The Influence of Profitability, Liquidity, and Leverage on Firm Value in State-Owned Enterprises (Listed on The Indonesia Stock Exchange for The Period 2019 – 2024)

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Abstract

The expansion of the national business sector has led to increased competition, prompting companies to maintain their firm value, particularly for publicly traded entities, as reflected in their share prices. This study aims to analyze the effect of profitability measured by Return on Equity (ROE), liquidity by Cash Ratio (CR), and leverage by Debt to Equity Ratio (DER) on firm value (PBV) in state-owned companies for the period 2019 – 2024. This study uses secondary data in the form of financial statements from 19 companies selected through purposive sampling. The analysis was conducted using panel data regression with Eviews software through F-test, T-Test, and coefficient of determination (R^2) test. The result of this study indicate that profitability, liquidity, and leverage together have an effect on firm value. Individually, profitability and leverage have an effect on firm value, while liquidity have no effect on firm value. The dominant variable affects firm value is profitability.

Keywords: *firm value, leverage, liquidity, profitability.*
JEL Codes : M41, M15

INTRODUCTION

The national business sector continues to show rapid growth, leading to increasingly fierce competition. Under these conditions, companies are required to maintain their performance in order to survive and remain competitive. For state-owned enterprises (SOEs), performance is not only important business continuity but also for their role in contributing significantly to state revenue. In 2023, Indonesian SOEs contributed more than IDR 80 trillion in dividends to the state budget, renforcing their strategic role in fiscal sustainability (BUMN, 2023).

Despite these large contributions, SOE valuations in the capital market have been declining. The Price to Book Value (PBV) ratio of SOEs fell from 1.49 in 2019 to 0.74 in 2023, reflecting investor concerns about sustainability, management effectiveness, and overall financial health (IDX, 2024). This decline illustrates market skepticism regarding the long-term prospects of SOEs despite their strategic importance, as shown in Figure 1.
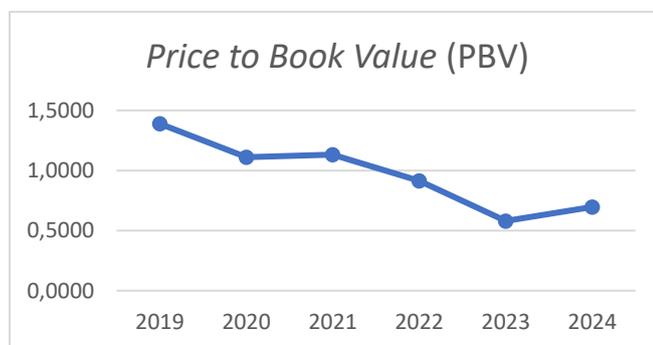

Figure 1 Average Value of State-Owned Enterprises Listed on the IDX

Referring to the graph, it indicates the average valuation of state-owned enterprises listed as issuers on the national capital market in the period from 2019 to 2024, showing a fairly consistent downward trend.

The highest value was recorded in 2019 at 1.4936, then declined consecutively to 0.7407 in 2023. This decline in company value of almost 50% indicates market uncertainty regarding the performance and prospects of companies over the past six years.

The first cause of the decline in the value of state-owned enterprises was the national and global economic uncertainty caused by the COVID-19 pandemic, which began in 2020, resulting in a decline in revenue that impacted the company's assets (Kasih & Sutoyo, 2023). Second, ineffective and inefficient company management has resulted in a decline in investor confidence (Sari, Cahyono & Aspirandi, 2021). Third, a decline in financial performance indicates that the financial condition of state-owned enterprises is unhealthy (Syahda & Pramudiati, 2024). There was a slight increase in 2024, indicating the beginning of a recovery in market perception of the performance of state-owned enterprises.

Factors influencing this condition include profit, ability to meet short-term obligations, and debt levels. These factors provide important signals for SOE management and the government to review the strategic policies implemented and encourage increased transparency, operational efficiency, and risk management so that the company's value can increase again in the future. The valuation of a business entity is also determined by the level of profit achieved by that entity (Zuhroh, 2019).

Profitability reflects the extent to which a business entity is able to generate profitts from its sales activities. Profitability in this study was measured using Return on Equity (ROE), which is a ratio that reflects the capacity of a business entity to earn profits in proportion to the invested equity (Ardiyanto, Wahdi & Santoso, 2020). Return on Equity (ROE) was chosen because it represents the effectiviness of management in magaging shareholder capital to generate profits, making it relevant in measuring the potential for increasing company value. According to research by Rajagukguk and Sudjiman (2022), profitability using return on equity affects company value. Conversely, findings from a study by Mulyani, Dewi, and Rois (2024) reveal that profitability using return on equity does not affect company value.

Aspects that affect the valuation of a business entity include liquidity, which is one of the determinants of a company's value because it reflects the entity's ability to pay off maturing short term debt (Lubis, Sinaga & Sasangko, 2017). A good level of liquidity indicates a healthy finansial condition, thereby increasing the confidence of stakeholders. Liquidity is an important indikator in assessing the stability and short-term performance of a company. Liquidity measurement in this study uses the cash ratio, which is the ratio of cash and cash equivalents to current liabilities, because this ratio is able to show a company's ability to meet short-term obligations only with the most liquid funds without relying on asset sales or accounts receivable receipts. The findings of Azizah and Putra (2022) show that liquidity using the cash rasio affects company value. However, the findings of Patty and Hakim (2024) show that liquidity using the cash rasio does not affect company value.

Investors can see other indicators through the effect of leverage on company value. Leverage refers to the capability of a business entity to fulfill its short-term and long-term finansial responsibilities through the utilization or collateralization of its assets (Nugraha & Alfarisi, 2020). Leverage measurement in this study uses the Debt to Equity Ratio (DER), as this rasio reflects the comparison between total debt and equity, making it relevant for assessing a company's funding structure and risk level. Research by Fitriana and Purwohandoko (2022) suggests that leverage using the Debt to Equity Ratio (DER) has an effect on company value. However, research results from Miranda and Ferdian (2023), suggest that leverage using the Debt to Equity Ratio (DER) has no effect on company value.

This study aims to examine the effect of profitability, liquidity, and leverage on the firm value of Indonesian SOEs, both simultaneously and individually, and to identify which factor is most dominant. The findings are expected to enrich international discussions on SOE valuation in emerging markets by highlighting the central role of profitability, the limited relevance of liquidity, and the constructive yet conditional role of leverage.

LITERATURE REVIEW

Profitability

Profitability reflects the company's ability to generate returns for shareholders, commonly measured by Return on Equity (ROE). Several studies in emerging markets have shown inconsistent findings. For example, Rajagukguk and Sudjiman (2022) found that ROE

Liquidity

Liquidity indicates a company's ability to meet its short-term obligations. According to Nugraha & Alfarisi (2020), companies with high liquidity tend to have better financial stability. The indicator used is the Cash Ratio (CR), which is the ratio of cash and cash equivalents to current liabilities. A high CR sends a positive signal to investors about the company's ability to pay dividends and short-term liabilities (Azizah & Putra, 2022).

Leverage

Leverage shows the extent to which a company's assets are financed by debt. The indicator used is the Debt to Equity Ratio (DER), which is the ratio of total debt to equity. A high DER indicates the company's dependence on debt, which can increase financial risk (Fahmi, 2015). However, the proportional use of debt can increase company profits through the leverage effect (Fitriana & Purwohandoko, 2022).

Firm Value

Firm value reflects the market's perception of a company's condition and prospects. Mayangsari (2018) states that firm value can be seen from the share price on the capital market, which is influenced by financial performance, capital structure, and other external factors. The indicator used in this study is Price to Book Value (PBV), which is the ratio between the market price of a share and its book value per share. A high PBV indicates that the market views the company's prospects positively, while a low PBV reflects a negative assessment of the company's prospects.
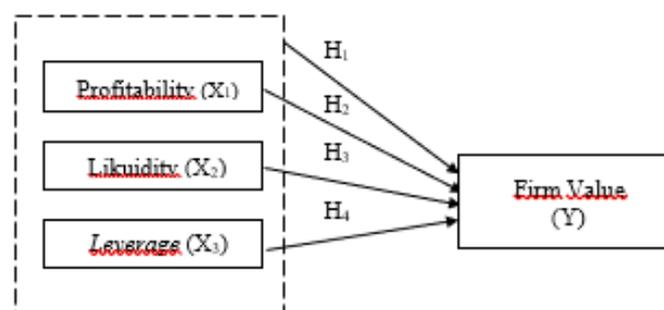

Figure 2 Research Model

The Effect of Profitability, Liquidity, and Leverage on Firm Value

Firm value reflects performance as captured in stock prices, which are determined by supply and demand mechanisms in the capital market (Mayangsari, 2018). For listed companies, stock prices serve as an important indicator of investors' perceptions of firm performance and sustainability. The higher the stock price, the higher the perceived firm value in the eyes of stakeholders. Previous studies in Indonesia have provided inconsistent evidence. Rajagukguk and Sudjiman (2022) found that positive profitability (ROE) affects firm value, while Dianissa and Asmara (2025) found negative ROE. Miranda and Ferdian (2023) found that liquidity (CR) affects firm value, while Patty and Hakim (2024) found no effect. Wibowo et al. (2024) stated that leverage (DER) affects firm value, although other studies reported the opposite.

Similar inconsistencies are also evident in international evidence. In Brazil, Carvalho and Guimarães (2018) found that the valuation of state-owned enterprises (SOEs) is strongly influenced by financial performance, but moderated by political risk. In China, the IMF (2022) observed that profits and leverage in SOEs do not consistently correlate with higher company valuations due to governance and productivity issues. In India, Bhatnagar et al. (2020) reported that profitability and efficiency are important for company valuations, but state involvement often weakens these relationships. These findings suggest that

the effect of financial performance variables on firm value may vary across contexts, and therefore needs to be tested jointly in the case of SOEs in Indonesia.

H1: Profitability, liquidity, and leverage affect firm value (in state-owned companies listed on the Indonesia Stock Exchange).

The Effect of Profitability on Firm Value

Profitability plays a crucial role in assessing firm performance because it indicates how efficiently a company generates income relative to its resources. Profitability is defined as a measure of a company's ability to earn profits from income generated through sales, assets, or equity (Fitriana, 2024). Investors expect higher returns from companies with strong profitability, which in turn can increase firm value and benefit shareholders. Several studies in Indonesia, such as Widayanti and Yadnya (2020), Rajagukguk and Sudjiman (2022), and Novianty and Subagio (2024), found that profitability measured by Return on Equity (ROE) positively affects firm value. International evidence shows similar patterns. For example, Bhatnagar et al. (2020) reported that profitability is a key determinant of firm value in Indian SOEs, although the effect may be moderated by governance issues. These findings reinforce the importance of testing the role of profitability in determining firm value in Indonesian SOEs.

H2: Profitability affects firm value (in state-owned companies listed on the Indonesia Stock Exchange).

The Effect of Liquidity on Firm Value

Liquidity reflects a company's ability to meet its short-term obligations to third parties in a timely manner (Nugraha & Alfarisi, 2020). Higher liquidity generally indicates financial stability and the ability to manage cash flow effectively, which can create a positive perception among investors. When investors view liquidity as a sign of resilience, this can increase demand for the company's shares and thus increase the value of the company. Empirical studies in Indonesia show mixed results. Miranda and Ferdian (2023) and Azizah and Putra (2022) found that liquidity measured by the cash ratio positively affects firm value, while Patty and Hakim (2024) found no significant relationship. Internationally, the evidence also shows variation. For example, the IMF (2022) notes that in China, liquidity indicators play a limited role in the valuation of SOEs because investors assume that implicit government support reduces liquidity risk. These mixed findings suggest the need to test whether liquidity remains an important determinant of firm value in Indonesian SOEs.

H3: Liquidity affects firm value (in state-owned companies listed on the Indonesia Stock Exchange).

The Effect of Leverage on Firm Value

Leverage reflects the extent to which a company relies on debt to finance its assets. According to Kasmir (2019), leverage is a ratio used to measure the extent to which a company's assets are financed through debt. Appropriate use of leverage allows companies to utilize borrowed funds to expand operations and increase profits, thereby increasing the value of the company. However, excessive leverage can increase financial risk and the likelihood of bankruptcy, which can have a negative impact on investor confidence. Previous studies in Indonesia have shown mixed results. Wibowo et al. (2024), Fitriana and Purwohandoko (2022), and Patty and Hakim (2024) found that leverage has a positive impact on firm value, while Miranda and Ferdian (2023) found no significant impact. Internationally, Carvalho and Guimarães (2018) found that debt-financed SOE projects in Brazil were viewed positively by the market, but only when political risk was managed effectively. This inconsistency highlights the need for further research in the context of Indonesian SOEs.

H4: Leverage affects firm value (in state-owned companies listed on the Indonesia Stock Exchange).

RESEARCH METHOD

The quantitative data in this study uses secondary data in the form of financial reports (annual reports) of state-owned enterprises published by the Indonesia Stock Exchange through its official website (www.idx.co.id) and the official websites of each company for the period 2019 to 2024. The population used in this study was state-owned enterprises listed on the Indonesia Stock Exchange for the period 2019–2024. In this study, samples were selected using purposive sampling with specific criteria. The criteria for sample selection are as follows:

Table 1. The criteria for sample selection

No	Criteria	Total
1	State-owned enterprises listed on the Indonesia Stock Exchange from 2019 to 2024	27
2	Companies that were suspended during the period 2019 - 2024	(1)
3	Companies from the financial sector	(7)
	Sample	**19**
	Total samples over 6 years (2019 – 2024)	**114**

Firm Value

Firm value is a reflection of the company's performance as reflected in its share price, which is determined by the mechanism of supply and demand in the capital market (Mayangsari, 2018). firm value using PBV is formulated as follows:

$$PBV = \frac{Market\ Price\ per\ Share}{Book\ Value\ per\ Share}$$

Profitability

Profitability is a ratio used to measure a company's ability to earn profits from its income, whether through sales, assets, or equity (Fitriana, 2024). Profitability using ROE is formulated as follows:

$$ROE = \frac{Net\ Profit\ After\ Tax}{Equity}$$

Liquidity

Liquidity is an indicator that describes a company's ability to meet its short-term obligations to third parties in accordance with the specified maturity date (Nugraha and Alfarisi, 2020). Liquidity uses the cash ratio, which is formulated as follows (Azizah and Putra, 2022):

$$Cash\ Ratio = \frac{Cash\ \&\ Cash\ Equivalents}{Current\ Liabilities}$$

Leverage

Leverage is a ratio used to measure the extent to which a company's assets are financed through debt (Kasmir, 2019). Leverage using debt to equity (DER) is formulated as follows:

$$DER = \frac{Total\ Debt}{Total\ Equity}$$

RESULTS AND DISCUSSION

Results of descriptive statistical analysis

A descriptive statistical approach was applied to describe the general characteristics of the data through a number of numerical indicators, such as the mean, median, minimum and maximum values, and standard deviation as a measure of data dispersion (Widayanti & Yadnya, 2020). The results of this descriptive statistics can be seen in Table 2.

Table 2. Results of Descriptive Statistical

	YPBV	X1ROE	X2CR	X3DER
Mean	-3.143566	-6.276279	0.344523	-107.6061
Median	1.058635	0.040263	0.256668	1.283169
Maximum	39.89680	72.35602	1.740100	320.2684
Minimum	-564.5364	-473.1207	0.004988	-6400.406
Std. Dev.	53.31276	55.70500	0.325021	827.0475
Skewness	-10.36894	-7.331951	1.740248	-7.331043
Kurtosis	109.7790	57.38245	6.380798	54.89960

Based on the descriptive statistical analysis, the minimum Price to Book Value (PBV) was -564.5364 and the maximum was 39.8968, with the highest PBV recorded by INAF in 2019 at 39.8968. A PBV above 1 suggests the stock is overvalued as the market price exceeds the company's book value, likely due to higher market expectations. Conversely, the lowest PBV was recorded by INAF in 2022 at -564.5364, below 1, indicating the stock is undervalued. The PBV variable had an average of -3.14 and a median of 1.05, suggesting undervaluation or significant losses.

For Return on Equity (ROE), the minimum was -473.1207 and the maximum was 72.3560, with INAF in 2022 achieving the highest value, showing strong profitability and efficient capital use. The lowest ROE was recorded by KAEF in 2023 at -473.1207, reflecting severe losses and weak financial performance. The ROE average was -0.040263 with a median of 0.040263, indicating overall low or negative profitability across the sample.

The Cash Ratio (CR) ranged from 0.004988 to 1.7401, with PGAS in 2021 achieving the highest liquidity level, while PPRO in 2024 recorded the lowest, showing liquidity risk. The average CR was 0.344523 with a median of 0.256668, indicating a generally safe but not excessive liquidity level.

The Debt to Equity Ratio (DER) ranged from -6400.406 to 320.2684, with WSKT in 2024 having the highest value, reflecting high debt reliance. INAF in 2022 had the lowest negative DER at -235.2166, indicating negative equity due to losses. The average DER was -107.6061 with a median of 1.283169, showing a data imbalance and poor capital structure in several companies.

Model Conclusion

Based on tests conducted on three panel data regression models, the results are presented in Table 3 below:

Table 3 Conclusion of the Panel Data Model

No	Method	Test	Result
1	Uji Chow	CEM vs FEM	CEM
2	Uji Hausman	REM vs FEM	REM
3	Uji Lagrange Multiplier	CEM vs REM	REM

Based on the testing conducted on three panel data regression models, it can be concluded that the most appropriate panel data regression model for this study is the Random Effect Model (REM).

Results of Classical Assumption Tests
Normality Test

Normality tests are conducted to determine whether the residuals or confounding variables in the regression model are normally distributed. To assess normality, the Jarque Bera (JB) test with a histogram-normality test and a significance level (prob) of 5% or 0.05 is used. If the probability value is > 0.05, the data is said to be normally distributed, and if the probability value is < 0.05, it can be said that the residuals are not normally distributed. The results of the normality test can be seen in Figure 3.
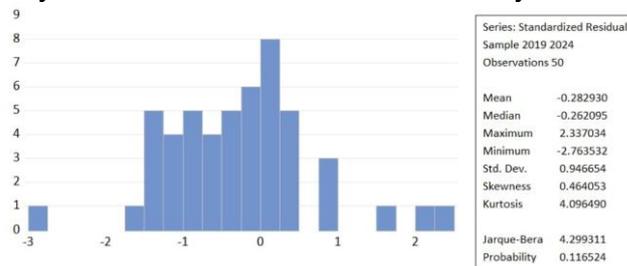

Figure 3 Normality Test Result

Based on the results of the normality test above, it can be seen that the probability value of Jarque Bera is $0.116521 > 0.05$, so the data in this study is normally distributed.

Multicollinearity test

The multicollinearity test aims to evaluate whether there is a relationship or correlation between independent variables in a study. To determine the presence or absence of multicollinearity, a significance

level of < 0.90 in the correlation matrix is used, so it can be concluded that there is no multicollinearity between the independent variables. The results of the multicollinearity test can be seen in Table 4 below:

Table 4 Multicollinearity Test Result

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	263.7336	744.7306	NA
X1ROE	0.167846	4.858895	1.098229
X2CR	4.032429	3.129443	1.247149
X3DER	0.285784	1.345350	1.230551

Based on the results of the multicollinearity test above, it can be seen that the profitability variable (ROE) has a VIF of 1.098, liquidity (CR) of 1.247, and leverage (DER) of 1.230. All of these values are < 10, indicating that there are no signs of multicollinearity in the regression model used, so the model is suitable for use in further testing.

Panel Data Regression Equation
From these results, the regression model obtained through the REM approach can be formulated as follows:

$$YPBV = -115{,}4714 – 2{,}7065\ ROE – 0{,}9872\ CR + 0{,}1782\ DER$$

a. A constant value of -115.4714 with a negative coefficient value indicates that if all independent variables, namely profitability (ROE), liquidity (cash ratio), and leverage (DER) are considered fixed or zero, then the firm value (PBV) of state-owned enterprises is estimated to be -115.4714 times the book value. This negative constant value indicates that without the influence of the four independent variables, the company's value tends to be very low or negative, which shows the importance of the role of independent variables in influencing firm value.
b. The Return On Equity (ROE) coefficient value of -2.7065 indicates that every 1% increase in ROE (as a profitability indicator) will actually decrease the firm value by 2.71 times the book value with other variables unchanged or fixed. This negative coefficient reflects that in this study, an increase in ROE is not necessarily followed by an increase in firm value. This condition can occur if high profitability is not accompanied by an efficient capital management strategy or if the market responds negatively to the risks taken to generate those profits.
c. The Cash Ratio (CR) coefficient value of -0.9872 indicates that every 1% increase in the cash ratio (as an indicator of liquidity) will decrease the firm value by 0.99 times the book value, with other variables remaining unchanged or constant. This negative coefficient indicates that excessively high liquidity can be interpreted as idle funds that are not being used productively, thereby potentially reducing the company's value in the eyes of investors.
d. The Debt to Equity Ratio (DER) coefficient value of 0.1782 indicates that every 1% increase in DER (as an indicator of leverage) will increase the company's value by 0.18 times its book value, with other variables remaining constant. This positive coefficient indicates that the measured use of debt can be utilized by companies to fund profitable investments, thereby potentially increasing the value of the company.

Hypothesis testing
F-test
The simultaneous test (F-test) is used to test the goodness of fit, which shows whether all independent variables (profitability, liquidity, and leverage) used have a simultaneous effect on the dependent variable (firm value). There are conditions that must be met for the simultaneous test (F-test), if (df1) = k – 1 = 4 – 1 = 3 and (df2) = n – k = 114 – 3 = 111. This test is performed using the F value, where the F-statistic calculation result will be compared with the F value in the F distribution table. The following are the F-test results, which can be seen in Table 5 below.

Table 5 F-test Result

R-squared	0.425673	Mean dependent var	-3.143566
Adjusted R-squared	0.410010	S.D. dependent var	53.31276
S.E. of regression	40.94997	Sum squared resid	184459.0
F-statistic	27.17620	Durbin-Watson stat	2.568905
Prob(F-statistic)	0.000000		

The F test results show that the F-statistic value of 27.17620 is greater than the F table value of 2.69, with a probability value of 0.00, which is less than the significance level of 0.05. This indicates that the variables of profitability, liquidity, and leverage collectively (simultaneously) affect firm value.

T-test
The partial test (t-test) is used to analyze whether each independent variable, namely profitability, liquidity, and leverage, has a partial effect on the dependent variable, namely firm value. This test is based on the significance level. In this study, the sample size (n) is 114, the number of independent variables (k) is 3, the significance level is 0.05, and the degree of freedom (df) is calculated as $n - k = 114 - 3 = 111$. The results of the T-test using Eviews software in this study can be seen in Table 6 below:

Table 6 T-test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.500343	6.052574	-0.247885	0.8047
X1ROE	-2.764801	0.325786	-8.486546	0.0000
X2CR	1.816160	12.68119	0.143217	0.8864
X3DER	0.182346	0.021961	8.303062	0.0000

The results of variable processing using a significance level of 0,05 and a t-table value of 1.98157. Based on the t-test results in the table above, it can be concluded that:
1. Profitability measured by Return on Equity (ROE) of 0.000 < 0.05 with a t-statistic value of -8.486546 > t-table of 1.98197, it can be concluded that the profitability variable using ROE affects the value of the company.
2. Liquidity, measured by the Cash Ratio (CR) of 0.9394 > 0.05 with a t-statistic value of 0.143217 < t-table of 1.98197, it can be concluded that the liquidity variable does not affect firm value.
3. Leverage, measured using Debt to Equity (DER) of 0.0000 < 0.05 with a t-statistic value of 8.303062 > t-table of 1.98197, it can be concluded that the leverage variable affects firm value.

Dominant Variable Test
The results of the dominant variable test show that ROE is the most influential factor in explaining firm value, with the largest coefficient magnitude (-2.764801) compared to liquidity (1.161610) and leverage (0.182346). This means that even small changes in profitability have a much greater impact on PBV than changes in liquidity or leverage. Interestingly, the effect is negative, suggesting that investors interpret profitability in SOEs with skepticism, especially when it is considered unsustainable or driven by temporary measures. This finding is consistent with international research from India and China, where profitability remains the most decisive factor for firm value but is often overlooked due to governance issues and state intervention (Bhatnagar et al., 2020; IMF, 2022). For managers, this highlights the importance of ensuring that profitability improvements are sustainable and transparent, as market confidence ultimately depends more on the quality of earnings than on short-term financial gains.

Adjusted Coefficient of Determination (R^2)
To determine the extent to which independent variables explain dependent variables in a regression model, the coefficient of determination (R2) analysis is used. The coefficient of determination provides an overview of the proportion of variability in dependent variable values that can be explained by all

independent variables used in the model. The results of the coefficient of determination from the panel data regression model used in this study can be seen in Table 8.

Table 7 Adjusted Coefficient of Determination Result

R-squared	0.425673	Mean dependent var	-3.143566
Adjusted R-squared	0.410010	S.D. dependent var	53.31276
S.E. of regression	40.94997	Sum squared resid	184459.0
F-statistic	27.17620	Durbin-Watson stat	2.568905
Prob(F-statistic)	0.000000		

Based on the results of the coefficient of determination test, an Adjusted R-squared value of 0.410010 was obtained, which means that approximately 41% of the variation in firm value (PBV) can be explained by the independent variables in the model, namely profitability (ROE), liquidity (CR), and leverage (DER). Meanwhile, the remaining 59% is influenced by other factors such as financial performance, managerial ownership, and investment opportunity set outside the model that were not analyzed in this study.

Discussion
The Effect of Profitability, Liquidity, and Leverage on Firm Value
The results of the F-test confirm that profitability, liquidity, and leverage simultaneously influence firm value. This means that changes in firm value are not determined by a single factor, but by the combined effect of several financial indicators. An increase or decrease in one or more of these independent variables can alter both the direction and magnitude of firm value. This finding supports capital market theory, which emphasizes that investors evaluate firms holistically rather than focusing on individual ratios. Therefore, managers of SOEs need to manage profitability, liquidity, and leverage in an integrated manner to ensure that the company's financial profile as a whole signals stability and growth potential to the market.

The Effect of Profitability on Firm Value
The results of this study indicate that profitability measured using ROE affects firm value, but with a negative coefficient, meaning that an increase in ROE is actually followed by a decrease in firm value. This phenomenon can be explained by capital market theory and signaling theory, which suggest that investors respond not only to profit levels but also to the sustainability and quality of those profits. In state-owned enterprises (SOEs), higher ROE may be due to short-term efficiency measures or increased leverage, which the market interprets as risky and unsustainable. Furthermore, the dual role of SOEs in pursuing financial efficiency and social objectives reduces the extent to which profitability alone is viewed positively. This is consistent with the findings of Dianissa and Asmara (2025) and Nur'aini and Yuniati (2019), who also found a negative relationship between ROE and firm value. International research in India found that increased SOE profitability did not consistently increase company valuations due to concerns about state influence (Bhatnagar et al., 2020), while in China, SOEs with higher profitability were still discounted by the market due to weak governance and limited business dynamics (IMF, 2022). These findings highlight that SOE managers must not only improve profitability but also ensure that such improvements are sustainable and communicated transparently.

The Effect of Liquidity on Firm Value
The results of this study indicate that liquidity, as measured by the cash ratio, does not affect firm value. These results can be explained by capital market theory, which suggests that investors prioritize profitability and growth potential over liquidity when evaluating large companies supported by the government. In the case of SOEs, liquidity risk is considered to be mitigated by implicit government guarantees, making cash reserves less relevant in market valuations. These findings are consistent with Wibowo et al. (2024) and Patty and Hakim (2024), who reported similar results in Indonesia. International evidence provides additional support. In China, for example, the IMF (2022) notes that SOE liquidity plays a limited role in investor decision-making due to strong state support. This suggests that while

maintaining minimum liquidity reserves is necessary, SOE managers should avoid excessive cash holdings and instead allocate resources to productive investments that drive long-term firm value.

The Effect of Leverage on Firm Value

The results of this study indicate that leverage, as measured by DER, has a positive effect on firm value. This finding can be explained by the trade-off theory, which suggests that debt can increase firm value by providing tax shields and financing large-scale investments, as long as debt remains at an optimal level. In the case of SOEs, investors may view leverage positively because it signals management's confidence in future prospects and the ability to finance strategic projects without sacrificing stability. These findings are consistent with the research of Fitriana and Purwohandoko (2022) and Widayanti and Yadnya (2020). International research provides additional support. In Brazil, Carvalho and Guimarães (2018) show that debt-financed projects in SOEs such as Petrobras are viewed positively by the market when political risk is controlled. However, the results also highlight the risk of extreme leverage, where excessive debt can damage firm value by increasing the cost of financial distress. Therefore, SOE managers must maintain an optimal debt structure that balances growth opportunities with financial resilience, ensuring that leverage is used strategically rather than excessively.

CONCLUSION AND SUGGESTION

Conclusion

This study concludes that profitability, liquidity, and leverage collectively influence the firm value of Indonesian state-owned enterprises (SOEs). Among these determinants, profitability measured by ROE emerges as the most dominant, though its effect may be perceived skeptically by investors if it is not supported by sustainable growth strategies. The findings contribute to the literature by emphasizing the unique dynamics of SOE valuation in emerging markets, where financial indicators interact with governance and state involvement. Thus, this study offers both theoretical insights into the determinants of firm value and practical implications for SOE managers.

Managerial Implications

For managers, the findings highlight the importance of prioritizing strategies that strengthen sustainable profitability through efficiency improvements, innovation, and competitiveness. Debt financing can be used strategically to support productive growth, but it must be managed prudently to avoid excessive risk and financial distress. Although liquidity does not individually affect firm value, maintaining sufficient liquidity remains essential to ensure operational stability and long-term resilience.

Suggestions for Future Research

Future research is encouraged to examine the moderating role of governance mechanisms and ownership concentration in shaping SOE valuations, as these factors may influence how financial performance is interpreted by investors. Comparative studies with SOEs in other emerging markets such as India, Brazil, or China would also provide broader insights and strengthen the global relevance of the findings. In addition, extending the observation period could capture the impact of structural reforms and long-term market dynamics on the relationship between financial performance and firm value.

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