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GENERAL MANAGEMENT

Determinants of Market Capitalization in Consumer Goods Industrial Sector Companies

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Abstract

Weak economic conditions due to the COVID-19 pandemic, but there is an important role for the capital market in supporting the country's economy. This study aims to determine the effect of ROE, EPS, DPS, and DPR on the company's market capitalization. The population used in this study are consumer goods industrial sector companies listed on the Indonesia Stock Exchange and listed on the LQ45 Index for the 2015 – 2020 period. Purposive sampling technique is used in this study and the type of research uses the panel data regression method with the help of the Eviews 10 data processing application. The independent variables in this study are ROE, EPS, DPS, and DPR and the dependent variable is market capitalization. The results of this study partially show that ROE has an insignificant effect, EPS and DPS have no significant effect, and DPR has a significant positive effect on Market Capitalization (KP).

Keywords: *market capitalization; ROE; DPS; EPS; consumer goods Industry Sector Company*

1. Introduction

Weakening economic conditions during the pandemic may result in a drop in investment interest. Not only among corporate investors but also has an impact on several companies' profits and sales levels (Endri et al., 2021). This happened because the government gave a policy to the public to limit large-scale social activities to minimize the spread of the Covid-19 pandemic so that the condition of some companies became worse. Regarding the weak economic conditions, there is an important role for the capital market in supporting the country's economy (Indupurnahayu et al., 2022). This happens because investors invest in stocks, so this has become the most popular activity during the pandemic (Nurhayati et al., 2021a). In general, stocks are no stranger to the world of economy. Stocks have a high risk but also have a high rate of return, with this the return is directly proportional to the risk they have. There are two attractiveness of stocks, namely capital gains, and dividends. In general, investors always expect a high level of profit with a low level of risk.

Capital gains occur when there is a difference in the current investment price which is higher than during the initial period (Suryadi et al., 2021; Hidayat et al., 2022). Of course, many factors such as market conditions, micro conditions, macro conditions, and others can influence the movement of a company's shares. (Wahyudi et al., 2020). There are many industrial sectors on the Indonesia Stock Exchange (IDX) that can be chosen by investors to invest their money or capital. One sector that can be seen by candidates or investors is the consumer goods sector. This is because the consumer goods industry sector a sector that has the potential to meet the daily needs of the community, even though the pandemic condition affects community activities determined by the government, there are still other alternatives to meet the needs of consumer goods by utilizing transportation services through electronic media.

An interesting phenomenon during the Covid-19 pandemic, there was an increase in share ownership due to a decrease in stock prices. The decline in share prices can be used as an opportunity for investors and potential investors to buy or add to the collection of these shares because in the future they will recover and then can be sold and make a profit within a certain period until the stock price is considered expensive. To invest in stocks, you must first understand the category of stock valuation. Stock valuations that produce intrinsic value information will be compared to stock market prices to determine whether the company's shares should be bought or sold. (Sugianto et al., 2020). In investing activities, one must understand the category of company shares with cheap or expensive conditions by knowing the intrinsic value and making comparisons between stock prices in the stock market so as not to be wrong in making investment decisions for selling, buying, and holding shares.

The wealth of the company can be seen not only through the stock price, but also through the market capitalization value. (Endri et al., 2020a). This is because the market capitalization value can correct stock prices. After all, there is still bias in the stock price information available. Market capitalization is also related to the overall price of the company's outstanding shares in the market. (Indraswari & Mimba, 2017). There are many factors that investors need to consider in investing their capital in stocks. Factors that must be considered include ROE, EPS,

DPS, and DPR to the company's market capitalization which shows how big the company size is for short-term and long-term prospects. Based on previous research conducted by Darmawan and Asmara (2008), it is stated that there is an impact of ROE, ROA, EPS, EVA, MVA, TSR, and PER on market capitalization and retail company value on the IDX. The other research conducted by Roy and Bhattacharya (2019), revealed that there are no differences in financial performance (liquidity ratio, solvency ratio, profitability ratio, and activity ratio) between food and beverages companies that have Big Cap capitalization values with Mid Cap and Small Cap.

2. Literature Review

2.1 Signalling Theory

Signals can be interpreted in general as signals from internal parties (management) to external parties (investors). The signal can be given in a variety of forms, both directly understandable and requiring an in-depth understanding process to comprehend. (Wahyudi et al., 2020). A good financial report is a signal or sign that the company has also been operating well which will be responded to well by other parties. If the announcement contains a positive value, it is expected that the market will react when the announcement is received by the market. Market reaction is indicated by a change in the volume of stock trading. By the time the information is announced and all market participants have received the information

In this case, market participants first interpret and analyze the information as a positive signal for investors, resulting in a change in stock trading volume. (Nurhayati et al., 2021b). The market capitalization of a company is an important factor in attracting investors to invest in it. (Harahap et al., 2020). The announcement of accounting information gives a signal that the company has good prospects in the future (good news) so investors are interested in trading stocks, thus the market will react which is reflected through changes in stock trading volume.

2.2 Market Capitalization

The market value in Rupiah of all the company's outstanding shares is called market capitalization which is calculated by multiplying the number of company shares outstanding by the closing price per share. There are three market capitalization value classifications, namely: (1) Small cap, which is a group of shares whose capitalization value is less than Rp. 1 trillion, usually referred to as 3rd tier shares; (2) Midcap, which is a group of shares whose capitalization value is less than Rp. 1-5 Trillion, usually referred to as 2nd tier shares; and (3) Big cap, which is a group of shares whose capitalization value is greater than 5 trillion, usually These are also known as first-tier stocks. Market capitalization is the value of a publicly traded company whose shares are traded on a stock exchange. (Nurhayati et al., 2021a). Market capitalization can be formulated as follows:

Vs = Ps × Ss
Information:
Vs= Market capitalization
Ps= Market price
Ss = Number of shares issued

2.3 Stock Price Analysis

Fundamental securities analysis, also known as company analysis, and technical analysis are two types of analysis that are commonly used to determine the true value of stocks. (Fathony et al., 2020). Based on historical market data such as price and volume information, the technical analysis predicts the direction of stock price movements and other stock market indicators. Fundamental analysis is an evaluation of a company's shares based on financial data such as income, sales, risk, and so on. In fundamental analysis, several financial ratios will be used in this study to see the financial condition of a company.

2.4 Return on Equity (ROE)

Based on historical market data such as price and volume information, the technical analysis predicts the direction of stock price movements and other stock market indicators. Fundamental analysis is an evaluation of a company's shares based on financial data such as income, sales, risk, and so on. (Shahnia et al., 2020; Endri et al., 2020b). The hypotheses in this study are as follows:

H1: ROE affects market capitalization

2.5 Earning per Share (EPS)

EPS information of a company shows the amount of company net profit that is ready to be distributed to all company shareholders. Earnings per share summarize the amount of profit obtained for each share. EPS is the only criterion in fundamental analysis that isolates net income to determine what shareholders gain by investing in the company. Earnings per share are increasing, indicating that the company is creating value for investors. It represents the amount of profit payable by the company per share as well as the amount of profit payable to the shareholder. (Al-Afeef, 2020). The hypotheses in this study are as follows:

H2: EPS affects market capitalization

2.6 Dividend per Share (DPS)

The dividend per share outstanding is abbreviated as DPS. Declaring that dividends will be distributed to shareholders after being compared to the weighted average of ordinary shares outstanding. DPS is a profit distributed to shareholders by a company in proportion to the number of shares held, and it can take the form of cash dividends or dividends in shares. (Datu & Maredesa, 2017). The hypotheses in this study are as follows:

H3: DPS affects market capitalization

2.7 Dividend Payout Ratio (DPR)

The dividend Payout Ratio (DPR) shows the number of dividends to be paid by the company from the total earnings obtained by the company (DPR is calculated in the form of a ratio or percentage). The dividend-payout ratio determines the net income of a company that is allocated to the shareholder dividend. The greater allocation of a dividend, the better a company is from an investor's perspective (Razak et al., 2022; Yanuarti & Dewi, 2019). The hypotheses in this study are as

follows:

H4: DPR affects market capitalization

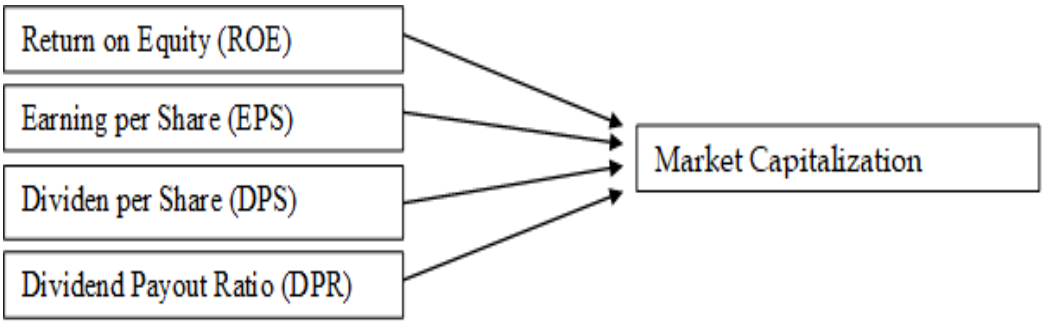

Figure 1: Conceptual Framework

3. Methodology

This study's population consists of consumer goods industrial sector companies listed on the Indonesia Stock Exchange and listed on the LQ45 Index between 2015 and 2020. The purposive sampling method was used in this study, and it was chosen based on the following criteria: certain criteria were determined based on the research objectives. These criteria are as follows: (1) Companies that are consistently listed in the consumer goods industry during the 2015 – 2020 period in the LQ45 index; (2) An annual financial report is available during the research period, namely 2015 to 2020; and (3) Have complete data related to the variables that will be used in the study. So the number of observations in this study was 36 data. The dependent variable in this study is Market Capitalization. While the independent variables in this study are intrinsic values, namely ROE, EPS, DPS, and DPR.

3.1 Data Collection Technique

The secondary data used in this study are in the form of annual financial reports on companies and stock prices for the 2015-2020 period. They are derived from the official website of the Indonesia Stock Exchange, scientific journals, and literature related to the research topic under study.

3.2 Data Analysis Method

Panel Data Regression Model:

$$KP_{it} = \alpha + \beta_1 ROE_{it} + \beta_3 EPS_{it} + \beta_3 DPS_{it} + \beta_3 DPR_{it} + e_{it}$$

Information:

KP	= Market Capitalization
ROE	= Return on Equity
EPS	= Earnings per Share
DPS	= Dividend per Share
DPR	= Dividend Payout Ratio
α	= Constant
$\beta_1\beta_2\beta_3\beta_4$	= Regression Coefficien
i	= Companies of consumer goods
t	= Time (the Year 2015-2020)
e	= error term

3.3 Panel Data Regression Model Estimation

Three methods of data estimation are used in panel data research: the Common Effect, Fixed Effect, and Random Effect approach. The model selection technique employs two tests: (1) the Chow Test, which is used when the p-value is less than (0.05), indicating that the fixed effect model is superior to the common effect model; and (2) the Hausman Test, which is used when the p-value is less than (0.05), indicating that the fixed effect model is superior to the random effect model.

3.4 Classic Assumption Test

The classical assumption test is used to see the model used in the study, in this case, it can be said to be a good model if the model meets the BLUE Criteria (Best Linear Unbiased Estimator). BLUE can be achieved if it satisfies the Classic Assumptions. The respective tests are as follows: (1) Normality Test, ie if the JB value is not significant (less than 2) and the probability is greater than the significance level or (5%), then the data is normally distributed; (2) Multicollinearity test, ie if the correlation between independent variables is large enough, namely 0.89, it can be concluded that there are symptoms of multicollinearity; (3) Heteroscedasticity test using the Glejser test, if the probability value of each variable is above 0.05, it can be concluded that there is no heteroscedasticity; and (4) Autocorrelation Test, if the DW value lies between -2 to +2, it indicates that there is no autocorrelation.

3.5 Significance Test

T Uji test

The T-test is used to show how far the independent variables individually explain the variation of the dependent variable. If t-count > t-table, or sig < = 0.05, it can be interpreted that the independent variable has a significant effect on the dependent variable.

F Uji test

The F test is used to determine whether the independent variables included in the model influence the dependent variable. If F-count > Ftable or probability < 0.05, the independent variable has a significant effect on the dependent

variable.

R-squared test

The coefficient of determination R-squared is used to measure how much the model's ability to explain the variation of the dependent variable with a value between zero and one. If the R-squared value is close to one, it means that the independent variables provide almost all the information needed to predict the variation of the dependent variable.

4. Results

Many factors can influence the company's market capitalization, as evidenced by the financial statements made available each year. The market capitalization of companies in the consumer goods industry sector used in this research is calculated by selecting the best model from the common effect model, fixed effect model, or random effect model. The study's results using the Chow and Hausman tests revealed that the fixed effect model was chosen as the best model in this study.

Dependent Variable: KP				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.63769	0.249276	42.67442	0.0000
ROE	1.144386	0.560390	2.042124	0.0514
EPS	2.12E-05	9.02E-05	0.234426	0.8165
DPS	-0.000604	0.000121	-4.997008	0.0000
DPR	0.465326	0.201990	2.303708	0.0295
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.845452	Mean dependent var		10.98944
Adjusted R-squared	0.791955	S.D. dependent var		0.304370
S.E. of regression	0.138829	Akaike info criterion		-0.881013
Sum squared resid	0.501111	Schwarz criterion		-0.441147
Log-likelihood	25.85824	Hannan-Quinn criteria.		-0.727488
F-statistic	15.80367	Durbin-Watson stat		1.346165
Prob(F-statistic)	0.000000			

Table 1: Results of the Fixed Effect Model
Source: Eviews 10, (2022)

Based on the data in Table 1. above, the analysis of the KP model can be written in the following equation:

$KP_{it} = 10.63769 + 1.144386 ROE_{it} + 2.12E\text{-}05EPS_{it} - 0.000604DPS_{it} + 0.465326DPR_{it}$

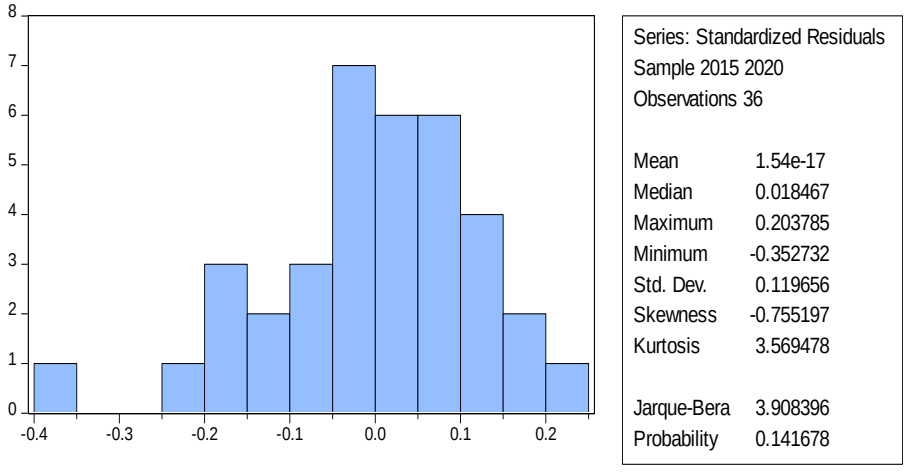

Figure 2: Normality Test
Source: Eviews 10, (2022)

Based on the data above, it can be seen that the value of JB has a probability value of 0.14 > (0.05), then the data is normally distributed.

	KP	ROE	EPS	DPS	DPR
KP	1	0.031169	-0.049567	-0.079760	0.429766
ROE	0.031169	1	-0.099458	-0.079882	0.305912
EPS	-0.049567	-0.0994586	1	0.955631	0.009601
DPS	-0.079760	-0.079882	0.955631	1	0.192736
DPR	0.429766	0.305912	0.009601	0.192736	1

Table 2: Correlation Matrix
Source: Eviews 10, (2022)

This study uses the Correlation Matrix Table to see whether the model detects multicollinearity or not. Based on Table 2. above, it can be seen that the data does not have a multicollinearity problem because the results of the data value are below 0.89.

Dependent Variable: RESABS				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.044320	0.044379	0.998678	0.3257
ROE	0.011798	0.032213	0.366246	0.7167
EPS	5.18E-05	3.84E-05	1.350307	0.1867
DPS	-8.47E-05	6.05E-05	-1.400275	0.1714
DPR	0.070608	0.070827	0.996902	0.3265

Table 3: Heteroscedasticity Test
Source: Eviews 10, (2022)

From the data above, it can be seen that the probability value of all independent variables is > alpha (0.05), so it can be concluded that the data does not have heteroscedasticity problems.

Durbin-Watson stat	1,346165

Table 4: Autocorrelation Test
Source: Eviews 10, (2022)

Based on the Durbin-Watson value above, it is 1.346165 where this value is between -2 to 2 so it can be interpreted that there is no autocorrelation problem in this research data.

Partial Test (t-Test)

Variable	Coefficient	t-count	t-tab	Prob.	Alpha	Note
ROE	1.144385	2.042122	2.04	0.0514	0.05	Insignificant Effect
EPS	2.12E-05	0.234428	2.04	0.8165	0.05	No Significant Effect
DPS	-0.000604	-4.997011	-2.04	0.0000	0.05	No Significant Effect
DPR	0.465326	2.303711	2.04	0.0295	0.05	Positive significant effect

Table 5: t-test
Source: Eviews 10, (2022)

Based on Table 5 above, it can be seen that the partial test of each independent variable is as follows:

ROE has a t-count value of 2.0421 > t-table of 2.04 and a probability value of 0.0514 > alpha of 0.05. So it can be concluded that ROE has no significant effect on Market Capitalization (KP);

EPS has a t-count value of 0.2344 < t-table of 2.04 and a probability value of 0.8165 > alpha of 0.05. So it can be concluded that EPS has no significant effect on Market Capitalization (KP);

DPS has a t-count value of -4.9970 < t-table of -2.04 and a probability value of 0.0000 < alpha of 0.05. So it can be concluded that DPS has no significant effect on Market Capitalization (KP); and

DPR has a t-count value of 2.3037 > t-table of 2.04 and a probability value of 0.0295 < alpha of 0.05. So it can be concluded that the DPR has a significant positive effect on Market Capitalization (KP).

Simultaneous Test (F Test)

Variable	F-count	F-tab	Prob.	Alpha	Note
ROE, EPS, DPS, dan DPR	15.80368	2.678667	0.000000	0.05	Positive significant effect

Table 6: F test
Source: Eviews 10, (2022)

Based on Table 6. above, it can be seen that the F-count value is 15,80368 > the F-table value is 2.678667 and the probability value is 0.00 < the alpha value is 0.05, it can be interpreted that together the independent variables are ROE, EPS, DPS, and DPR have a significant effect on the dependent variable, namely Market Capitalization (KP).

R-squared	0.845453

Table 7: Coefficient of Determination
Source: Eviews 10, (2022)

Based on Table 7. above, it can be seen that the independent variables (ROE, EPS, DPS, and DPR) can explain the dependent variable (KP) in the research model of 0.845453 or 84.54% and the remaining 15.46% is explained by other variables that are not in the research model. this research model.

5. Discussion

In this study, the ROE variable has no significant effect on Market Capitalization (KP), in this case, the higher the company's ROE, it has no impact on market capitalization. However, this contradicts the research conducted by Almumani (2018) which states that ROE has an impact on a company's market capitalization. This is because a high ROE indicates that the company will provide high profits to investors. A good company's financial performance can be seen in the high profit, which represents a company that is still growing. Along with the company's rapid growth, there is a large market capitalization; in this case, a large company's market capitalization represents the financial stability of the company, attracting investors because the risks faced by investors are reduced. (Nurhayati et al., 2021).

The EPS and DPS variables have no significant effect on Market Capitalization (KP), implying that a company's higher dividend per share and earnings per share do not necessarily indicate a high company share price. Because DPS is required to assist potential investors in making the right investment decisions, investors who see the announced dividends as not being in line with their expectations may cause the absence of DPS' influence on the share prices of the Stock Exchange (Farrukh et al., 2017). However, this study is not in line with the results of research conducted by Ahmed (2018) which shows that dividend per share and earnings per share have a positive and significant effect. Meanwhile, the DPR variable has a significant positive effect on Market Capitalization (KP), this is because the size of the dividend policy ratio is a direct factor that can be considered for investors to invest in the company. Based on the signaling theory states that the payment of dividends is a signal to the market that the company has the opportunity to develop a future that will come, in the research of this Parliament is rated as a positive signal to investors and will increase market appreciation of the shares of the company were concerned with such payment of dividends has implications for positive values company. The results of this study are in line with research conducted by Anton (2016) which revealed that dividend policy has a positive effect on firm value. In this case, the value of the company represents the market capitalization of the company.

6. Conclusions

The stock price of a company is affected by its market capitalization. Because, in general, stocks with a high market capitalization are the long-term investment goals of most investors. This market value demonstrates the company's strong growth prospects and low risk. Internal factors such as ROE, EPS, DPS, and DPR will have an impact on the company's value. The actual market value is the market value of the company's shares. As a result, the greater the market value of the company, the higher the stock price of the company and the greater the number of shares outstanding in the market. However, the results of this study indicate that ROE has no significant effect, meanwhile, EPS and DPS have no significant effect, and DPR has a significant positive effect on Market Capitalization (KP). The size of the capitalization value of the company needs to be considered because investors will consider investing in the company. The results of this study are from several previous studies and are different from other studies. Such differences may be due to differences in the characteristics and nature of financial markets, differences in the sample of firms and the sector from which they originate, or perhaps a different study period than the current study. This study has several limitations, including the fact that it only focuses on a few companies in the consumer goods sector, limiting the scope of future research. The research period is limited to 2015 to 2020; however, for future research, it may be considered to increase the number of research periods.

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