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THE MARKET VALUE OF EQUITY OF MANUFACTURING COMPANIES DURING THE COVID-19 PANDEMIC

Abstract

The market value of a public company reflects the expectations of investors. It is influenced by many factors, both internal and external to the company. This study aims to analyze whether intellectual capital moderates the effect of the debt-to-equity ratio and earnings per share on the market value of equity. A set of historical data was collected and analyzed based on a sample of 114 manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2019. This study uses moderated regression analysis to test proposed hypotheses and a robustness test to examine the sensitivity and consistency of the study results. The findings show that the debt to equity ratio affects the market value of equity, whilst earnings per share does not affect the market value of equity. The analysis also shows that intellectual capital could strengthen the effect of the debt to equity ratio on the market value of equity. In contrast, intellectual capital could not strengthen the effect of earnings per share on the market value of equity.

Keywords

debt ratio, earnings per share, intellectual capital,
Indonesia

JEL Classification

G11, G32

INTRODUCTION

Since manufacturing companies have the largest number of industrial sub-sectors, they often experience declines in the sales of goods. A decline in sales will lead to a decline in the company's revenue. This condition will affect the company's profit, as well as the perceptions of investment decisions by investors, and thus affect the market value of equity (MVE). Therefore, companies need to consider the welfare of shareholders as both parties complement each other in maximizing profits. The efficiency of the rate return of shares profit can be seen when the profit earned in a certain year is compared with the capital used to generate the profit. Companies will share higher profits when they gain a high MVE (Berk et al., 2015; Abuzayed et al., 2009).

MVE reflects how good investors value a company. MVE depends on the movement of stock prices, that is, if the stock price increases, MVE will also increase, and vice versa. Companies in the manufacturing sector listed on the Indonesia Stock Exchange experienced an increase in the MVE from 2015 to 2017; the highest value was in 2017 amounting to IDR 2,542.1 trillion. In the years 2018 and 2019, they were a serious concern to the manufacturing sectors because the market value decreased by IDR 218.7 trillion (Indonesia Stock Exchange, 2020). This figure means that investors lost their investment to that value.

The Chief Economist, IHS Markit said that the Purchasing Managers' Index™ (PMI™) for Indonesia's manufacturing sector has increased 0.1 points from 49.0 in August to 49.1 in September 2019 (Bernard, 2019). However, it showed a further decline as it remained stagnant as in the