



The Influence of Liquidity, Solvency, and Profitability on Firm Value in Indonesian Heavy Construction

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Abstract

Indonesia's construction sector has grown significantly as the fifth-largest contributor to the national GDP, with a business value of Rp 423.4 trillion, mainly driven by the development of Nusantara. However, the Price-to-Book Value (PBV) ratio, which assesses the value of a business in the building construction subsector, has varied and dropped precipitously in 2023, suggesting that investor trust in these businesses has diminished. This research examines the effects of liquidity, solvency, and profitability on firm value in the Indonesia Stock Exchange's heavy construction and civil engineering subsector during the 2021–2024 period. Three independent variables are used: liquidity, solvency, and profitability. The dependent variable is firm value. The study employs secondary quantitative data from annual financial reports. The study's sample consisted of 19 (nineteen) enterprises chosen by purposive selection procedures, whereas the population comprised all 27 (twenty-seven) Indonesia Stock Exchange-listed businesses in the Heavy Construction and Civil Engineering Sub-Sector. Multiple linear regression analysis and the classical assumption test are two of the analytical tools used in SPSS 27. The results of the regression analysis show that profitability has a negative and significant impact, solvency has a positive and substantial impact, and liquidity has a positive and significant influence on the firm value variable. Therefore, this study highlights the importance of sound liquidity management and capital structure decisions in influencing investor perceptions and firm value within the construction sector.

Keywords: *Liquidity, Solvency, Profitability, Firm Value, Heavy Construction, Financial Performance*

INTRODUCTION

This globalization age is characterized by intense business competition across various industries, including manufacturing and services. To ensure business sustainability, companies implement various strategies. The increasing competitive pressure in various industries demands that companies constantly change and improve to remain relevant in the market (Mathiyazhagan et al., 2021). In this context, firm value is a critical indicator of a company's ability to sustain growth and generate long-term returns for investors.

The Directorate General of Public Works and Housing Secretariat (2024) claims that Indonesia's construction industry is deeply rooted in the country's economy, accounting for 9.92% of GDP in 2024, the fifth-largest percentage. This growth is driven by the numerous construction projects that must be completed by the end of 2024, including the development of the IKN. According to Central Statistics Agency (BPS) data, the construction industry is expected to increase significantly and steadily into 2024, with growth reaching 7.68% in the fourth quarter of 2024.

Government and private sector strategic infrastructure initiatives, including the creation of the IKN, were the main drivers of this expansion (Liputan6, 2024). The value of the construction business in Indonesia reached Rp 423.4 trillion by the first half of 2024, equivalent to 12.73% of the total national budget (Kompas.com, 2024). Changes in the pattern of life greatly affect the condition of the world economy.

Similarly, Indonesia's economic conditions are influenced by significant shifts in various indicators (Karnowahadi & Setyadi, 2022). The sustainability of IKN development significantly

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influences the construction industry's economic growth throughout 2024, strengthening Indonesia's macroeconomic structure and creating investment opportunities (Tempo.co, 2024). However, despite the rapid expansion of the construction sector and the increasing scale of infrastructure investment, the firm value of companies in the heavy construction subsector shows a contrasting trend.

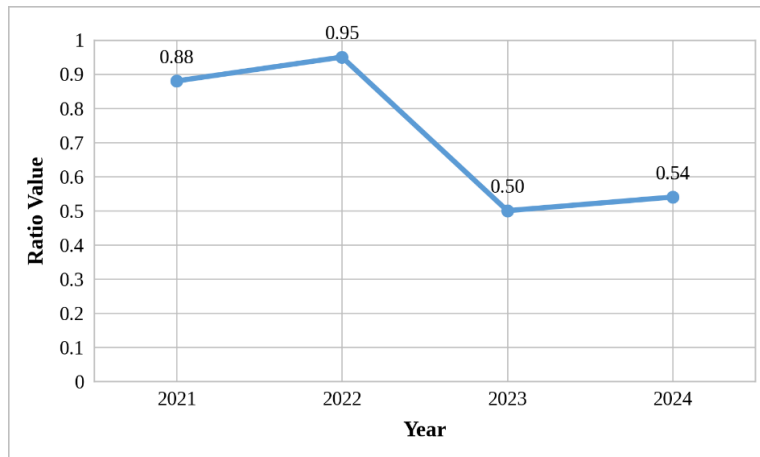


Figure 1. Average PBV
Subsector of Construction Companies for 2021–2024

To maximize their value, construction companies require large amounts of capital, including external funding. Information on a company's value to shareholders can be found in published firm values (Kusumaningrum & Iswara, 2022). The PBV ratio demonstrates market confidence in the company's prospects, indicating that investors are prepared to give a high value to the organization.

The PBV ratio rose from 0.88 in 2021 to 0.95 in 2022, then dropped sharply to 0.50 in 2023, and recovered slightly to 0.54 in 2024. This trend of declining PBV highlights the weakening of investor confidence during ongoing infrastructure expansion. These fluctuations were influenced by external (economic conditions, interest rates, and market sentiment) and internal (company financial performance) factors.

A high firm value indicates the company's ability to earn a profit and provide shareholders with a favorable return (Guo & Xu, 2021). A drop in PBV signifies a reduction in cash flow issues, liquidity, and the capacity to fulfill immediate obligations (Markonah et al., 2020). Although some studies have shown a positive relationship between PBV and liquidity (Hasanudin et al., 2022) and solvency (Bon & Hartoko, 2022).

A stable firm value reflects positive financial performance, where profitability levels directly influence a company's capabilities (Aydoğmuş et al., 2022). Furthermore, a drop in PBV may indicate a decline in profitability and result in higher debt ratios (Nadhilah et al., 2022; Sapar & Fatih, 2025). However, these findings remain inconsistent across studies and have not been sufficiently examined within the heavy construction subsector during periods of rapid sectoral growth.

Given the research gap and the observed decline in business value within the heavy construction subsector, this research investigates firms listed on the Indonesia Stock Exchange between 2021 and 2024, focusing on their value through the lenses of liquidity, solvency, and profitability. This study aims to clarify the role of internal financial factors in explaining firm value under conditions of expanding infrastructure development and declining market valuation while providing empirical and practical insights for stakeholders.

LITERATURE REVIEW

Signaling Theory

Michael [Spence \(1978\)](#) was the first to introduce the signaling theory hypothesis while addressing the problem of asymmetric information by explaining how one party can send signals to another to reveal certain details aimed at reducing market uncertainty. [Bhattacharya and Dittmar \(2008\)](#) developed this theory in finance as a mechanism for conveying expectations from a company's internal party to the market to help differentiate companies based on financial conditions.

Companies use signals to illustrate how management uses various financial indicators to convey information to investors ([Sukmawati et al., 2022](#)). Promotions or other material demonstrating the company's superiority over competitors can serve as these signals. ([Connelly et al., 2024](#)). With the existence of signal theory, management is expected to send signals as a basis for investment decision-making to users of company financial reports, particularly to potential investors ([Purnamasari & Fachrurrozie, 2020](#)).

Liquidity

Liquidity is the ability to make prompt payments on short-term loans with sound financial standing, where current assets exceed current liabilities. However, if liquidity is too low, the corporation might struggle to meet its financial obligations. This could affect how investors perceive the company's poor financial performance. This ratio shows how well-equipped the business is to handle its immediate financial demands ([Purba & Candradewi, 2019](#)). One of the primary indicators used to measure the liquidity ratio is the Current Ratio (CR), which compares current assets and current liabilities ([Chen et al., 2022](#)).

Liquidity has been widely examined in the corporate finance literature as a key determinant influencing firm valuation. Conventional theory suggests that firms maintaining higher liquidity levels benefit from greater financial flexibility, reduced exposure to financial distress risk, and enhanced firm valuation ([Njenga et al., 2025](#)). According to [Darmawan \(2020\)](#) the liquidity ratio should be managed in appropriate proportions; an excessively high ratio suggests that the companies often have too many current assets, thus less optimal in generating profits ([Olayinka, 2022](#)).

The current ratio reflects the extent to which a company's current assets can cover its short-term liabilities. This ratio is highly relevant in assessing a firm's short-term financial obligations and can shape investors' perceptions of its investment suitability. Conversely, an extremely low ratio indicates a risk of default, which may harm the company's long-term financial health. The current ratio can be calculated using the following formula:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Solvency

Solvency is a ratio that analyzes a business's capacity to fulfill its immediate and long-term obligations. According to [Kasmir \(2019\)](#), a company's solvency indicates its ability to settle its obligations. [Dina and Wahyuningtyas \(2022\)](#) added that solvency is related to using resources and funding sources with fixed expenses to boost shareholder profits. [Kolamban \(2020\)](#) stated that solvency is closely related to the perception of investors of risk. High debt levels, if not accompanied by improved performance, may become a financial burden, increase the risk of default, and reduce investor confidence ([Situmorang et al., 2026](#)).

This study uses the DER, which measures a company's solvency by the ratio of its total debt

to its total equity. This ratio illustrates how a business relies on additional financing and how effectively it manages its capital structure. According to [Thian \(2022\)](#), a low DER indicates a larger amount of capital as collateral for debt, which might raise the company's worth. A DER that is maintained at an optimal level reflects efficiency in the use of debt funds balanced with equity capital, which will increase the company's value. The following formula can be used to express DER:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Profitability

According to [Brigham and Houston \(2014\)](#), profitability is the net income resulting from different choices and policies. Investors are drawn to companies with high profitability, and dividend payments may be made from earnings. ([Hadianto et al., 2023](#)). According to [Yuliawati and Alinsari \(2022\)](#), a company's ability to create value from the capital it has invested is measured by its profitability. Profitability indicates a company's ability to generate consistent earnings, and sustained profitability indicates effective operations ([Purnamasari & Suryatama, 2021](#)).

High-profitability businesses can run their operations optimally, generating stable profits, and are more trusted by the market. The Return on Assets (ROA), the profitability ratio employed in this study, calculates the amount of net income that will be produced from the money invested in total assets. ([Thian, 2022](#)).

The ROA is calculated by contrasting assets and net income. This ratio provides important information to investors regarding the effectiveness of capital by management. Investors tend to respond positively to high ROA, as they are considered more capable of generating profits and possessing greater growth potential ([Situmorang et al., 2026](#)). The following formula can express ROA:

$$\text{Return on Assets} = \frac{\text{EAIT}}{\text{Total Assets}}$$

Firm Value

Firm value reflects the trust of the public in the business performance achieved since its inception to date. A company's main objective is value maximization, which leads owners to hire managers responsible for safeguarding shareholder interests and driving firm value growth ([Valencia, 2025](#)). This number is thought to show how effectively management can handle the company's assets ([Aydoğmuş et al., 2022](#)).

When evaluating a company's worth, a commonly used metric is PBV ([Frotagheh & Kardan, 2019](#)). The company's equity book value divided by its stock market price is known as PBV. When the PBV exceeds one, the market's confidence in the company's ability to create wealth for shareholders is demonstrated by the fact that the stock market price exceeds the book value of the equity ([Nurdiansari et al., 2022](#)). The PBV ratio can be calculated using the following formula:

$$\text{PBV} = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$$

Hypothesis Development

Liquidity on Firm Value

Liquidity evaluates a company's ability to meet its short-term debts using readily available assets. Investors are more inclined to trust businesses with high liquidity because they are

perceived as posing less financial risk (Wang & Wei, 2021). However, the liquidity level, however, may also suggest that the business is not making the most of its resources to provide value (Chen et al., 2022). Excess liquidity may even suggest idle resources when funds are not transformed into productive investments (Auliyah et al., 2026). The first proposed hypothesis is as follows:

H1: Liquidity has a significant effect on firm value.

Solvency on Firm Value

Solvency reflects a business's capacity to fulfill its long-term responsibilities and is an important indicator for investors through signal theory. Companies that successfully manage their debt produce a good impression of sound risk management and financial stability, which can increase investor confidence. In response to this signal, investment interest may rise, which would raise the firm's value. Adhyasta and Sudarsi (2023) supported these findings, showing that solvency affects firm value. Another study has found that solvency does not influence firm value (Oktasari et al., 2025). The second hypothesis proposed is as follows:

H2: Solvency has a significant effect on firm value.

Profitability on Firm Value

Profitability refers to a company's ability to generate earnings from its core operations. High profitability is usually associated with effective management, corporate competitiveness, and greater potential return on investment, all of which help to raise the company's value (Amponsah-Kwatiah & Asiamah, 2021).

However, a high ROA does not always reflect strong company performance. If the growth in net income is not supported by corresponding growth in the company's assets or revenue-generating activities, investors may interpret this as a sign of declining asset efficiency rather than improved profitability, which can ultimately have a negative effect on firm value (Sangadji et al., 2025). Previous research has shown a positive correlation between firm value and profitability (Mubyarto, 2020). The third hypothesis proposed is as follows:

H3: Profitability has a significant effect on firm value.

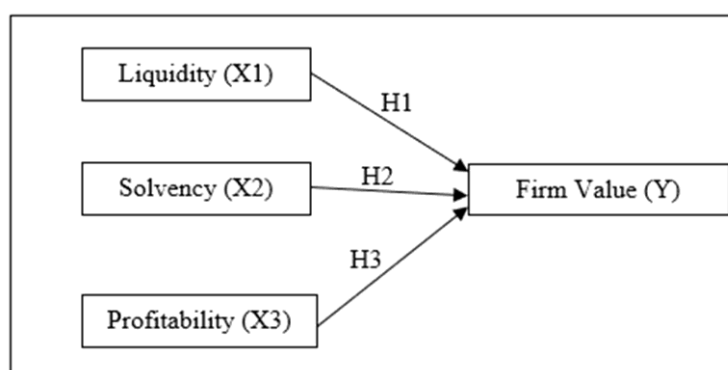


Figure 2. Research Framework

RESEARCH METHOD

This study used secondary data from annual financial statements available on the official Indonesian Stock Exchange (IDX) website. The sample comprises 27 construction businesses registered on the Indonesia Stock Exchange (IDX) between 2021 and 2024. The research sample

was determined using the Purposive Sampling method, a type of non-probability sampling approach that includes picking samples based on specified criteria.

The following are the sample criteria: (a) companies in the Heavy Construction and Civil Engineering subsector that were listed on the Indonesia Stock Exchange between 2021 and 2024; (b) companies in the construction sector that regularly release financial reports for the years 2021–2024; and (c) companies that did not have their stocks suspended or delisted from the Indonesia Stock Exchange during that time frame. These criteria resulted in the selection of 19 construction-related companies with financial report data for the period between 2021 and 2024.

The data used in this investigation comprised quantitative secondary data given as ratios. Secondary data is obtained through other parties, not directly from the primary source, while quantitative data consists of numbers processed to draw conclusions based on certain criteria. Ratio data have rankings, consistent intervals, and an absolute zero point (Karnowahadi, 2017).

Liquidity was measured using the CR, solvency was measured using the DER, profitability was measured using ROA, and firm value was measured using PBV, all of which are widely used indicators in financial performance analysis. These ratios serve as the formal measurement instruments and are derived directly from audited annual financial statements. This study uses time-series data from 2021 to 2024.

The combination of cross-sectional data (multiple firms) and time-series data (four-year period) allows for a more comprehensive analysis of firm value behavior over time. This study also uses time-series data from 2021 to 2024. Classical Assumption Tests (Normality, Multicollinearity, Heteroscedasticity, and Autocorrelation Tests), Multiple Linear Regression Analysis, Coefficient of Determination Test (R^2), Simultaneous Significance Test (F Test), and Partial Test (t Test) using SPSS 27 are among the data analysis techniques employed in this study.

Table 1. Company Code that is the Research Object

No	Stock Code	No	Stock Code
1	ACST	11	PPRE
2	ADHI	12	PTPP
3	BUKK	13	PTPW
4	DGIK	14	SSIA
5	FIMP	15	TAMA
6	IDPR	16	TOTL
7	JKON	17	WEGE
8	MTPS	18	WIKA
9	NRCA	19	WSKT
10	PBSA		

Source: Secondary data from www.idx.co.id (2024)

FINDINGS AND DISCUSSION

Normality Test

This test determines whether an independent variable, a dependent variable, or both in a regression model follow a normal distribution.

Table 2. Normality Test Results

One-Sample Kolmogorov-Smirnov Test	
	Unstandardized Residual
N	76

Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.84577387
Most Extreme Differences	Absolute	.098
	Positive	.098
	Negative	-.080
Test Statistic		.098
Asymp. Sig. (2-tailed) ^c		.069

Source: Data Processing Result, 2025

According to the normality test findings presented in Table 2 using the Kolmogorov-Smirnov technique, a significant value (2-tailed) of 0.069 was achieved, above 0.05. Thus, it is possible to conclude that every variable in this dataset has a normal distribution.

Multicollinearity Test

The objective of this test is to determine whether the regression model discovers a connection between the independent variables (Ghozali, 2021). For a regression model to be successful, the independent variables should not be correlated.

Table 3. Results of the Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Liquidity	.941	1.063
	Solvency	.959	1.043
	Profitability	.981	1.020

Source: Data Processing Result, 2025

According to the multicollinearity test results in Table 3, every independent variable, including liquidity, solvency, and profitability, has tolerance levels greater than 0.10. The tolerance for liquidity, solvency, and profitability is 0.941, 0.959, and 0.981, respectively. Meanwhile, the VIF value for each variable is below 10, with liquidity at 1.063, solvency at 1.043, and profitability at 1.020. As a result, the independent variables in this regression model show no indicators of multicollinearity.

Heteroskedasticity Test

This test assesses whether the regression model is dependable or whether the residuals change inconsistently over subsequent data.

Table 4. Result of the Heteroscedasticity Test

Model	t	Sig.
1 (Constant)	5.489	.000
Liquidity	-.631	.530
Solvency	-.213	.832
Profitability	-.940	.350

a. Dependent Variable: ABS_RES

Source: Data Processing Result, 2025

The significant values derived from Table 4 were 0.350 for profitability, 0.832 for solvency, and 0.530 for liquidity. Each variable exhibited a value above 0.05. Consequently, the regression model can be considered to be free from heteroscedasticity.

Autocorrelation Test

The purpose of this test is to determine the association of confounding errors in period *t* and the preceding period in the linear regression model.

Table 5. Results of the Autocorrelation Test

Model Summary^b					
Model	R	R Square	Adjusted R-square	Ad. Error in the Estimate	Durbin-Watson
1	.720 ^a	.518	.498	.86321	1.971

Source: Data Processing Result, 2025

Score 1.971 was the Durbin-Watson score derived from the autocorrelation test findings displayed in Table 5. The Durbin-Watson table values, where *k* is the number of independent variables (3) and *n* is the sample size (76), were then compared to this result. If $dU < d < 4-dU$, the model used has neither positive nor negative autocorrelation. According to the DW Table, *dU* is 1.7104, and $4-dU$ is 2.2896, indicating that the *d* value of 1.971 lies between *dU* and $4-dU$. This suggests that there is no autocorrelation in the study's model.

Descriptive Analysis

The current ratio, defined as the ratio of current assets to current liabilities, is used to analyze a company's liquidity. This ratio demonstrates how well a company can use its current assets to meet its short-term liabilities. The current ratio increases with the company's capacity to sustain liquidity.

Table 6. Average Value of Liquidity as the Research Object

No	Stock Code	Average Liquidity	No	Stock Code	Average Liquidity
1	ACST	1,2525	11	PPRE	1,4325
2	ADHI	1,1200	12	PTPP	1,1900
3	BUKK	1,1575	13	PTPW	4,5875
4	DGIK	1,4600	14	SSIA	2,2600
5	FIMP	6,7550	15	TAMA	0,3175
6	IDPR	1,1925	16	TOTL	1,4200
7	JKON	2,0300	17	WEGE	1,7800
8	MTPS	1,3400	18	WIKA	1,1250
9	NRCA	2,0150	19	WSKT	1,2475
10	PBSA	3,0850			

Source: Processed data, 2025

Table 6 shows that the average liquidity value of the study participants varies considerably across companies, indicating differences in short-term financial management within Indonesia's construction subsector. One company has the highest liquidity (FIMP) of 6.7550. This demonstrates that the firm is extremely liquid because its current assets surpass its current liabilities by a factor of six. However, another company has the lowest liquidity (TAMA) with a value of 0.3175. This indicates that the business may have trouble fulfilling its short-term obligations because its current

assets are less than its current liabilities.

In general, most companies have a current ratio between 1.1 and 2.3, implying adequate liquidity without excessive idle assets. This ratio generally suggests substantial liquidity because current assets are sufficient to pay current liabilities, but not excessively. Several companies have ratios above 3, indicating high liquidity. However, an excessively high ratio can also indicate an excess of less productive current assets, such as cash or receivables that are not promptly reinvested.

A company's solvency is determined by the DER, which is the ratio of total debt to total equity. In the construction subsector, DER illustrates firms' reliance on debt financing to support capital-intensive projects. This ratio illustrates the amount of debt to which a firm is financed relative to its equity. The higher the DER, the greater the company's dependence on external finance (debt), which increases its financial risk. Conversely, a low DER reflects a healthier capital structure due to a greater proportion of equity.

Table 7. Average Value of Solvency of the Research Object

No	Stock Code	Average Solvency	No	Stock Code	Average Solvency
1	ACST	-2,9975	11	PPRE	1,2800
2	ADHI	3,8975	12	PTPP	2,8025
3	BUKK	0,7150	13	PTPW	0,1850
4	DGIK	0,5600	14	SSIA	0,7625
5	FIMP	0,1450	15	TAMA	2,7100
6	IDPR	1,3900	16	TOTL	1,6250
7	JKON	0,4725	17	WEGE	1,2550
8	MTPS	0,8900	18	WIKA	4,1275
9	NRCA	0,9500	19	WSKT	6,9075
10	PBSA	0,3600			

Source: Processed data, 2025

Table 7 shows that the solvency analysis results show significant variation across companies. The company with the highest solvency ratio (WSKT) had a value of 6.9075. This means that the company's debt is nearly seven times larger than its equity. This circumstance suggests substantial financial risk because the firm is largely reliant on debt-based financing. The company with the lowest solvency ratio (ACST) had a value of -2.9975. A negative DER value implies that the company's equity is in a negative situation (deficit), making the company's financial structure highly risky.

In general, most companies have a DER below 2.0, suggesting relatively stable capital structures where equity remains an important source of financing. This ratio reflects a relatively stable financial condition because equity remains a significant source of financing. However, several companies have DERs above 3.0. This high ratio indicates a significant level of debt reliance, making the company face a higher solvency risk than others.

Profitability is one of the primary measures used to evaluate a company's financial success. According to [Kasmir \(2019\)](#), profitability reflects a company's ability to generate profits during a specific period by using all of its resources. In this study, profitability is quantified using ROA, which is the ratio of earnings after taxes (EAIT) to total assets. ROA represents a company's efficiency in using assets to create profits. A higher ROA indicates a company's potential to make profits, whereas a negative value indicates a loss.

Table 8. Average Value of Profitability of the Research Object

No	Stock Code	Average Profitability	No	Stock Code	Average Profitability
1	ACST	-15,9125	11	PPRE	2,3575
2	ADHI	0,5450	12	PTPP	0,4325
3	BUKK	7,7000	13	PTPW	10,4825
4	DGIK	2,1225	14	SSIA	1,7800
5	FIMP	0,3550	15	TAMA	-2,5325
6	IDPR	-1,5125	16	TOTL	4,9750
7	JKON	3,4025	17	WEGE	2,4725
8	MTPS	-46,1225	18	WIKI	-3,8725
9	NRCA	3,2875	19	WSKT	-3,1850
10	PBSA	17,4550			

Source: Processed data, 2025

Table 8 shows that the average profitability of companies shows significant variation. PBSA was recorded as the company with the highest profitability, with a value of 17.4550, indicating the optimal ability to manage assets to generate profits. This high ROA indicates the operational efficiency of PBSA compared to other companies in the study sample.

Conversely, MTPS had the lowest profitability, at -46.1225. This extremely large negative value represents a huge loss, showing that the company's assets are unable to create profits and may result in a severe loss load. Several companies also recorded negative profitability, indicating that some still face issues with efficient asset management.

Conversely, there are companies with positive but relatively low profitability, ranging from 0.3550 to 0.5450. This rating indicates that the corporation makes only a small profit from its overall assets, resulting in inadequate asset management performance.

Several companies fall into the medium to high profitability category, ranging from 4.9750 to 10.4825. These companies demonstrate good performance because they can utilize their assets to generate significant profits. Furthermore, the group of companies with moderate profitability, ranging from 1.7800 to 3.4025, demonstrates quite efficient asset management, although they have not yet achieved optimal profitability.

Thus, the profitability study findings show a considerable difference across firms. Some companies can demonstrate excellent financial performance, while others still face serious issues related to asset efficiency. This finding is important for further analysis because profitability not only reflects short-term financial performance but also serves as an indicator of future business sustainability.

Firm value is an essential measure for evaluating a company's performance and future. According to [Brigham and Houston \(2014\)](#), firm value is a key metric in attracting investment and reflects investors' perceptions of a company's success in managing its resources. In this study, firm value is represented by PBV, which is the ratio between the stock market price and the book value per share. A high PBV ratio implies a firm's positive market appraisal, whereas a low ratio suggests a negative view or lack of investor trust.

Table 9. Average Firm Value of the Research Object

No	Stock Code	Average Firm Value	No	Stock Code	Average Firm Value
1	ACST	0,4950	11	PPRE	0,3500
2	ADHI	0,3700	12	PTPP	0,2625
3	BUKK	0,7250	13	PTPW	1,4150

4	DGIK	1,0900	14	SSIA	0,5275
5	FIMP	0,7950	15	TAMA	0,7375
6	IDPR	0,5225	16	TOTL	1,2125
7	JKON	0,5850	17	WEGE	0,4650
8	MTPS	1,5600	18	WIKA	0,5050
9	NRCA	0,6675	19	WSKT	0,7625
10	PBSA	1,3300			

Source: Processed data, 2025

Table 9 shows that the analysis findings show that the average PBV value varies across companies. The company with the highest firm value is MTPS, with a value of 1.5600. This indicates that the market views this company positively because its stock price is more than its book value per share, demonstrating investor optimism about the company's growth prospects.

The company with the lowest firm value is PTPP, with a value of 0.2625. This number indicates that the company's stock price is trading significantly below its book value, indicating a lack of market confidence in the company's future. Conversely, most companies have a PBV below 1. This value indicates that the stock price is still lower than the book value; hence, the market has not yet optimally recognized the company's performance.

In general, the results of the analysis show significant differences in firm value across the sample. Some companies have successfully gained investor trust, reflected in high PBV values, while others still face challenges in increasing their investment attractiveness in the eyes of the market. These findings demonstrate that internal elements, such as financial performance, and external factors, such as industry conditions and market attitude, influence firm value establishment.

Coefficient Determination Analysis

The coefficient of determination (R^2) indicates the extent to which independent factors can account for the dependent variable's variance. This study uses the coefficient of determination to determine the percentage contribution of liquidity, solvency, and profitability to the firm value of the company. The coefficient of determination value is shown by the data processing results in the Adjusted R Square section of the Model Summary table.

Table 5 shows that the adjusted R-squared value is 0.498, or 49.8%. This demonstrates that the factors of liquidity (X1), solvency (X2), and profitability (X3) account for 49.8% of firm value (Y), with the remaining 50.2% coming from other factors not covered in this study.

ANOVA (F-test)

In the regression analysis, the F-test evaluates the combined or simultaneous effect of all independent variables on the dependent variable.

Table 6. Processed F-test Results (ANOVA)

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	57.628	3	19.209	25.780	.000 ^b
	Residual	53.650	72	.745		
	Total	111.278	75			

a. Dependent Variable: Firm Value

b. Predictors: (Constant), Profitability, Solvency, Liquidity

Source: Data Processing Result, 2025

According to the test results shown in Table 6, a significance value of 0.000 indicates that the value is less than 0.05. This implies that a combination of independent factors may account for the dependent variable (firm value). The variation of all independent variables (Profitability, Solvency, and Liquidity) together can significantly explain changes in the dependent variable (Firm Value).

Partial Test (t-test)

This test examined the extent to which a single independent variable could explain the variance in the dependent variable. At a significance level of $\alpha = 0.05$, the t-test was used to evaluate the effect of each independent variable on the dependent variable.

Table 7. Processed Results of the Partial Test (t-test)

		Coefficients ^a			t	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta		
1	(Constant)	-.087	.180		-.484	.630
	Likuiditas	.224	.068	.276	3.277	.002
	Solvabilitas	.271	.032	.707	8.463	.000
	Profitabilitas	-.012	.006	-.168	-2.030	.046

a. Dependent Variable: Firm Value

Source: Data Processing Result, 2025

According to the partial significance test (t-test) results in Table 7, all three independent variables, namely, liquidity, solvency, and profitability, have significance values less than 0.05. Determine whether these three factors significantly impact firm value. The results reveal that each independent variable has a distinctive effect on changes in firm value for companies in the building construction subsector listed on the Indonesia Stock Exchange between 2021 to 2024.

The results of the analysis indicate that the constant value is not significant because the sig value (0.630) is greater than 0.05. This means that the dependent variable (Firm Value) has a negative but not significant value when all independent variables (liquidity, solvency, and profitability) do not change (the change is zero).

Multiple Linear Regression Analysis

This evaluation aims to determine how different independent variables (X) affect the dependent variable (Y). The study's conclusions show how each independent variable affects the dependent variable, either positively or negatively.

$$Y = 0.087 + 0.224 X1 + 0.271 X2 - 0.012 X3$$

Variable Liquidity (X1) influences variable Firm Value (Y) positively and significantly. If the variable Liquidity (X1) increases, then the variable Firm Value (Y) also increases. Conversely, if the variable Liquidity (X1) decreases, then the variable Firm Value (Y) will also decrease, assuming that the variables Solvency (X2) and Profitability (X3) remain constant (*ceteris paribus*).

The variable Solvency (X2) influences the variable Firm Value (Y) positively and significantly. If the variable Solvency (X2) increases, then the variable Firm Value (Y) also increases. Conversely, if the variable Solvency (X2) decreases, then the variable Firm Value (Y) will also decrease, assuming that the variables Liquidity (X1) and Profitability (X3) remain constant (*ceteris paribus*).

Variable Profitability (X3) influences variable Firm Value (Y) negatively and significantly. If

the variable Profitability (X3) increases, then the variable Firm Value (Y) decreases. Conversely, if the variable Profitability (X3) decreases, then the variable Firm Value (Y) will increase, assuming that the variables Liquidity (X1) and Solvency (X2) remain constant (*ceteris paribus*).

Findings and Discussion

Based on the known results, **Hypothesis 1 is accepted**. According to the CR, liquidity significantly increases firm value. According to the analysis, the significance value is 0.002, which is less than the 0.05 limit. Thus, liquidity significantly and favorably affects the value of businesses in the building construction subsector. Accordingly, a firm's value increases with its liquidity level. This indicates that firms with stronger short-term financial capacity are perceived as less risky by the market, especially in capital-intensive industries such as construction. These results suggest that investors regard a company's ability to meet its short-term commitments as promising (Iman et al., 2021), as it signals financial stability and reduces concerns related to cash flow uncertainty.

Hypothesis 2 is accepted. DER shows that solvency significantly increases firm value. According to the analysis findings, the significance level of 0.05 was exceeded by the significance value of 0.000. Thus, solvency significantly and favorably affects the value of businesses in the building construction subsector. This is consistent with Jannah and Handayani's (2022) research, which asserts that a company's solvency level influences investors' evaluations of firm value and shows its ability to meet long-term obligations. Higher solvency may signal effective leverage management and confidence in future project returns in the context of construction companies, thereby strengthening investor trust and market valuation.

Hypothesis 3 is accepted. Profitability has a substantial negative impact on firm value, as determined by return on assets (ROA). The significance value of the analysis is 0.046, which is below the significance level of 0.05. Therefore, profitability significantly and negatively affects firm value in the building construction subsector. Previous studies (Robiyanto et al., 2020) have shown that higher profitability actually reduces a company's worth. These findings suggest that increased firm value does not always result from high profitability.

In some circumstances, ROA may appear to increase even though the company's profits are actually declining. This might happen when the company's asset worth declines more than its profit declines, such as when the company sells most of its assets or reduces its operational activities. Investors may assess that the increase in ROA is not supported by asset growth, revenue, or future prospects, leading the market to respond negatively and the firm's value to decline. This suggests that the market places greater emphasis on long-term growth potential and asset expansion than short-term profitability ratios alone.

By empirically testing the applicability of signaling theory, this study contributes to the theoretical understanding of firm value determinants in the construction sector. The consistent results for liquidity and solvency confirm that financial ratios reflecting a firm's ability to meet both short- and long-term obligations continue to function as positive signals that are favorably interpreted by the market, in line with the core assumption of signaling theory that investors use financial information to reduce information asymmetry.

However, the more noteworthy finding emerges from the profitability variable, which exhibits a significant negative relationship with firm value. This result contradicts the conventional assumption underlying signaling theory, which generally regards increased profitability as a universally positive signal. This finding suggests that the effectiveness of profitability as a signal is context-dependent, varying according to how profit increases are achieved. When an increase in ROA is not accompanied by asset or revenue growth.

All three variables offer several implications for corporate management and investors in the construction subsector. For management, the results concerning liquidity and solvency underscore

the importance of maintaining sufficient short-term financial capacity and effectively managing debt structure, as both serve as signals that enhance investor confidence and firm value. With respect to profitability.

However, management should exercise greater caution in pursuing short-term profit improvements. To avoid negative perceptions from the market, increases in ROA should be accompanied by genuine growth in assets and revenue, rather than resulting solely from operational downsizing or efficiency measures. For investors, this study suggests that the evaluation of firm value in the construction sector should not rely solely on profitability ratios but should also consider liquidity, solvency, and the underlying quality of reported earnings before making investment decisions.

CONCLUSIONS

This study concludes that liquidity, solvency, and profitability significantly influence firm value in Indonesia's building construction subsector. Specifically, the findings address the research objective by confirming that liquidity and solvency have a positive and significant effect on firm value, whereas profitability, as measured by ROA, has a significant negative effect.

Liquidity and solvency indicate a firm's ability to meet short- and long-term obligations, thereby strengthening investor confidence and market valuation. These results refine signaling theory by demonstrating that strong liquidity and solvency serve as credible financial signals of stability during sectoral growth but declining firm value in capital-intensive construction firms.

Conversely, the negative impact of profitability suggests that higher ROA does not necessarily reflect improved performance, particularly when driven by declining asset bases rather than sustainable profit growth. This finding extends the existing theory by highlighting that asset management effectiveness conveys a stronger signal of managerial quality than profitability ratios alone.

From a practical perspective, managers are encouraged to prioritize cash flow management, debt structure, and asset quality to sustain firm value, while investors should interpret ROA cautiously and complement it with liquidity and solvency analysis. These findings underscore the importance of supporting financial resilience in construction firms to address the real-world issue of declining firm value despite ongoing infrastructure expansion.

LIMITATION & FURTHER RESEARCH

One of the study's limitations is that the sample was limited to building firms that were listed between 2021 and 2024 on the Indonesia Stock Exchange between 2021 and 2024. This sectoral and temporal focus may limit the generalizability of the findings, as firm value behavior can vary across industries and economic conditions, particularly during periods of accelerated infrastructure development.

Furthermore, because this research solely looks at quantitative information from annual financial reports, it does not capture qualitative factors, such as corporate governance, managerial decision-making, or project risk, which may also influence firm value and lead to omitted-variable bias.

Therefore, future research is encouraged to extend the observation period, include other sectors or comparative contexts, and apply alternative analytical approaches, such as panel models with moderating variables or mixed-method designs, to examine additional determinants of firm value, including dividend policy, firm size, capital structure, and macroeconomic factors.

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