat Hadi, 2022)(C. Setiawan et al., 2021) The study involves quantitative analysis which can be effectively integrated into a path analysis.
framework to provide a comprehensive understanding of the relationships between the variables under study (C. Setiawan et al., 2021). Therefore path analysis is the most appropriate for the study due to its ability to handle complex relationships, simultaneous analysis of multiple variables, and its compatibility with the statistical techniques and quantitative analysis involved in the research.

**RESULTS AND DISCUSSION**

**Result**

1. **Descriptive Analysis**

The first analysis is related to descriptive analysis of the data that has been collected and used. Descriptive data analysis is important for study because it provides a general sense of trends and patterns in data, which can help identify research questions and generate hypotheses based on what has been observed (Loeb et al., 2017). Descriptive statistics can also illuminate errors by reviewing frequencies, minimums, and maximums (Guetterman, 2019). Descriptive analysis of the data used in this research is in table 1 below.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Median</th>
<th>Min</th>
<th>Max</th>
<th>STD DEV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity</td>
<td>5,144</td>
<td>4,190</td>
<td>1,450</td>
<td>22,020</td>
<td>4,129</td>
</tr>
<tr>
<td>Profitability</td>
<td>4,892</td>
<td>3,760</td>
<td>2,110</td>
<td>17,460</td>
<td>3,399</td>
</tr>
<tr>
<td>Financial</td>
<td>3,586</td>
<td>3,500</td>
<td>1,590</td>
<td>5,650</td>
<td>0,832</td>
</tr>
<tr>
<td>Performance</td>
<td>4,183</td>
<td>3,560</td>
<td>1,590</td>
<td>12,110</td>
<td>2,171</td>
</tr>
</tbody>
</table>

Source: Data Analysis Result, 2023

2. **R Square Analysis**

A statistical model's ability to predict an event, which is represented by the model's dependent variable, is gauged by its coefficient of determination ($R^2$). It is a number in the range of 0 to 1, where larger numbers correspond to more explanatory power. The explanatory and predictive ability of the model is assessed using the coefficient of determination in PLS-SEM (Hair Jr et al., 2021). According to (Hult et al., 2018), there are three degrees of coefficient of determination. If the coefficient of determination value is 0.75, the exogenous variable is considered to be strongly able to explain the endogenous variable. A coefficient of determination value of 0.75 is considered strong. If the value is less than this, the coefficient of determination is at a weak level if the value is 0.25, and at a moderate level if the value is 0.50.

<table>
<thead>
<tr>
<th>Variables</th>
<th>R Square</th>
<th>R Square Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance</td>
<td>0.501</td>
<td>0.492</td>
</tr>
<tr>
<td>Company Value</td>
<td>0.650</td>
<td>0.623</td>
</tr>
</tbody>
</table>

Source: Data Analysis Result, 2023

Based on table 2 above, the combination of independent variables in this study is only able to explain the dependent variable, namely financial performance and company value, moderately with respective $R^2$ values of 0.501 and 0.650. Meanwhile, 0.499 other influences on financial performance variables are influenced by other variables outside liquidity and profitability. 0.350 of the variance in company value is explained outside of the liquidity and profitability variables.
3. Hypothesis Analysis

To answer the six existing hypotheses, hypothesis testing was carried out which was divided into two parts, namely direct influence testing and indirect influence testing. Direct influence is used to test the first to fifth hypotheses (h1-h5) by referring to the p-value which is a requirement that the value must be <0.05 (Hair & Alamer, 2022). Meanwhile, indirect influence is used to test the sixth hypothesis, namely the ability of financial performance variables to mediate the relationship between liquidity and profitability on company value. The basis for decision making is referring to the p-value, that this value must be below 0.05 for the hypothesis to be accepted (Hair & Alamer, 2022).

Direct Effect

Table 3 below shows that the first hypothesis to the fifth hypothesis (h1-h5) can all be declared accepted based on the p-value of the five hypotheses being 0.000 (<0.05). This is in accordance with the conditions for accepting the hypothesis required by (Hair & Alamer, 2022).

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Original Sample</th>
<th>Sample Mean</th>
<th>STD DEV</th>
<th>T Statistics</th>
<th>P Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liq -&gt; FP</td>
<td>0.476</td>
<td>0.488</td>
<td>0.062</td>
<td>7.817</td>
<td>0.000</td>
</tr>
<tr>
<td>Liq -&gt; CV</td>
<td>0.500</td>
<td>0.511</td>
<td>0.016</td>
<td>8.347</td>
<td>0.000</td>
</tr>
<tr>
<td>Prof -&gt; FP</td>
<td>0.324</td>
<td>0.436</td>
<td>0.059</td>
<td>5.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Prof -&gt; CV</td>
<td>0.514</td>
<td>0.426</td>
<td>0.025</td>
<td>7.365</td>
<td>0.000</td>
</tr>
<tr>
<td>FP -&gt; CV</td>
<td>0.332</td>
<td>0.500</td>
<td>0.043</td>
<td>5.224</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Source: Data Analysis Result, 2023

Indirect Effect

The same thing also happens with indirect effects where in this case the p-value that appears is 0.000 (<0.05). This finding is an indication that the sixth hypothesis (h6) can be accepted and means that financial performance can mediate the relationship between liquidity and profitability on firm value.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Original Sample</th>
<th>Sample Mean</th>
<th>STD DEV</th>
<th>T Statistics</th>
<th>P Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liq -&gt; FP -&gt; CV</td>
<td>0.226</td>
<td>0.388</td>
<td>0.066</td>
<td>5.628</td>
<td>0.000</td>
</tr>
<tr>
<td>Prof -&gt; FP -&gt; CV</td>
<td>0.300</td>
<td>0.421</td>
<td>0.066</td>
<td>5.433</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Source: Data Analysis Result, 2023

Discussion of Findings

1. Impact of Liquidity on Financial Performance

Based on the results of the path analysis that has been carried out, it was found that liquidity has a positive and significant effect on the financial performance of mining companies in Indonesia. These findings suggest that as liquidity increases, the financial performance of mining companies in Indonesia will also continue to improve. These findings are in line with the findings of (Prabowo & Korsakul, 2020)(Hidayat Hadi, 2022)(Hasanudin et al., 2020) who revealed a positive influence between liquidity and financial performance. (Prabowo & Korsakul, 2020)(Hidayat Hadi, 2022) found that higher liquidity ratios are associated with better financial performance of mining
companies listed on the Indonesia Stock Exchange. This finding also supports what was found in research (C. Setiawan et al., 2021) which states that high liquidity is associated with good financial performance.

Liquidity, which refers to a company’s ability to convert assets into cash quickly and cheaply, plays a crucial role in influencing financial performance. Liquidity indicates the ability of a business to meet its financial obligations when they come due. Timely payment of obligations, including operating expenses and debt, without disrupting normal operations, is an indication that the business is liquid. Liquidity is closely related to the concept of repayment capacity, which measures the ability of a business to repay existing debt commitments from farm and nonfarm income. It is essential for the analysis of financial performance and position of a business (Bir & Ladd, 2022). High liquidity tends to improve the efficiency of financial operations and the performance of financial management (Rodney Bwacha & Xi, n.d.).

2. Impact of Liquidity on Company Value

The path analysis that has been carried out shows that there is a positive and significant influence that exists between liquidity and company value. This indicates that when there is an increase in liquidity, the company’s value in the eyes of investors will also directly increase. These results support the previous theory which states that (Hasanudin et al., 2020) revealed that institutional ownership, operating leverage, and liquidity have a positive influence on the value of oil and gas mining companies in Indonesia.

Meanwhile, contradictory results were also found and comparisons can be made with previous research conducted by (Yulianty & Nugrahanti, 2020)(Latersia Br Gurusina & Natasya Lovett Michelle, 2023). They found that liquidity has a negative and significant effect on firm value in the mining sector companies listed on the Indonesia Stock Exchange and concluded that when liquidity increases, the company’s value decreases because high liquidity may lead to concerns that a lot of cash will be idle and not productive to generate cash or profit.

Despite the debate between the influence of liquidity on financial performance, this does not rule out the fact that liquidity is important for mining companies in Indonesia which experience high fluctuations in commodity prices. The liquidity level in mining companies is influenced by both external and internal factors arising from management’s decisions, including the economic situation, competition on the coal market, coal prices on exchanges, interest rates, and exchange rates (Sierpińska-Sawicz, 2021). In recent years, listed mining companies have suffered serious financial risks due to special reasons such as poor spot market liquidity (Sun et al., 2020). Therefore, maintaining liquidity is crucial for mining companies, especially in times of economic uncertainty.

3. Influence of Profitability on Financial Performance

The results show that profitability has a positive and significant impact on financial performance, which means that the higher the level of company profitability, the more the financial performance of mining companies in Indonesia will improve. These findings support previous findings (Susiwati et al., 2020)(Asma Fauziyah & Djamaluddin, 2021) which revealed that there is a positive and significant influence between profitability and financial performance of mining companies in Indonesia. Meanwhile, behind the term "profitability" itself, there are many factors that can influence profitability such as liquidity, firm size and leverage (Hidayat Hadi, 2022). Liquidity has a positive impact on profitability, meaning that companies with better
liquidity management tend to be more profitable. Firm size has a positive impact on profitability, meaning that larger companies tend to be more profitable. The impact of leverage on profitability is not clear, as some studies have found a positive correlation while others have not (Hidayat Hadi, 2022).

4. Influence of Profitability on Company Value

The relationship between profitability is also explored in relation to company value to answer the question, does profitability have a positive and significant effect on company value? The results show that the hypothesis can be accepted, which means that profitability can have a positive and significant effect on the company value of mining companies. This finding is also supported by subsequent findings which state the same results as (Sriyono & Nabellah, 2022)(Yusra & Sulistyowati, 2023)(Akhmadi & Vantayen, 2023). (Sriyono & Nabellah, 2022) conducted research in more detail and found that among the three profitability indicators, namely NPM, EPS and growth opportunities, NPM had no effect on company value while the other two indicators were stated to be influential.

Profitability impacts company value in the mining industry through financial ratios, commodity prices, and resource potential. Investors and analysts use financial ratios to gauge a company's profitability and ability to manage costs, while commodity prices can affect the value of mining companies. The resource potential of a miner is also important in valuing a mining company, as investors estimate the total ounces or pounds of metals within a company's projects to determine the potential value of the miner (McDiarmid, 1996).

5. Influence of Financial Performance on Company Value

The fifth hypothesis was answered with the accepted result that higher financial performance will increase the company value of mining companies in Indonesia. Numerous studies demonstrate that financial performance has a significant impact on a company's value. The company's growth, increasing profits, and financial performance are seen as determining the company's value (Widyanto et al., 2023). The firm's financial performance is one of the factors seen by potential investors to determine stock investment, and it plays an essential role in generating good corporate value (Rohmawati & Shenurti, 2020). According to (Widiastuti, 2023) the financial performance of mining companies is considered by investors in assessing and selecting an investment, and it is influenced by the performance of the global economy. In addition, the firm performance, represented by metrics such as Return on Equity (ROE), has been found to have a positive and significant effect on firm value in oil and gas mining companies in Indonesia (Hasanudin et al., 2020). The swings observed in mining stock prices signify a dynamic and volatile market environment, indicating the sensitivity of firm value to financial performance in the mining sector (Abbas et al., 2023).

6. Implications

This study can offer valuable insights for investors and investors can use these findings to make more informed investment decisions. Apart from that, understanding the relationship between profitability, liquidity, and financial performance is crucial for risk management. Companies can use these findings to identify areas of vulnerability and implement strategies to mitigate risks. Companies operating in the Indonesian mining industry can also use the study's findings to inform their strategic planning. For example, if profitability is a key driver of company value, mining companies may prioritize strategies that enhance profitability. The results of the study also have
implications for regulatory policies in the mining industry. Regulators may consider incorporating these findings into industry regulations to ensure the stability and sustainability of companies in the sector.

CONCLUSION

In conclusion, the path analysis conducted on mining companies in Indonesia reveals several significant findings regarding the interplay between liquidity, profitability, financial performance, and company value. The study indicates that higher liquidity positively influences financial performance and company value. As liquidity increases, mining companies in Indonesia are likely to experience improved financial performance, reflecting positively on their value in the eyes of investors. Furthermore, the analysis demonstrates a positive and significant impact of profitability on both financial performance and company value. Companies with higher levels of profitability tend to exhibit better financial performance, and this profitability is positively associated with increased company value. The study aligns with prior research highlighting the importance of factors like liquidity, firm size, and leverage in influencing profitability. These findings have practical implications for investors, offering valuable insights for more informed decision-making. Understanding the relationships between liquidity, profitability, and financial performance is essential for effective risk management. Companies operating in the Indonesian mining industry can leverage these findings for strategic planning, prioritizing initiatives that enhance profitability to positively impact company value. Moreover, the study’s results may also guide regulatory policies in the mining sector. Regulators could consider incorporating these findings into industry regulations to ensure stability and sustainability, recognizing the interconnectedness of liquidity, profitability, financial performance, and company value. Overall, the study provides a comprehensive understanding of the factors influencing the financial landscape of mining companies in Indonesia, offering valuable implications for various stakeholders in the industry.

Reference


Widiastuti, E. (2023). FINANCIAL RISK ANALYSIS ON FINANCIAL PERFORMANCE IN SUB SECTOR COAL MINING COMPANIES ON INDONESIAN STOCK EXCHANGE. https://doi.org/10.36713/epra2012

