

Economic and Business Horizon

ISSN: 2963-2765

Economic and Business Horizon

Volume: 05

Issue: 03

Year: 2026

Page: 285-296

Citation:

Sari, N. A., Rahmatika, A., & Salisa, M. R. (2026). The effect of profitability, leverage, firm size, and liquidity on firm value in Indonesia property sector. *Research Horizon*, 5(3), 285-296.

The Effect of Profitability, Leverage, Firm Size, and Liquidity on Firm Value in Indonesia Property Sector

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Abstract

The dynamics of the Indonesian property and real estate sector, which is highly influenced by macroeconomic conditions, particularly during the 2019–2024 period, covering the COVID-19 pandemic and the subsequent economic recovery phase. The objective of this study is to examine the effects of profitability, leverage policy, firm size, and liquidity on firm value. A quantitative approach is employed using multiple linear regression analysis based on secondary data obtained from Osiris and annual financial reports of companies listed on the Indonesia Stock Exchange (IDX), with a total of 180 observations. The results indicate that profitability has no significant effect on firm value, leverage has a positive and significant effect, while firm size and liquidity have significant negative effects on firm value. These findings suggest that investors place greater emphasis on capital structure and operational efficiency rather than short-term profitability in valuing property firms. In conclusion, firm value in this sector is more strongly influenced by leverage signaling and asset utilization efficiency than by net income performance. The implications of this study are that corporate managers should optimize financing strategies and asset management efficiency, while investors are encouraged to pay closer attention to capital structure and operational efficiency in making investment decisions.

Keywords

Firm Size, Firm Value, Leverage, Liquidity, Profitability, Property Sector.

1. Introduction

The property and real estate sector in Indonesia constitutes one of the most dynamic yet macroeconomically vulnerable industries (Alkadrie & Khairunnisa, 2023). As a capital-intensive industry, this sector exhibits a high degree of reliance on interest rate stability, banking regulations, and consumer purchasing power (Liow, 2010; Jihadi et al., 2021). Throughout the 2019–2024 period, the property sector encountered unprecedented systemic challenges, transitioning from stable pre-pandemic conditions into severe turbulence triggered by the COVID-19 pandemic, which restricted physical and economic mobility and ultimately entered a recovery phase compounded by escalating global and domestic interest rates (Melina & Endri, 2025). This macroeconomic dynamic exerts significant pressure on corporate management to maintain a strategic equilibrium between profitability, capital structure, and liquidity to sustain firm value in the eyes of investors.

Firm value, which in this study is proxied by the Price to Book Value (PBV) ratio, serves as a primary metric for the market to evaluate future growth prospects and managerial efficiency in asset utilization (Lumapow & Tumiwa, 2017; Ispriyahadi & Abdulah, 2021). For property firms, PBV reflects how the market appraises strategic assets, specifically landbanks and development projects, which frequently possess market values substantially exceeding their historical book values (Liow, 2010). However, the phenomenon of diminished purchasing power and economic uncertainty in recent years has triggered a contraction in the valuation of this sector. Efforts to maximize firm value are concurrently confronted with complex corporate financial dilemmas, particularly regarding the strategic equilibrium between investment returns, capital structure, liquidity adequacy, and operational scale (Markonah et al., 2020; Margono & Gantino, 2021).

The urgency of this research stems from an empirical research gap characterized by inconsistencies in prior literature regarding the determinants of firm value during periods of crisis and recovery. On one hand, profitability is widely conceptualized as a potent positive signal. Empirical studies by Natsir and Yusbardini (2020) and Alathamneh et al. (2025) demonstrate a positive impact of Return on Assets (ROA) on firm value. Radja et al. (2020) and Parulian and Siregar (2025) observe that during crises, this relationship may weaken due to a shifting investor focus toward working capital resilience rather than immediate earnings. Regarding leverage policy, Debt to Equity Ratio (DER), a theoretical debate persists between the conventional perspective that views debt as a high-risk burden by Raharjo (2021) and the Signaling Theory paradigm, which interprets leverage as a strategic mechanism for asset expansion that is positively received by the property market by Reschiwati et al. (2020). Similarly, conflicting empirical results exist for firm size and liquidity variables, specifically concerning whether a large operational scale and abundant cash reserves are universally perceived positively by the market or conversely viewed as indications of managerial inefficiency (Sari & Sedana, 2020).

The novelty of this study lies in its conceptual validation of Signaling Theory within the specific temporal window of 2019–2024. This timeframe captures a complete and extreme economic cycle (comprising pre-pandemic, pandemic, and post-pandemic recovery phases) that has rarely been integrally explored in previous research. Signaling Theory plays a critical role in mitigating information asymmetry between management and external stakeholders through the publication of financial ratios (Ngurah et al., 2020). In the property industry, which is characterized by prolonged project lifecycles, financial statement disclosures such as leverage ratios and liquidity levels serve as the primary mode of communication for investors to appraise future landbank development prospects (Sondakh, 2019).

Based on the aforementioned background, this study aims to analyze the determinants of property sector firm value on the Indonesia Stock Exchange (IDX) by utilizing a comprehensive observation period from 2019 to 2024. The findings of this research are expected to contribute to the enrichment of corporate finance literature concerning investor behavior in valuing property firms amidst macroeconomic volatility. This study is intended to provide meaningful contributions for corporate managers in formulating optimal financing strategies and for investors in making more accurate, prudent investment decisions.

2. Literature Review and Hypothesis Development

2.1. The Influence of Profitability on Firm Value

Profitability serves as a fundamental metric reflecting a company's financial capacity to generate earnings relative to its overall asset base. Within the signaling theory framework, higher profitability levels deliver strong, positive indicators to external capital markets regarding corporate operational optimization and resource management efficiency. Umar et al. (2020) and Alathamneh et al. (2025) demonstrated that robust profitability, particularly when proxied via Return on Assets (ROA), significantly elevates investor valuation. When a listed company continuously registers substantial profits, it provides an empirical justification for market appreciation, which in turn drives up share prices and general firm performance metrics. This mechanism aligns with conventional corporate finance theories where realized earnings directly substantiate the intrinsic market value of a business entity.

However, the specific characteristics of the property and real estate sector strengthen the relevance of profitability as a key determinant of firm value. In capital-intensive industries with long-term development cycles, profitability reflects the firm's ability to generate sustainable returns from large-scale investments in landbanks and real assets. Although accounting-based profit may not fully capture short-term fluctuations in asset valuation, it remains a crucial indicator of future cash flow potential and investment efficiency. Prior studies, such as Harahap et al. (2018) and Ngurah et al. (2020), emphasize that profitability provides essential signals regarding operational effectiveness and long-term value creation in property firms. Furthermore, Pangestuti et al. (2022) and Melina and Endri (2025) suggest that firms with higher profitability tend to be perceived more favorably by investors due to stronger growth prospects and improved financial performance. Consistent with signaling theory, higher profitability reduces information asymmetry and increases investor confidence, which in turn drives higher market valuation. Therefore, profitability is expected to have a positive and significant effect on firm value, as it reflects both the efficiency of asset utilization and the firm's ability to generate sustainable returns in the long run.

H1: Profitability has a positive and significant effect on firm value.

2.2. The Influence of Leverage on Firm Value

Leverage policy, which evaluates a firm's capital structure and reliance on debt financing, is conventionally interpreted within corporate finance as a double-edged sword. On one hand, high debt levels considerably escalate long-term financial distress probabilities and bankruptcy vulnerabilities. Research by Yousef (2019), along with Umar et al. (2020), indicated that an aggressive dependence on external debt obligations can depress public market trust and discount firm value due to insolvency concerns. Excessive leverage burdens the firm with mandatory fixed interest payments, draining free cash flows that could otherwise be redistributed to

shareholders. Therefore, a high Debt to Equity Ratio (DER) may lead risk-averse investors to demand a higher premium, lowering overall market valuation.

From a signaling theory perspective, debt issuance can be conceptualized as a manifestation of proactive corporate strategy and managerial optimism. In asset-heavy industries, leverage frequently functions as the primary financial catalyst for expanding strategic investments and securing landbanks. Studies by Akhtar et al. (2016) and Dang and Do (2021) established that when property firms leverage their balance sheets for expansion, the market tends to appreciate this aggressive posture as a growth signal. Furthermore, Liow (2010) as well as Ngurah et al. (2020) confirmed that debt specifically directed toward strategic asset acquisitions elicits favorable market responses. Capital markets interpret this calculated risk as evidence that management expects future project returns to exceed the cost of debt.

H2: Leverage has a positive and significant effect on firm value.

2.3. The Influence of Firm Size on Firm Value

Firm size reflects the overall operational scale, structural complexity, and absolute market capacity of a publicly listed enterprise. Larger corporations are generally perceived by market participants to embody substantially lower systemic risks because of their diversified asset bases and stronger market positioning. According to Setiadharna and Machali (2017), larger corporate scales indicate stability, which tends to capture preferential institutional investor attention and institutional trust. Furthermore, Brigham (2011) observed that larger enterprises enjoy broader, more flexible access to competitive external financing channels compared to smaller firms. This superior funding accessibility enables large corporations to sustain operational momentum, protect market share, and finance strategic capital investments even during sudden macroeconomic downswings.

However, firm size is generally regarded as an important indicator of corporate strength and stability, which can enhance firm value. Larger firms typically possess greater resources, broader market access, and stronger competitive advantages, enabling them to achieve economies of scale and sustain long-term growth. According to Halfiyah and Suriawinata (2019), large corporations tend to enjoy higher investor confidence due to their established market position and lower perceived business risk. Furthermore, Sari and Tjahjadi (2026) argued that substantial asset ownership reflects greater operational capacity and future growth potential. Consequently, larger firms are more likely to attract investors and achieve higher market valuations.

H3: Firm size has a positive and significant effect on firm value.

2.4. The Influence of Liquidity on Firm Value

Liquidity serves as a primary indicator of a firm's short-term solvency and financial flexibility to meet its immediate obligations. The maintenance of an optimal liquidity position is vital for instilling operational confidence among short-term creditors, supply chain partners, and public investors. Under turbulent economic conditions, robust working capital structures act as a buffer against unexpected cash flow disruptions. Proponents of this view, such as Brigham (2011) and Setiadharna and Machali (2017), argued that adequate short-term asset coverage signals managerial competence and lowers default risk. Consequently, companies with healthy liquidity levels are typically rewarded with higher market valuation because investors appreciate the reduced probability of technical default.

Nonetheless, maintaining an adequate level of liquidity can generate positive signals regarding a firm's financial strength and operational stability. A strong

liquidity position indicates that a company possesses sufficient current assets to meet its short-term obligations, thereby reducing financial distress risk and enhancing investor confidence. As highlighted by Halfiyah and Suriawinata (2019), higher liquidity reflects sound working capital management and greater financial flexibility. This perspective is further supported by Ross (1977) and Mahendra and Faturohman (2024), who argued that liquid resources enable firms to sustain operations during economic uncertainty while preserving growth opportunities. Consequently, strong liquidity is expected to increase firm value through improved financial resilience and market confidence.

H4: Liquidity has a positive and significant effect on firm value.

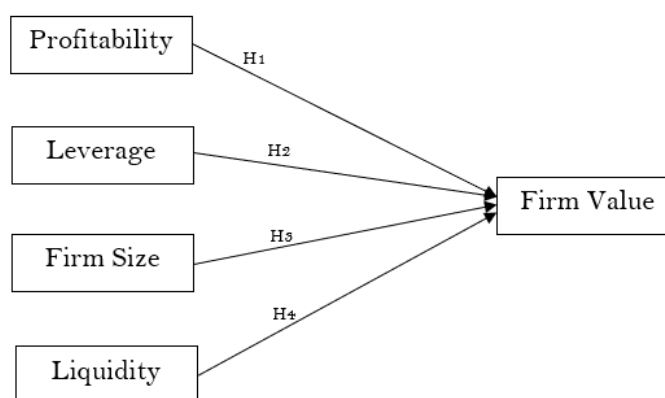


Figure 1. Conceptual Framework

Figure 1 shows a research framework that examines the influence of profitability, leverage, firm size, and liquidity as independent variables on firm value as the dependent variable. Each relationship between variables is formulated in a research hypothesis, namely H1, which examines the influence of profitability on firm value, H2, which examines the influence of leverage on firm value, H3, which examines the influence of firm size on firm value, and H4, which examines the influence of liquidity on firm value.

3. Methods

This study employs a quantitative approach utilizing descriptive statistical analysis and multiple linear regression to examine the relationships between specific financial variables and firm value. According to Hidayat and Sugiyono (2017), a quantitative approach is applied to investigate a predetermined population or sample with the primary objective of testing empirical hypotheses. The data utilized in this research consists of secondary data retrieved from the Osiris global financial database, alongside corporate annual reports of property and real estate companies listed on the Indonesia Stock Exchange (IDX) spanning the 2019–2024 period.

The research population encompasses all property and real estate sector companies listed on the IDX throughout the designated observation period. Sample selection was conducted using a purposive sampling technique, which defines the sample based on specific criteria aligned with the research objectives. The inclusion criteria stipulate that companies must be listed consecutively on the IDX during the 2019–2024 period, publish complete and consistent annual financial statements, and provide comprehensive data regarding all investigated variables. Based on these criteria, a total of 180 firm-year observations were obtained as the final research sample.

The data collection technique employed in this study is the documentation method, which involves gathering secondary data from the Osiris database and official corporate annual reports available on the Indonesia Stock Exchange website. This data was subsequently processed to extract relevant metrics corresponding to the research variables. The operational definitions of the variables are measured using financial ratios based on the conceptual frameworks of Brigham (2011). Firm value is proxied by Price to Book Value (PBV), profitability is measured by Return on Assets (ROA), leverage policy is measured by the Debt-to-Equity Ratio (DER), firm size is measured by the natural logarithm (ln) of total assets, and liquidity is measured by the Current Ratio (CR). The empirical model used in this study to examine the effect of the independent variables on the dependent variable is specified in the following multiple linear regression equation:

$$PBV = \alpha + \beta_1ROA + \beta_2DER + \beta_3SIZE + \beta_4CR + \varepsilon$$

Notes:

- PBV = Firm Value
- α = Constant
- $\beta_1, \beta_2, \beta_3, \beta_4$ = Regression Coefficients
- ROA = Profitability
- DER = Debt Policy
- SIZE = Firm Size
- CR = Liquidity
- ε = Error term

Data analysis was performed using SPSS software through several systematic stages. The first stage involves descriptive statistical analysis to illustrate the data distribution, capturing the minimum, maximum, mean, and standard deviation values. The second stage entails classical assumption testing, which comprises normality tests, multicollinearity diagnostics utilizing the Variance Inflation Factor (VIF) values, and autocorrelation tests using the Durbin-Watson statistic. The final stage executes multiple linear regression analysis to test the research hypotheses through partial t-tests, simultaneous F-tests, and the coefficient of determination (R^2) to evaluate the model's capacity in explaining variance within the dependent variable.

4. Results

Prior to executing the primary hypothesis testing through multiple linear regression, a descriptive statistical analysis was conducted to outline the distributional characteristics and operational parameters of the dataset. This preliminary analysis provides a comprehensive overview of the data by capturing the minimum, maximum, mean, and standard deviation values across all investigated variables throughout the 2019–2024 observation period. The summary of these descriptive metrics for both the dependent variable (firm value) and the independent variables (profitability, leverage, firm size, and liquidity) is presented in Table 1 below.

Table 1. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
Firm Value	-25.27	12.23	1.59	2.89
Profitability	-33.31	48.80	1.28	5.86
Leverage	-55.73	24.37	2.11	5.58
Firm Size	25.43	32.54	29.38	1.59
Liquidity	0.04	21.60	2.21	2.59

Based on the descriptive statistical results in Table 1, the dependent variable, firm value, exhibits a mean of 1.59 and a standard deviation of 2.89, with values ranging from a minimum of -25.27 to a maximum of 12.23, thereby indicating extreme market valuation polarization alongside instances of negative equity among certain property firms during the observation period. Regarding the independent variables, profitability presents a mean of 1.28% and a standard deviation of 5.86%, spanning a remarkably wide interval from -33.31% to 48.80%, which reflects high profitability volatility triggered by macroeconomic shocks. Meanwhile, the leverage registers a mean of 2.11 and a standard deviation of 5.58, with a minimum of -55.73 and a maximum of 24.37, illustrating highly diverse capital structures and severe debt burdens in specific enterprises. Firm size (proxied by the natural logarithm of total assets) displays the most stable distribution, with a mean of 29.38, a standard deviation of 1.59, and a range between 25.43 and 32.54, suggesting that the asset scale of the sampled property firms is relatively homogeneous and large-scale. The liquidity shows a mean of 2.21 and a standard deviation of 2.59, with a range from 0.04 to 21.60, signifying that while the industry average maintains adequate short-term solvency, a stark liquidity disparity exists between firms experiencing critical cash distress and those holding excessively unproductive, idle capital.

Table 2. Multicollinearity and Autocorrelation Test

Variable	VIF	Autocorrelation
Profitability	1.127	Durbin-Watson= 1.988
Leverage	1.050	
Firm Size	1.066	
Liquidity	1.096	

Table 2 presents the results of the classical assumption tests, including normality, multicollinearity, and autocorrelation diagnostics. The normality test demonstrates that the residuals are normally distributed, indicated by a significance value exceeding 0.05. Furthermore, the multicollinearity test results reveal that all independent variables have VIF values ranging from 1.050 to 1.127, which are substantially below the threshold value of 10, indicating the absence of multicollinearity. The diagnostic robustness of the model is further supported by a Durbin-Watson statistic of 1.988, confirming that no positive or negative serial correlation exists among the regression residuals.

Table 3. F-Test

Model	Sum of Squares	df	Mean Square	F-statistics	Sig.
Regression	373.187	4	93.297	14.364	0.001
Residual	1136.634	175	6.495		
Total	1509.821	179			

Table 3 displays the analysis of variance to evaluate the structural validity of the multiple linear regression model using the F-statistic. The diagnostic output reveals an F-statistic of 14.364 alongside a corresponding probability value (*p-value*) of 0.001, thereby confirming that the proposed empirical framework exhibits excellent goodness of fit as the significance drops well below the 5% critical alpha level ($p < 0.05$). Consequently, the null hypothesis (H_0) is rejected, demonstrating that the linear combination of profitability, leverage, firm size, and liquidity is simultaneously a significant determinant in explaining the fluctuations of property and real estate firm value on the IDX.

Table 4. Model Summary

Description	Value
R	0.497
R-Square	0.247
Adjusted R-Square	0.230
Durbin-Watson	1.988

Table 4 displays the goodness-of-fit metrics for the model, where the adjusted R-squared value is registered at 0.230. This provides explanatory insight that 23.0% of the changes in the dependent variable (property firm value) are simultaneously driven by the independent determinants under investigation. This lower explanatory power is typical for corporate finance data within highly volatile sectors like property and real estate, where market valuations are deeply sensitive to unobserved macroeconomic factors.

Table 5. Results of Partial Test

Variable	β	t-statistic	Sig.
Constant	13.921	3.376	0.001
Profitability	0.024	0.692	0.490
Leverage	0.252	6.866	0.000
Firm Size	-0.426	-3.056	0.003
Liquidity	-0.198	-2.505	0.013

Based on the results presented in Table 5 of the partial significance test (t-test), the profitability variable shows a coefficient of 0.024 with a significance value of 0.490 (> 0.05). This indicates that profitability does not have a statistically significant effect on firm value. This finding suggests that, within the property and real estate sector, net income performance is not a primary determinant considered by investors in evaluating firm value. Leverage variable exhibits a positive coefficient of 0.252 with a significance value of 0.000 (< 0.05), indicating that leverage has a positive and statistically significant effect on firm value. Accordingly, the hypothesis stating that leverage positively influences firm value is supported. This result implies that debt usage is perceived positively by the market, particularly in the property sector, where external financing is essential for asset expansion and long-term project development.

Furthermore, firm size measured by total assets shows a negative coefficient of -0.426 with a significance value of 0.003 (< 0.05), indicating a significant negative effect on firm value. Similarly, liquidity also demonstrates a significant negative effect, with a coefficient of -0.198 and a significance value of 0.013 (< 0.05), leading to the rejection of the hypothesis that predicts a positive impact of liquidity on firm value.

5. Discussion

The partial significance test (t-test) shows that profitability has a significance value of 0.490 ($p > 0.05$), indicating that it does not significantly affect firm value. This suggests that investors in the Indonesian property sector during 2019–2024 did not primarily consider short-term profitability when assessing market value. Although profitability is generally expected to increase firm value, the property industry is highly capital-intensive and characterized by long project cycles, causing accounting profits to inadequately reflect the value of strategic assets such as landbanks. This phenomenon aligns with the macroeconomic turbulence documented by Mahendra and Faturohman (2024), who observed that during the COVID-19 pandemic and its subsequent recovery phase, market participants prioritized long-term operational resilience over volatile, short-term profitability

fluctuations. Similarly, Sari and Tjahjadi (2026) validated that amidst systemic global crises, the empirical relationship between profitability and corporate value tends to diminish due to dominant external headwinds that heavily reshape market perceptions.

Leverage shows a positive significance value of 0.000 ($p < 0.05$), demonstrating that leverage exerts a statistically significant positive effect on firm value. This result provides robust empirical validation for signaling theory, which posits that managerial debt issuance is decoded by external stakeholders as a credible signal of optimistic future growth trajectories. In the property domain, particularly during the 2019–2024 timeframe characterized by heightened economic volatility, external debt serves as a primary financial mechanism to catalyze asset expansion and land accumulation. Capital markets react favorably to expanding leverage ratios, perceiving such aggressive financing structures as a strategic commitment to secure vital landbanks for long-term project pipelines. This research aligns with Liow (2010), who argued that strategic capital structures are positively associated with corporate value creation within real estate enterprises. Furthermore, Akhtar et al. (2016) corroborated that debt policies among property firms listed on the IDX generate a positive market premium, as investors view leverage as an institutional vehicle that broadens overall operational capacity.

Regarding corporate scale, the firm size variable registers a significance value of 0.003 ($p < 0.05$) with a negative coefficient, indicating that larger property enterprises paradoxically exhibit lower market valuations. This negative association points toward systemic operational inefficiencies within large-scale Indonesian property firms during the observed period. Extensive corporate structures are routinely burdened by elevated agency costs and bureaucratic friction, which significantly hinder organizational agility when navigating the rapidly shifting market conditions prevalent since 2019. This finding is highly consistent with the empirical evidence presented by Halfiyah and Suriawinata (2019), who likewise documented an inverse relationship between firm size and firm value within the property sector of the IDX. This dynamic may also reflect structural market saturation toward massive, mature issuers, whereby contemporary investors display a strategic preference for mid-sized firms that offer superior growth velocity and structural flexibility.

The liquidity variable shows a significance value of 0.013 ($p < 0.05$) with a negative coefficient, confirming that liquidity has a significant adverse impact on firm value. A disproportionately high liquidity ratio within the property sector is typically interpreted by the market as a manifestation of idle, non-performing cash reserves that are not actively redeployed into high-yielding, productive projects. Institutional investors favor enterprises that aggressively and efficiently allocate liquid capital toward immediate project development rather than retaining excessive short-term asset buffers. This empirical evidence reinforces the contentions of Mahendra and Faturohman (2024), who emphasized that inefficient working capital deployment, even when nominal liquidity indicators appear robust, tends to transmit a negative signal to public markets, thereby discounting overall corporate valuation within the highly competitive economic climate of the 2019–2024 period.

6. Conclusion

Based on the empirical results, it can be concluded that profitability does not significantly influence firm value, indicating that short-term earnings performance is not a key consideration in market valuation within Indonesia's property and real estate sector. The debt-to-equity ratio shows a positive and statistically significant relationship with firm value, implying that leverage is interpreted by investors as a favorable signal that supports asset expansion and long-term development initiatives. In contrast, firm size and liquidity are found to have significant negative

effects on firm value, suggesting the presence of operational inefficiencies, organizational complexity, and perceptions of underutilized idle cash. These results emphasize that firm value is driven more strongly by capital structure decisions and asset efficiency than by short-term profitability. From a managerial perspective, these findings highlight the importance of optimizing financing strategies and improving the effectiveness of asset utilization to enhance market perception and firm valuation.

The study is subject to certain limitations, particularly its reliance on firm-specific internal variables without considering external macroeconomic factors such as interest rates, inflation, and exchange rate fluctuations, which may also play a role in shaping firm value. Furthermore, the analysis is confined to property and real estate companies in Indonesia, which limits the external validity of the findings across different industries or countries. Future research is encouraged to broaden the scope of analysis by incorporating other industrial sectors as well as macroeconomic and corporate governance variables to achieve a more comprehensive explanation of firm value determinants. Additionally, more advanced econometric approaches, such as panel data regression or dynamic modeling techniques, are recommended to better capture long-term relationships and structural changes in firm valuation behavior.

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