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Factor Affecting Profitability: Evidence of Animal Feed Sub Sector in Indonesia from Year (2016-2017)

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ABSTRACT

It is the purpose of every company to gain profit, however, in 2015 there is an indication that economy is slowing down that affecting the whole word including animal feed subsector companies in Indonesia which beg the question what is the condition of the company in the succeeding in 2016 and 2017. This study aims to analyze the factor affecting the profitability of animal feed companies listed Indonesian Stock Exchange. The study is quantitative using four companies listed at animal feed sub-sector listed from the year 2016-2017 at Indonesian Stock Exchange. The method used in this research is descriptive method, using Current Ratio for liquidity and Debt to Asset from solvability and Return on asset for profitability ratio of animal feed four companies namely, Charoen Pokphand Indonesia Tbk (CPIN), Japfa Comfeed Indonesia Tbk (JPFA), Malindo Feedmill Tbk (MAIN), and Sierra Produce Tbk (SIPD). Data analysis is done using descriptive analysis, significance test, correlation test, and regression analysis. The results showed that in terms of descriptive statistic animal feed companies has a good level of liquidity above 1 and have a debt level above the set standard of 30%. In terms of profitability, animal feed companies have good average financial ratio meaning that companies utilize assets owned efficiently to obtain profit maximally. However, the result shows that there is no significant relationship between solvability and liquidity toward profitability at animal feed companies form the year 2016-2017 at 5% and 10% significant level. Thus, the study suggests for future study to expand the sample of the study in term of year of sample and similar companies in different countries or region

Keywords: Liquidity, Solvability, Profitability

INTRODUCTION

Profitability is the ability of a company to earn profit through its resources (Hutabarat, 2014). Thus, every company held in purpose to increase value company so that it can provide prosperity for the owner or the people shareholders (Brigham & Houston, 2010). One attempt to achieving its goal is to maximize profits, in principle financial management is said that the company's ability to make a profit inversely proportional to liquidity, (James, Horne, and Machowicz, 2005). The thing this becomes a problem in a company that is faced with a problem of company liquidity and profitability. When the company sets assets the bigger, the possibility that occurs at the level of liquidity will be safe, however, the hope of getting a big profit will go down which will then have an impact on company profitability or vice versa. Higher liquidity, the better the position of the company in the eyes of creditors because there is a greater possibility that the company will be able to pay its obligations on time (Mansur, 2015). Further, in (Mansur, 2015) reviewed in terms of the holder's angle stocks, high liquidity is not always profitable because it has a chance to raise unemployed funds that can actually be used for investment in projects that benefit the company. Apart from the problem of asset management, companies must also be able to deal with resource problem funds. Fulfillment of funding sources can also be obtained from internal companies, namely with capital withdrawals through the sale of shares, or from the company's retained earnings which is not shared and reused as capital, or company issue bonds to the public. And from external companies, it can go through borrowing from creditors, namely: banks or non-bank institutions. The greater it is debt proportion on the capital structure of a company, the higher the burden fixed and commitment repayment caused. If the company uses more debt than your own capital, then solvency will be even greater because the interest expense that must be borne also will increase in height, and this will result in a profitability company declined.

A case stated in JAKARTA, KOMPAS (2016)- Penetration of data services that continues to grow is expected to boost the profitability of companies in the telecommunications sector. PT Telekomunikasi Indonesia Tbk (Telkom) is no exception. Bahana Securities analyst Leonardo Henry Gavaza acknowledged that Telkom shares were the most suitable to be collected among shares of other telecommunications companies. Because, aside from being a State-Owned Enterprise (BUMN), Telkom is considered to offer attractive dividends, and its growth is maintained. "The profitability of companies in the telecommunications sector will be good, especially as data service penetration continues to grow. "Telkom is worthy of its share collection," he said in Jakarta, Thursday (12/15/2016). Bahana estimates that at the end of this year, Telkom's net profit will rise by around 30 percent to Rp 20.06 trillion from the end of last year's Rp 15.49 trillion. In 2017, Telkom's profit is estimated to increase by around 14 percent on an annual basis. The recommendation for Telkom is to buy shares with the TLKM code with a target price of IDR 5,000. As is known, as of September 2016, Telkom managed to record a profit of Rp 14.732 trillion up to the first nine months of 2016. The number rose 27.6 percent compared to the same period last year of Rp 11.545 trillion. Throughout the nine months of 2016, Telkom recorded revenue growth of Rp 86.19 trillion or an increase of 13.8 percent compared to the same period in 2015 of Rp75.75trillion.

The financial performance of the issuer is assessed based on eight criteria, namely, return a year, three-year sales growth, net operating margin, return on equity (ROE), asset turn over (ATO), stock volatility, stock liquidity, and three-year operating profit growth.

Based on this background, the authors are interested in doing a deeper study of "Effect of Liquidity and Solvency On Profitability in Animal Feed Sub Sector Companies Listed In Indonesia Stock Exchange 2016-2017".

Formulation of the problem

Based on the background above, the formulation of the problem in this study is as follows:

1. Does the liquidity ratio affect profitability in the animal feed sub-sector companies listed on the Indonesia Stock Exchange in 2016-2017?
2. Does the solvency ratio affect profitability in the animal feed sub-sector companies listed on the Indonesia Stock Exchange in 2016-2017?
3. Does the liquidity ratio and solvency ratio affect the profitability of the animal feed sub-sector companies listed on the Indonesia Stock Exchange in 2016-2017?

LITERATURE REVIEW

Theoretical basis

The way to see the health of a company is by looking at the company's financial report, either quarterly or annually. Financial statements are records of a company's financial information in an accounting period that can be used to describe the company's performance. Financial statements are made with the intention to provide a description or periodic progress report of the company management concerned in other words financial statements aim to provide information regarding the financial position, performance and financial position of the performance and financial position of a company that is beneficial to a large number of users in economic decision making.

Table 1. **Previous Research**

NO	**AUTHOR**	**TITLE**	**RESULT**
1	*Anis Fadhilah*	Effect of Liquidity and Solvability on the Profitability of companies in	Liquidity and Solvability are influential significant and positively related to Profitability

		the Sub Sector Food and Beverages listed on the Indonesia Stock Exchange in the period 2013 - 2016	with a significance value of 0,000 smaller than 0.050.
2	Ribud Wahidi Prakosa 2017	EFFECT OF LIQUIDITY AND SOLVENCY ON PROFITABILITY STUDY ON FOOD AND BEVERAGE COMPANIES ARE REGISTERED IN THE INDONESIAN SHARIA SHARE INDEX (ISSI) 2012-2016 PERIOD	The value of R square obtained at 0.766 indicates that profitability influenced by 76.6% by independent variables (Current Ratio, Quick Ratio, Debt to Asset Ratio, Debt to Equity Ratio and 23.4% are influenced by other variables who were not included in this study.
3	*Ekky Pratama Putra, Monang Situmorang, Retno Martanti Endah 2017*	The Effect of Liquidity and Solvability on Profitability in Companies Listed on the Indonesia Stock Exchange (IDX) Period 2011-2015	The liquidity projected with Current Ratio (CR) and Solvability projected with Debt to Asset Ratio (DAR) simultaneously (simultaneously) has a significant and significant effect on the profitability of the company projected with Return on Asset Ratio (ROA), but on its own (partial) liquidity projected with the current ratio (CR) has a negative effect and is not significant but on the solvency projected with Debt to Asset Ratio (DAR) positive and significant effect on profitability projected with Return on Assets ratio (ROA).
4	*Marzuki 2016*	EFFECT OF LIQUIDITY AND SOLVENCY ON PROFITABILITY IN PT INDUSTRI JAMU AND FARMASI SIDO APPEARED TBK	Liquidity proxied by Current Ratio (CR) and the solvency proxied by Totally To of Asset Ratio (DAR) together can have a significant effect on the profitability of the company projected by Return on Equity (ROE), but on itself (partial) liquidity projected by the Current ratio (CR) and solvency that is proxied Debt Total Asset Ratio (DAR) does not significantly affect profitability which is proxied by Return on Equity (ROE)
5	Erma Risdo Tohonan Manurung, Gusnardi, Rina Selva Johan	Effect of liquidity and solvency on profitability (case study in the Indonesian stock exchange real estate and property company in the year	Liquidity influences profitability partial and solvency partially affect profitability.

		2005-2012)	
6	Dilla Ayu Puspita 2018	ANALYSIS OF THE EFFECT OF ACTIVITIES, SOLVENCY AND LIQUIDITY ON PROFITABILITY (Study of Property and Real Estate Companies Registered at the Exchange Indonesia Securities (IDX) 2014-2016 Period)	The results of the study indicate that the results that have been obtained with using partial test (t-test) shows that activity has a positive and not significant effect on profitability, solvency has a positive and not significant effect on profitability and liquidity which shows a negative and significant effect on profitability.
7	*Defrizal Defrizal 2016*	Analysis of the Effect of Liquidity, and Solvability on Profitability in the Manufacturing (Food And Beverage) Sector Listed on the Indonesia Stock Exchange Period 2011 - 2015	The results of the t-test, liquidity does not affect profitability while the solvency has an effect on profitability. The results simultaneously with the F test indicate that all independent variables have an effect on profitability. The coefficient of determination (R2) of 0.849 can be interpreted that 84.9% of the profitability variable can be explained by the independent variable liquidity and solvency, while the remaining 15.1% is explained by other variables.
8	Amelia, Riska Devi 2016	EFFECT OF LIQUIDITY AND SOLVENCY ON PROFITABILITY IN FOOD AND BEVERAGE COMPANIES LISTED IN INDONESIA STOCK EXCHANGE	The results of this study indicate that the variables of liquidity and solvency simultaneously have a significant effect on profitability. While partially liquidity variables have no significant effect and solvency has a significant effect. The most influential variable is the solvency variable.
9	Lifany Lifany, Darwin Lie, Efendi Efendi, Fitria Halim 2017	EFFECT OF LIQUIDITY AND SOLVENCY ON PROFITABILITY IN PT UNILEVER INDONESIA, Tbk. ARE REGISTERED IN INDONESIA STOCK EXCHANGE	The research hypothesis H0 is rejected, meaning that liquidity and solvency have a significant effect on profitability both partially and simultaneously at PT Unilever Indonesia, Tbk. listed on the Indonesia Stock Exchange for the period 2008-2015.
10	Arief Adhy Kurniawan	Effect of Liquidity and Solvability Ratios on Profitability with the Use of Information Technology as Moderating Variables	The results of this study can be concluded that the liquidity ratio has a significant positive effect on profitability, solvency does not affect profitability, the use of information technology does not

			affect profitability, the use of information technology can moderate the relationship of variable liquidity with profitability.

METHODS

Liquidity Ratio

Liquidity ratio is a ratio that describes the ability of a company to pay off all obligations that must be fulfilled immediately (short-term debt). Companies that have enough ability to pay the short-term debt are called medium-liquid companies if not called illiquid. The general liquidity ratio used to measure the level of liquidity of a company, namely:

Current Ratio

This ratio compares current assets with current debt. Current Ratio provides information about the ability of current assets to cover the current debt. Current assets include cash, accounts receivable, securities, inventories, and other assets. Whereas current debt includes trade payables, notes payable, bank loans, salary debts, and other debts that must be paid immediately (Sutrisno, 2001: 247). The current ratio formula is:

$$Current\ Ratio = \frac{\text{Current Assets}}{\text{Current Liabilities}}\ x\ 100\%$$

The greater the comparison of current assets with current debt, the higher the company's ability to cover its short-term liabilities. If the current ratio of 1: 1 or 100% means that current assets can cover all current debts. So it is said to be healthy if the ratio is above 1 or above 100%. This means that current assets must be far above the amount of current debt (Harahap, 2002: 301)

Solvability ratio

The solvability ratio is a ratio that shows the company's ability to fulfill all its obligations both short and long term if the company is liquidated. Companies that have sufficient assets/assets to pay all their debts are called solvable companies, while those that are not called insolvable. Solvable companies are not necessarily illiquid, and vice versa, insolvable ones are not necessarily illiquid. The various financial ratios related to the solvability ratios commonly used are:

Debt to Asset Ratio

The ratio, commonly referred to as the debt ratio, measures the percentage of funds originating from debt. Debt referred to is all short-term and long-term debt held by the company. Creditors prefer the low debt ratio because the level of security of funds is getting better (Sutrisno, 2001: 249). To measure the size of this debt ratio, the formula is used:

$$Debt\ Ratio = \frac{\text{Total Liabilities}}{\text{Total Assets}}\ x\ 100\%$$

This ratio shows the extent to which debt can be covered by assets. The smaller the ratio the safer (solvable). The portion of the debt to assets must be smaller (Harahap, 2002: 304).

Ratio Profitability

Profitability Ratio is a ratio or comparison to find out the ability of a company to earn profit from earnings related to sales, assets, and equity-based on certain measurement bases. The types of profitability ratios are used to show how much profit or profit obtained from the performance of a company that affects the notes to financial statements that must be in accordance with financial accounting standards.

Profitability ratios needed to record financial transactions are usually assessed by investors and creditors (banks) to assess the amount of investment profits that will be obtained by investors and the company's profit to assess the ability of companies to pay debts to creditors based on the level of use of assets and other resources so that it looks level of company efficiency.

The type of profitability ratio that is often used to review the company's ability to generate profits used in the types of financial accounting, namely:

Return on Asset Ratio

Asset return is a profitability ratio to assess the percentage of profits (profits) obtained by the company related to resources or total assets so that the efficiency of a company in managing its assets can be seen from this percentage ratio. The Asset Return Ratio formula is as follows:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

RESULTS

Table 2. **Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
CR	8	.91	2.35	1.7058	.59362
DTA	8	.36	.65	.5173	.09119
ROA	8	-.16	.18	.0582	.10800
Valid N (listwise)	8				

The table above shows the results of descriptive statistical calculations where cr is found to have an average (mean) of 1.7058 which indicates that the animal feed sub-sector company has a good level of liquidity above 1. As for solvency ratios namely, DTA has an average of 0.5173 which means sub-feed companies livestock have a debt level of 51.73% above the set standard of 35%.

And for ROA (Return On Asset) illustrates that all livestock sub-sector companies have very good financial because it is above the average standard of 0.0582 or 5.82%> 1.25%, meaning that all companies utilize assets owned efficiently to obtain profit maximally.

Table 3. **Correlations**

		CR	DTA	ROA
CR	Pearson Correlation	1	-.747*	.630
	Sig. (2-tailed)		.033	.094
	N	8	8	8
DTA	Pearson Correlation	-.747*	1	-.758*
	Sig. (2-tailed)	.033		.029
	N	8	8	8
ROA	Pearson Correlation	.630	-.758*	1
	Sig. (2-tailed)	.094	.029	
	N	8	8	8

*. Correlation is significant at the 0.05 level (2-tailed).

The table above shows there is a positive relationship between the DTA variable to ROA. While CR against ROA has a negative relationship. A negative relationship means that the increase in variable X decreases the variable Y.

Table 4. **One Sample Kolmogorov-Smirnov Test**

		CR	DTA	ROA
N		8	8	8
Normal Parameters[a]	Mean	1.7058	.5173	.0582
	Std. Deviation	.59362	.09119	.10800
Most Extreme Differences	Absolute	.262	.232	.186
	Positive	.201	.119	.125
	Negative	-.262	-.232	-.186
Kolmogorov-Smirnov Z		.742	.655	.527
Asymp. Sig. (2-tailed)		.640	.784	.944

a. Test distribution is Normal.

The table above shows that the distribution of normal tests uses the Kolmogorov-Smirnov normality test for research variables Asymp Sig. (2-tailed) above 0,05 (5%).

Table 5. **Anova[b]**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.048	2	.024	3.510	.112[a]
	Residual	.034	5	.007		
	Total	.082	7			

a. Predictors: (Constant), DTA, CR

b. Dependent Variable: ROA

The table above shows that there is no significant relationship between CR, DTA, and ROA with 3,510 and F-tests

ρ = 0.112 (11.2%).

Table 6. **Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.412	.379		1.089	.326
	CR	.026	.079	.144	.331	.754
	DTA	-.771	.514	-.651	-1.499	.194

a. Dependent Variable: ROA

Based on the table coefficient above, the results show that the regression model for this study is:

Y = a + b1X1 + b2X2

ROA = 0.412 + 0.026CR - 0.771DTA

The Regression Model shows that an increase in CR of 1 point will increase ROA by 0.026, and an increase in DTA of 1 point will reduce ROA by 0.771.

DISCUSSION

Conclusion

This study aims to determine the liquidity of the profitability of the livestock sub-sector in the period 2016-2017. The indicators used to calculate liquidity are using the Current Ratio (CR), solvency using Debt To Asset Ratio (DAR) and profitability using the ratio of Return On Assets (ROA). This study uses 4 companies listed on the Indonesia Stock Exchange.

This study says that there is no significant influence between liquidity and solvency on profitability, this is evidenced by the value of F-count 3.510 with a significance value of 1.12> 0.05. The results of this study indicate a negative relationship between liquidity and solvency to profitability, meaning that the livestock sub-sector companies do not have the ability to pay off all company debts using all assets.

Recommendation

Thus, the study suggests for future study to expand the sample of the study in term of year of sample and similar companies in different countries or region.

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