

The Influence of Financial Performance on Company Value with Debt to Equity as a Moderating Variable

Frisca Fitriana Lulfi¹, Erma Setiawati²

^{1,2} *Accounting, Universitas Muhammadiyah Surakarta*

Abstract

This research endeavor seeks to investigate the influence of financial performance on corporate value, utilizing the Debt to Equity Ratio (DER) as a moderating variable. Financial performance is represented through the proxies of Return on Equity (ROE) and Return on Assets (ROA), while corporate value is quantified via total equity. The investigation employs secondary data derived from 44 companies in the basic materials sector that are listed on the Indonesia Stock Exchange over the period from 2022 to 2024, culminating in a total of 132 panel observations. The analysis adopts panel data regression techniques, specifically incorporating Moderated Regression Analysis (MRA) to evaluate the proposed hypotheses. The findings reveal that ROA exerts a positive and statistically significant impact on corporate value, whereas ROE demonstrates a negative and statistically significant effect when the moderating variable is factored in. Moreover, the DER serves as a significant moderator in the relationship between ROE and ROA concerning corporate value, thereby underscoring the critical role of capital structure in intensifying or diminishing the influence of profitability on corporate value. These results underscore the necessity for effective asset management and an optimal capital structure to enhance corporate value within the basic materials industry.

Keywords: Financial Performance, Return on Assets, Return on Equity, Debt to Equity Ratio, Firm Value

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✉ Corresponding author :

Email Address : b200220514@student.ums.ac.id¹✉, es143@ums.ac.id²

INTRODUCTION

The Significant Role of Financial Performance and Corporate Valuation in the Business Environment In a continuously transforming and highly competitive corporate milieu, the primary aim of an organization is to enhance its value, which is typically reflected by its market share price within the capital markets. When management proficiently allocates and monitors resources, it cultivates profitable growth opportunities and ultimately augments shareholder wealth by elevating the company's value (Adyaksana et al., 2024). This dimension is pivotal for the success and sustainable development of the enterprise, as robust corporate values entice investors seeking to commit their capital. To actualize the value of such an enterprise, the organization must exhibit commendable financial performance.

Accurate and pertinent financial statements elucidate the robustness of a company's financial status, thereby reflecting the effectiveness of its business

operations (Atrianingsih et al., 2022). A range of financial metrics, including profitability, liquidity, and solvency, can be utilized by investors and management to assess an organization's financial health (Barokah et al., 2023). Analyzing this ratio can foster an understanding of the company's strengths and the aspects necessitating enhancement. Corporate valuation, which encapsulates investor perceptions regarding a company's future performance, constitutes a vital element in assessing business success rates (Barokah et al., 2023). The price of shares in the capital market exerts an influence on the corporate value, in addition to both internal and external determinants, such as the organization's financial performance and capital acquisition strategy.

Nonetheless, empirical investigations indicate significant discrepancies in this domain. For instance, a study conducted by Alpier Tamba (2003) revealed that the Debt to Equity Ratio (DER) does not exert a substantial impact on stock returns within the food and beverage industry, in contrast to the findings of Adyaksana et al. (2024). This divergence suggests that the debt-to-equity ratio (DER) plays a critical role in the valuation of firms within the same sector, thereby highlighting the presence of a noteworthy research gap that necessitates further exploration.

In this context, the examination of the debt-to-equity ratio (DER) assumes particular significance. The debt-to-equity ratio (DER) compares a company's total debt to its equity (Anggraini Agustine et al., 2024). This ratio delineates the capital structure of the organization along with the associated financial risks. Excessive debt can elevate the likelihood of corporate insolvency, diminish investor confidence, and further depress the company's value (Ariosafira & Suwaidi, 2022). Conversely, a judicious level of debt can yield profits, as the cost of debt is generally lower than that of equity, thereby enhancing the return on equity and the overall value of the enterprise. The study investigates PER and DER as a moderating variable, proposing that DER may either amplify or attenuate the correlation between financial performance and corporate valuation.

One of the most critical elements that investors contemplate when appraising a company's worth is its financial performance (Rifky Yoga et al., 2024). Profitability, liquidity, and operational efficiency serve as fundamental indicators for evaluating an organization's financial performance (Sudana, 2021). A positive correlation exists between corporate valuation and financial performance (Handayani et al., 2023). However, this association is not consistently stable due to various influencing factors, such as capital structure, as illustrated by the Debt to Equity Ratio (DER).

Although elevated Debt-to-Equity Ratios (DER) may exacerbate financial vulnerabilities, indebtedness can also be strategically employed to yield profits (Atrianingsih et al., 2022). Consequently, the DER possesses the potential to elucidate the interplay between financial performance and corporate valuation. Hidayat & Sari (2022) assert that DER exerts a significant influence on the valuation of manufacturing enterprises, as it directly correlates with the organization's profitability metrics. The temporal framework of the study, spanning from 2022 to 2024, holds substantial significance as it aligns with the economic recovery phase following the pandemic. During this period, corporations are compelled to navigate novel challenges and opportunities, which can fundamentally transform their decision-making paradigms concerning financing and financial outcomes.

The primary objective of this research is to empirically evaluate the function of the Debt-to-Equity Ratio (DER) as a moderating variable in the nexus between

financial performance and enterprise valuation (Barokah et al., 2023). This analysis incorporates variables recognized in antecedent studies, sector-specific characteristics, and the relevant temporal context. This research endeavors to scrutinize the influence of Return on Assets (ROA) and Return on Equity (ROE) on corporate valuations and to assess the role of the Debt-to-Equity Ratio (DER) as a moderating variable in this dynamic. Conceptually, the study aspires to ascertain whether profitability exerts a direct positive influence on a firm's valuation and whether the capital structure serves to either enhance or diminish these effects. Theoretically, the findings of this investigation are expected to enhance the existing body of knowledge within the financial management literature concerning the interactions between profitability and leverage. Practically, the insights derived from this research may serve as a pivotal consideration for investors in their investment decisions and offer a strategic framework for management in optimizing capital structures and enhancing financial performance.

Grand Theory

The Theory of the Company posits that the primary aim of an organization is the enhancement of its value through the judicious management of its resources. Organizations are conceptualized as economic entities that amalgamate production factors to maximize long-term profitability. This optimization is realized through astute investment choices, financing methodologies, and strategic operational decision-making processes. From this perspective, the enhancement of financial performance emerges as the principal mechanism for generating organizational value. Capital structure, profitability, and asset management strategies constitute essential elements of organizational economic choices designed to achieve operational efficiency and secure competitive advantages (Salvatore, 2005; Setyawati, 2018). Consequently, this theoretical framework functions as a foundational paradigm for elucidating the interrelationship between financial performance and corporate value.

Signal theory and agency theory further elucidate the impact of financial information on investor perception. Signal theory asserts that management communicates information via financial statements as a reflection of the organization's condition to the market. Enhanced profitability is construed as positive information that augments the value of the enterprise (Spence, 1973; Ross, 1977). Concurrently, agency theory elucidates the emergence of conflicts of interest between managers and shareholders, arising from information asymmetry. Capital structures and financial policies may operate as disciplinary mechanisms intended to mitigate such conflicts (Jensen & Meckling, 1976; Gumanti, 2009). The integration of these two theoretical frameworks elucidates that financial performance and leverage play a pivotal role in shaping corporate value through mechanisms of information dissemination and governance.

Financial Performance

Financial performance acts as an indicator of the organization's ability to generate profits through the effective allocation of resources. Return on Assets (ROA) functions as a quantitative metric for assessing the efficiency of asset utilization in generating net income. An increase in ROA denotes management's competence in optimizing total assets to yield profits, rendering it a crucial indicator for investors in appraising the operational quality of a firm (Hutabarat, 2020; Brigham & Houston,

2019). Within the context of signaling theory, an elevation in ROA communicates positive information regarding the efficiency of management and the potential growth trajectory of the organization.

Return on Equity (ROE) quantifies the rate of return on the capital invested by shareholders. ROE encapsulates an organization's ability to produce returns from equity invested by its shareholders. An increase in ROE is associated with enhanced potential returns for investors, thereby amplifying the allure of a company's equity (Harahap, 2018; Kasmir, 2016). ROE is frequently utilized as a leading indicator in profitability evaluations due to its direct correlation with shareholder interests. Consequently, ROA and ROE function as essential proxies in the assessment of financial performance and its implications for the valuation of the organization.

Debt to Equity Ratio

The Debt to Equity Ratio (DER) constitutes a solvency indicator that assesses the comparative ratio of a corporation's financing derived from debt in relation to its equity capital. DER elucidates the extent of leverage employed by firms alongside the concomitant financial risks that may ensue. An elevated DER signifies a substantial reliance on debt, which may heighten the likelihood of insolvency; nevertheless, it concurrently possesses the capacity to amplify returns via leverage effects (Brigham & Houston, 2019; Hidayat, 2019). Consequently, DER has emerged as a critical parameter in the appraisal of the capital structure of an enterprise.

From the perspective of capital structure, the utilization of debt can engender tax shields and augment the overall valuation of the enterprise, provided it remains confined within the optimal limits. Conversely, excessive leverage may incite financial distress and undermine investor confidence (Hasanah, 2018; Dzulhijar et al., 2021). Thus, DER is strategically positioned to moderate the interplay between financial performance and enterprise valuation. A judicious level of leverage can enhance the impact of profitability on the valuation of the enterprise, whereas excessive leverage may diminish this correlation due to heightened risks.

Firm Value

The assessment of a corporation epitomizes market appraisals concerning the expected performance and future potential of the organization. Such assessments are frequently linked to stock market valuations and the wealth of shareholders. Firms that effectively augment their profitability and exhibit consistent operational success typically attain elevated valuations, as they cultivate investor trust (Ramdhonah et al., 2019; Halik, 2018). Corporate valuation is increasingly recognized as a pivotal criterion for evaluating managerial effectiveness in enhancing shareholder well-being.

In this study, the valuation of a corporation is derived through total equity, which is defined as the differential between total assets and total liabilities. Equity represents a shareholder's residual entitlement to the organization's assets and functions as an indicator of the entity's financial well-being (Kasmir, 2016; Bagus & Sedan, 2018). An increase in equity signifies an enhancement in the corporation's financial standing. Conceptually, however, an equity-centric assessment of a corporation's value reflects book value rather than market value, necessitating meticulous interpretation within the context of value creation.

Research Framework

In this investigation, the conceptual framework elucidates the interplay between financial performance, as indicated by Return on Assets (ROA) and Return on Equity (ROE), and corporate valuation, with the Debt to Equity Ratio (DER) serving as the moderating variable. It is posited that DER may either amplify or diminish the impact of profitability on corporate value, contingent upon the prevailing capital structure of the firm. The conceptual framework pertaining to Financial Performance (ROE and ROA) in relation to Company Value, incorporating Debt to Equity Ratio as a Moderating Variable, is illustrated in the figure below:

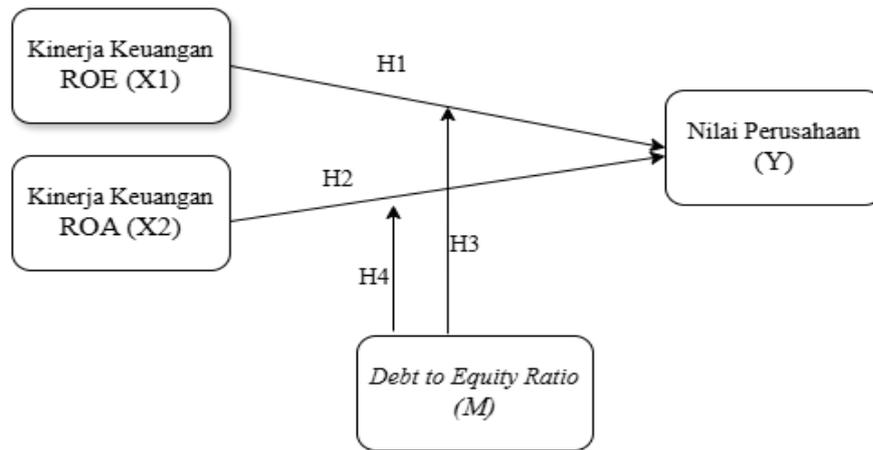


Figure 1. Research Framework

METHOD

The research employs a quantitative research methodology that incorporates an exploratory research framework to investigate the causal relationship between financial performance and corporate valuation, with the Debt to Equity Ratio (DER) functioning as a moderating variable. The dataset utilized comprises secondary data in the form of annual financial statements from basic material firms listed on the Indonesia Stock Exchange for the period spanning from 2022 to 2024. The sampling technique implemented is purposive sampling, adhering to the criteria of consistently listed companies, providing comprehensive financial statements, and presenting reports denominated in Indonesian rupiah. The analysis unit was comprised of 44 companies, yielding a total of 132 observations (panel data). The research involved three categories of variables, specifically dependent, independent, and moderating variables. The operational definitions of these variables are delineated in the subsequent table:

Table 1. Operational Definition of Variables

Variable	Type	Operational Variable	Measure
Company Value (NP)	Dependent	The company's book value, which reflects the residual claims of shareholders.	Total Equity = Total Assets - Total Liabilities
Return on Assets (ROA)	Independent	The company's ability to generate profits from total assets.	Net Profit After Tax / Total Assets
Return on Equity (ROE)	Independent	The rate of return on capital invested by shareholders.	Net Profit / Total Equity
Debt to Equity Ratio (DER)	Moderation	The proportion of company funding originating from debt compared to equity.	Total Liabilities / Total Equity

ROA*DER	Interaction	Interaction variables to test the moderation of DER on ROA.	ROA × DER
ROE*DER	Interaction	Interaction variables to test the moderation of DER on ROE.	ROE × DER

The analytical framework employed in the current investigation utilizes panel data regression, a decision predicated on the dataset's configuration, which amalgamates cross-sectional data (comprising 44 companies) with time series data (spanning the period from 2022 to 2024). This methodological approach enhances the management of individual heterogeneity and augments the efficacy of estimation in contrast to traditional combined regression methodologies. The selection of appropriate models was executed in a sequential manner, employing the Chow test for a comparative evaluation of the General Effects Model relative to the Fixed Effects Model, the Hausman test to determine the preference between the Fixed Effects Model and the Random Effect Model, and the Lagrange Multiplier test to differentiate between the General Effects Model and the Random Effect Model. The validation of classical assumptions was conducted through a multicollinearity assessment and a heteroskedasticity examination to ensure that the model complies with the criteria of the Best Linear Unbiased Estimator (BLUE), as delineated in the econometric literature (Ghozali & Ratmono, 2017; Nugraha & Nursito, 2021).

The empirical framework comprises two distinct specifications. Initial models scrutinized the direct influence of Return on Assets (ROA) and Return on Equity (ROE) on corporate valuation. This model additionally incorporates the Debt to Equity Ratio (DER) as a moderating variable, alongside two interaction terms, ROA×DER and ROE×DER, in order to investigate the extent to which capital structures may either amplify or attenuate the relationship between profitability and corporate value. Hypothesis testing was executed utilizing the t-test to evaluate the partial significance of the regression coefficients, in conjunction with the F-test to simultaneously assess the overall adequacy of the model. Moreover, the coefficient of determination (R^2) serves as a metric for gauging the model's capacity to elucidate variations in enterprise value (Ghozali, 2021; Dendy, 2022).

RESULT AND DISCUSSION

Result

Table 2. Statistic Descriptive

	NP (Y)	ROE (X1)	ROA (X2)	DER (M)	ROE*DER	ROA*DER
Mean	6.090E+11	0.110996	0.061118	1.184882	0.250358	0.072235
Median	1.18E+11	0.068732	0.046848	0.637635	0.038274	0.022619
Maximum	7.62E+12	0.937850	0.342508	11.32577	10.32349	1.166384
Minimum	940218.0	0.005465	0.001408	0.002489	0.000122	0.000102
Std. Dev.	1.11E+12	0.147026	0.059070	1.671938	1.042114	0.168973
Skewness	3.388548	3.496367	2.145639	2.981765	7.887926	4.250529
Kurtosis	17.42295	17.41042	9.104676	14.31529	71.53371	22.64926
Sum	8.04E+13	14.65146	156.4044	156.4044	33.04727	9.535032
Sum Sq. Dev.	1.63E+26	2.831781	366.1944	366.1944	142.2661	3.740312
Observations	132	132	132	132	132	132

Descriptive statistical findings reveal that the average enterprise value is quantified at 6.090E+11, accompanied by a substantial standard deviation of 1.11E+12, which signifies considerable heterogeneity in enterprise scale within the basic

materials sector. The distribution exhibits a rightward skewness (skewness > 3) along with elevated kurtosis, suggesting the existence of a prominent outlier of considerable size. The return on equity (ROE) recorded an average of 11.10%, with a peak value of 93.78%, reflecting a significant variability in firms' capacity to generate returns on equity, whereas an average debt-to-equity ratio (DER) of 1.18 indicates a moderate inclination towards leverage, albeit with considerable variability. Additionally, the interaction variables of ROEDER and ROADER display a markedly skewed distribution, suggesting that the interplay between profitability and leverage in certain enterprises is exceedingly pronounced, thereby potentially amplifying or diminishing the impact of financial performance on enterprise value.

Table 3. Multicollinearity Test

	ROE (X1)	ROA (X2)	DER (M)	ROE*DER	ROA*DER
ROE (X1)	1.000000	0.552744	0.487141	0.794342	0.475740
ROA (X2)	0.552744	1.000000	-0.037748	0.164420	0.584974
DER (M)	0.487141	-0.037748	1.000000	0.685816	0.153293
ROE*DER	0.794342	0.164420	0.685816	1.000000	0.215334
ROA*DER	0.475740	0.584974	0.153293	0.251334	1.000000

The results derived from the evaluation of multicollinearity indicated that the aggregate correlation among the variables remained beneath the 0.90 criterion, with the most pronounced correlation recorded at 0.794342 between ROE and ROE*DER. This magnitude is still regarded as falling within permissible limits, thereby facilitating the conclusion that there exists no substantial evidence of multicollinearity; consequently, it is deemed appropriate to advance to the subsequent stage of testing the assumptions of the model.

Table 4. Autocorrelation Test

R-Squared	0.411656	Mean dependent var	7.080E+10
Adjusted R-Squared	0.388309	S.D. dependent var	2.64E+11
S.E of Regression	2.07E+11	Sum squared resid	5.38E+24
F-Statistic	17.63209	Durbin-Watson stat	1.296953
Prob (F-Statistic)	0.000000		

Based on the results derived from the autocorrelation analysis detailed in Table 4, a Durbin-Watson statistic of 1.296953 was documented. Consequently, the regression model employed has fulfilled the requisite assumptions pertaining to the non-existence of autocorrelation and is deemed suitable for implementation in hypothesis testing.

Table 5. Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	1.93E+11	6.21E+10	3.102918	0.0024
ROE (X1)	-2.04E+11	2.45E+11	-0.831672	0.4072
ROA (X2)	1.21E+11	4.31E+11	0.280829	0.7793
DER (M)	-1.25E+10	1.93E+10	-0.648121	0.5181
ROE*DER	2.30E+10	3.12E+10	0.735880	0.4632
ROA*DER	2.87E+10	7.62E+10	0.376069	0.7075

The results of the heteroskedasticity assessment indicated that the overall probability values linked to the variables ROE, ROA, DER, ROE*DER, and ROA*DER surpassed the threshold of 0.05. This finding suggests the nonexistence of heteroskedasticity symptoms, thereby affirming that the residual variance is consistent

and that the regression model complies with classical assumptions necessary for further analysis.

Table 6. F-Test

	Test 1	Test 2
F-stat	11.6113	17.6320
Prob.F	0.0000	0.0000

F-statistical values recorded in Test 1 at 11.6113 and in Test 2 at 17.6320, accompanied by a probability of 0.0000 in both models, signify that the regression models exhibit simultaneous significance. This suggests that the collective influence of all independent variables has a discernible impact on the valuation of the company, thereby affirming the model's utility for analytical purposes.

Table 7. R²

	Test 1	Test 2
R2	0.15255	0.4116
Adjusted R2	0.13491	0.3883

The coefficient of determination, denoted as R², in the initial Test 1 was calculated to be 0.15255, and subsequently increased to 0.4116 in Test 2, thereby suggesting that the model's capacity to elucidate variations in enterprise values has significantly enhanced following the incorporation of moderating variables. The elevated Adjusted R² observed in Test 2 further implies that the moderation model exhibits superior efficacy in accounting for the data.

Table 8. Model 1 Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.29E+11	1.65E+11	2.598507	0.0105
ROE (X1)	5.37E+11	2.45E+11	2.195102	0.0299
ROA (X2)	2.90E+12	6.26E+11	4.628338	0.0000

According to the findings obtained from the multiple linear regression analysis using the Random Effects Model (REM) as depicted in Table IV.9, the resulting regression equation can be articulated as follows: $NP = 4.29E+11 + 5.37E+11 (ROE) + 2.90E+12 (ROA) + e$

Referring to this equation, the constant term is quantified at 4.29E+11, accompanied by a probability of 0.0105, indicating that if Return on Equity (ROE) and Return on Assets (ROA) are held constant or equal to zero, the valuation of the firm will nonetheless retain a foundational value of 4.29E+11. This value is statistically significant, as the corresponding probability is below the 0.05 threshold. The coefficients associated with Return on Equity (ROE), quantified at 5.37E+11, in conjunction with the t statistic of 2.195102 and a probability of 0.0299, elucidate that Return on Equity exerts a positive and statistically significant effect on the valuation of the firm.

In essence, each incremental increase of 1% in ROE is anticipated to elevate the company's value by $5.37 \times 10^{13}\%$, and conversely. The coefficient for Return on Assets (ROA), articulated as 2.90E+12, along with a t statistic of 4.628338 and a probability of 0.0000, substantiates that Return on Assets likewise produces a positive and statistically significant influence on the valuation of the firm. This implies that an

augmentation of ROA by 1% will enhance the value of the enterprise by 2.90×10^{14} %, and similarly in the reverse direction.

Table 9. MRA Model 1 Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.29E+11	1.65E+11	2.598507	0.0105
ROE_X1	5.37E+11	2.45E+11	2.195102	0.0299
ROA_X2	2.90E+12	6.26E+11	4.628338	0.0000

According to the empirical results derived from the t-test delineated in Table IV.9, it is apparent that the Return on Equity (ROE), operationally defined as variable X1, manifests a statistical t-value of 2.195102 alongside a probability of 0.0299, which is below the critical threshold of 0.05. This observation indicates that Return on Equity exerts a positive and statistically significant impact on a corporation's valuation. Consequently, the H1 hypothesis, which posits that ROE influences the valuation of the firm, is corroborated.

In a more precise formulation, an enhancement in the rate of return on equity is associated with a concomitant increase in the valuation of the firm. Return on Assets (ROA), categorized as variable X2, exhibits a statistical t-value of 4.628338 in conjunction with a probability of 0.0000, which also resides beneath the significance level of 0.05. These findings affirm that Return on Assets possesses a positive and statistically significant effect on a company's valuation. Thus, the H2 hypothesis is substantiated. This suggests that an augmentation in the firm's capacity to generate profits via the efficient deployment of assets correlates with a corresponding rise in the firm's value.

Table 10. Model 2 Test

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	5.94E+11	1.67E+11	3.551183	0.0005
ROE (X1)	-1.52E+12	5.00E+11	-3.044551	0.0028
ROA (X2)	2.68E+12	8.71E+11	3.075705	0.0026
DER (M)	-8.30E+10	4.10E+10	-2.025226	0.0450
ROE*DER	1.68E+11	6.37E+10	2.633464	0.0095
ROA*DER	1.05E+12	1.51E+11	6.985974	0.0000

Based on the findings obtained from the multiple linear regression analysis using the Random Effect Model (REM) as presented in Table IV.10, the following regression equation has been formulated. $NP = 5.94E+11 - 1.52E+12 (ROE) + 2.68E+12 (ROA) - 8.30E+10 (M) + 1.68E+11 (ROE*DER) + 1.05E+12 (ROA*DER) + e$

From the equation, it can be discerned that the constant term $5.94E+11$, coupled with a probability of 0.0005, signifies that under conditions wherein Return on Equity (ROE), Return on Assets (ROA), and Debt to Equity Ratio (DER) are either held constant or presumed to be zero, the valuation of the firm is sustained at a foundational level of $5.94E+11$. This observation bears relevance due to its probability being below the 0.05 significance threshold.

The coefficient linked to Return on Equity (ROE) is $-1.52E+12$, which corresponds to a t-statistical value of -3.044551 and a probability of 0.0028, indicating that Return on Equity (X1) exerts a negative and statistically significant impact on the firm's valuation. Specifically, this suggests that for each unit increase in Return on Equity, the valuation of the firm is anticipated to decline by $1.52E+12$, assuming the

constancy of other variables. A coefficient for Return on Assets (ROA) of 2.68E+12, accompanied by a t-statistical value of 3.075705 and a probability of 0.0026, reveals that Return on Assets positively and significantly influences the firm's valuation. It is concluded that each unit increment in Return on Assets leads to an enhancement in the valuation of the firm by 2.68E+12. These findings accentuate that a firm's adeptness in managing assets to generate profit constitutes a critical factor in augmenting the firm's value. The Debt to Equity Ratio (DER), with a coefficient of -8.30E+10, a t-statistical value of -2.025226, and a probability of 0.0450, indicates that the Debt to Equity Ratio adversely and significantly impacts the firm's valuation. In other terms, an elevation in the debt level relative to equity correlates with a reduction in the firm's value.

The interaction variable denoting Return on Equity in conjunction with the Debt to Equity Ratio (ROE*DER) possesses a coefficient of 1.68E+11, a statistical t-value of 2.633464, and a probability of 0.0095. These findings suggest that the Debt to Equity Ratio plays a considerable moderating role in the nexus between Return on Equity and firm valuation. The positive coefficient indicates that the utilization of debt can enhance the effect of Return on Equity on the firm's value. Furthermore, the interaction variable for Asset Return in relation to the Debt to Equity Ratio (ROA* DER) exhibits a coefficient of 1.05E+12, a t-statistical value of 6.985974, and a probability of 0.0000. This implies that the Debt to Equity Ratio significantly moderates the effect of Return on Assets on enterprise valuation. The positive coefficients suggest that capital structures reliant on debt can amplify the influence of asset management proficiency on the augmentation of the firm's value.

Table 11. MRA Model 2 Test

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	5.94E+11	1.67E+11	3.551183	0.0005
ROE (X1)	-1.52E+12	5.00E+11	-3.044551	0.0028
ROA (X2)	2.68E+12	8.71E+11	3.075705	0.0026
DER (M)	-8.30E+10	4.10E+10	-2.025226	0.0450
ROE*DER	1.68E+11	6.37E+10	2.633464	0.0095
ROA*DER	1.05E+12	1.51E+11	6.985974	0.0000

According to the empirical findings delineated in Table IV.11, it is apparent that the Return on Equity (ROE), designated as X1, exhibits a t-statistical value of -3.044551, accompanied by a probability of 0.0028, which is below the critical threshold of 0.05. This observation implies that Return on Equity exerts a deleterious and statistically significant effect on the valuation of an enterprise. In juxtaposition, the Return on Assets (ROA), identified as X2, demonstrates a t-statistical value of 3.075705, with a probability of 0.0026, which also remains beneath the 0.05 significance level, thereby indicating that the Return on Assets possesses a positive and statistically significant influence on the company's valuation.

The Debt to Equity Ratio (DER), which functions as a moderating variable (M), is characterized by a t-statistical value not less than 2.025226, with a probability of 0.0450, which is less than 0.05, thereby signifying a meaningful and adverse impact on the company's value. Moreover, interaction terms that encompass Return on Equity and Debt to Equity Ratio (ROE*DER) reveal a t-statistical value of 2.633464 along with a probability of 0.0095, which remains under the 0.05 threshold, indicating that the Debt to Equity Ratio significantly moderates the effect of Return on Equity on enterprise valuation. Similarly, the interaction term between Return on Assets and

Debt to Equity Ratio (ROA*DER) manifests a t-statistical value of 6.985974, with a probability of 0.0000, which is also below 0.05, thereby signifying that the Debt to Equity Ratio significantly moderates the influence of Return on Assets on the company's valuation.

Discussion

1. The Influence of Return on Equity (ROE) on Company Value

Based on initial empirical evidence derived from a regression model that excludes moderating variables, Return on Equity (ROE) exhibited a statistically significant and positive effect on a firm's valuation, with a significance level below 5 percent. These findings suggest that an enhancement in an organization's ability to generate profits from equity capital is associated with an increase in the firm's valuation. Such findings align with the research conducted by Siti Barokah (2023) and Sumangunsong Adi (2022), which indicated that ROE has a considerable impact on corporate valuation. Conversely, these results contrast with the studies by Rahandhika Ivan Adyaksana (2023) and Siska Dwi Anggraini (2022), which asserted that ROE does not exert a significant effect on the valuation of firms. The observed discrepancies can be attributed to industry-specific characteristics, variations in the duration of the studies, as well as the differing capital structures of the firms analyzed.

Theoretically, the positive correlation between ROE and corporate valuation can be elucidated through the lens of Signal Theory, as articulated by Michael Spence (1973). A high ROE conveys managerial efficiency in utilizing shareholders' equity to generate profits, thereby transmitting favorable signals to investors regarding the firm's growth prospects. Robust profitability information is likely to enhance market confidence and stimulate demand for shares. This heightened demand has the potential to elevate share prices, ultimately enhancing the firm's valuation. In the context of the capital-intensive basic materials sector, the ability to generate profits from equity capital serves as a critical indicator, as it reflects the effectiveness of internal resource management in anticipation of economic fluctuations during the period of 2022 – 2024.

Nonetheless, within a model that incorporates moderating variables, the direct effect of ROE on a firm's valuation becomes inconsequential. These observations indicate that the extent of ROE's influence may be contingent upon the configuration of the firm's capital structure. When the interaction with the Debt to Equity Ratio is factored in, the variability of ROE is partially elucidated by the interplay between profitability and leverage, resulting in a diminished direct effect. These findings are supported by the research of Rahandhika Ivan Adyaksana (2023) and Siska Dwi Anggraini (2022), which demonstrate that ROE is not invariably the principal determinant of a firm's valuation. Therefore, within the framework of this investigation, ROE remains critically important; however, its efficacy in enhancing the firm's value is moderated by the capital structure strategies employed by the firm.

2. The Influence of Return on Assets (ROA) on Company Value

As evidenced by the partial analysis outcomes derived from the regression model, Return on Assets (ROA) demonstrated a statistically significant and positive influence on the valuation of the enterprise, with the significance level

falling beneath the 5 percent threshold. These findings indicate that a firm's ability to generate revenue through the proficient allocation of its assets constitutes a crucial determinant in the establishment of enterprise value. The conclusions of this study align with the investigations conducted by Sri Hardianti (2023) and Kansil Lilis A (2021), which affirmed that ROA exerts a substantial effect on corporate valuation. Conversely, these results diverge from the inquiries conducted by Humer Asad Ullah Khan (2021) and Novaria Handayani (2023), which determined that ROA had no discernible impact on company valuation. Such discrepancies may stem from variations in industry sectors, economic contexts, and the asset composition of the firms analyzed across the respective studies.

From a theoretical standpoint, the positive influence of ROA on corporate valuation can be elucidated through the Signal Theory posited by Michael Spence (1973). A high ROA reflects operational proficiency and the effectiveness of management in asset utilization aimed at profit generation, thereby transmitting favorable signals to investors concerning the company's growth potential. In the basic materials sector, which is characterized by asset-intensive characteristics, the efficiency of asset utilization is emerging as a pivotal factor in establishing competitive advantage. Investors are inclined to assign higher valuations to firms that exhibit stable and increasing ROA levels, as these entities are perceived to possess the capability of generating sustainable cash flows. Consequently, the more proficiently a firm optimizes the employment of its assets, the greater the likelihood of enhancing its market value.

3. The Role of Debt to Equity Ratio (DER) in Moderating the Effect of ROA on Company Value

Based on the empirical findings derived from the Moderated Regression Analysis (MRA), the interaction coefficients for ROA*DER exhibited positive and statistically significant values, with a significance level below 5 percent. These results suggest that the Debt to Equity Ratio (DER) plays a pivotal role in moderating and magnifying the influence of Return on Assets (ROA) on the comprehensive valuation of the firm. In essence, the ability of a company to derive profits from its asset base will have a more pronounced impact on its valuation when supported by a meticulously structured capital framework. These findings substantiate the research conducted by Sari and Oktaviani (2022), Pratama and Wulandari (2023), and Rahmawati and Hidayat (2024), which indicated that leverage serves to enhance the correlation between profitability and corporate valuation. The implications of these findings indicate that the confluence of profitability with an optimal capital structure significantly augments favorable investor perceptions regarding the company's future prospects.

Theoretically, these results can be elucidated through modal structure theory and Signaling Theory (Spence, 1973). A high ROA functions as a metric of operational efficiency, while the strategic employment of debt within optimal parameters possesses the potential to magnify returns via leverage effects. In the capital-intensive basic materials sector, which necessitates substantial financing, a judiciously managed debt structure can enable expansion and enhance production capabilities. Nonetheless, these findings contrast with studies conducted by Putri and Handayani (2021) and Fahlevi and Suryani (2022), which assert that leverage may diminish or fail to moderate the association between profitability and

corporate valuation. These discrepancies imply that the effectiveness of the DER as a moderating variable is substantially contingent upon the level of financial risk and the stability of the company's profit margin.

4. The Role of Debt to Equity Ratio (DER) in Moderating the Effect of ROE on Company Value

The findings derived from the moderate regression analysis (MRA) indicated that the interaction coefficient between return on equity (ROE) and debt-to-equity ratio (DER) exhibited positive significance at a threshold below 5 percent. These observations imply that the ratios of debt to equity (DER) considerably amplify the effect of return on equity (ROE) on enterprise valuation. In other terms, the return on equity is likely to exert a more pronounced influence on a firm's valuation when it is supported by a strategically managed debt framework. These findings are congruent with the investigations conducted by Wulandari and Hariyanto (2023), Putri and Rahmawati (2022), and Sari and Suwitho (2024), which established that leverage has the potential to enhance the correlation between profitability and corporate valuation. An optimally balanced capital structure is perceived to augment the efficacy of profits in fostering enhancements in market perception.

From a theoretical perspective, these findings can be elucidated through the lens of capital structure theory, which posits that the strategic employment of debt at optimal levels confers advantages in the form of tax shields and amplifies potential returns for shareholders. Within the framework of the basic materials sector, which necessitates substantial financing, judicious leverage can facilitate expansion and enhance efficiency in capital allocation. Nonetheless, these outcomes are not in alignment with the research conducted by Fahmi and Rahayu (2021) and Utami and Prasetyo (2022), which contend that debt-to-equity ratios (DER) may weaken or fail to mediate the relationship between profitability and corporate valuation due to heightened financial risk. Consequently, the efficacy of the DER as a moderating variable is predominantly contingent upon the equilibrium between potential returns and the debt-related risks encountered by the firm.

CONCLUSION

The research elucidates that Return on Equity (ROE) and Return on Assets (ROA) serve as determinants of corporate valuation within the Basic Materials sector for the timeframe spanning 2022 to 2024. Empirical evidence indicates that ROA exerts a favorable influence on enterprise value, thereby positing that enhanced efficiency in asset utilization correlates with improved market valuation. In contrast, although ROE is of notable significance, the characteristics of the relationship suggest that an increase in return on equity does not inherently provoke a constructive response from the market. Moreover, the Debt to Equity Ratio (DER) plays a pivotal role in influencing corporate valuation and is recognized as a moderating variable capable of either amplifying or attenuating the impact of profitability on corporate value, contingent upon the existing configuration of the company's capital structure.

The research acknowledges specific limitations associated with the relatively brief observation period, a narrow focus on particular sectors, and the omission of additional variables such as firm size and macroeconomic influences. Furthermore, the

reliance on secondary data introduces potential limitations regarding the precision of the information. Consequently, it is advisable for corporations to enhance the efficiency of their asset management practices and to maintain an equilibrium in their capital structure to ensure that the effect of profitability on corporate value remains optimal. Academics are additionally encouraged to extend the study's duration, widen the sectoral scope, and incorporate control variables to facilitate a more comprehensive analysis and stronger generalizability.

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