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The Effect of Profitability, Liquidity and Leverage on Financial Health in Telecommunications Subsector Companies Listed on the Indonesia Stock Exchange (IDX)

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ABSTRACT
This study aims to determine the effect of profitability, liquidity, and leverage on financial health in telecommunication subsector companies listed on the IDX for the 2018-2021 period. The population of this study were telecommunication subsector companies listed on the Indonesia Stock Exchange for the period 2018-2021. The sampling method used was purposive sampling of 19 companies and obtained a sample of 16 companies during the 4-year observation period. The data analysis technique used is multiple discriminant analysis. The results showed that profitability, liquidity and leverage affect financial health because these three ratios are able to distinguish between healthy and unhealthy financial health conditions.

Keywords : Financial Health, Profitability, Liquidity, Leverage

INTRODUCTION

Every company is generally established with the aim of making a profit. The company's ability to earn profits can be seen from the company's financial performance. Companies that handle their business well are certainly able to generate profits and their financial health is well maintained. On the other hand, companies that are less efficient in handling their business will have difficulty in generating profits and their financial health will be disturbed. The telecommunications sector is one of the subsectors of the infrastructure sector on the Indonesia Stock Exchange (IDX). According to BPS data from the results of the 2021 National Socio-Economic Survey data collection, 62.10% of the Indonesian population has accessed the internet in 2021. And it is recorded that 90.54% of households in Indonesia have owned/controlled a mobile phone. This industry is a very basic need for the community.

The number of subscribers and the volume of telecommunications traffic increased very efficiently The growth of the information and communication sector is driven by an increase in the number of internet users and an increase in internet data traffic This is the impact of the enactment of social restriction policies that encourage online activities, especially video conferencing, e-commerce, and digital entertainment In the era of an all-digital society, the telecommunications sub-sector has experienced very rapid development in line with the times and technological sophistication The number of customers and telecommunications companies has also increased from year to year from 2018 to 2021 as shown in the graph below:

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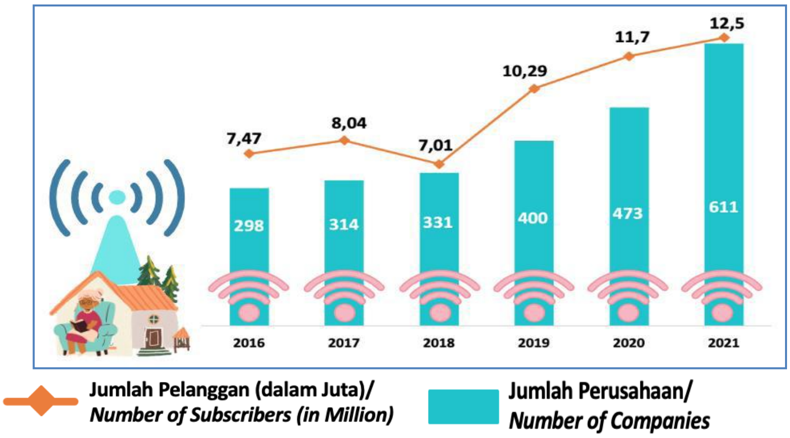

Figure 1. Number of Internet Service Provider Customers & Companies
Source: Ministry of Communication and Information Technology

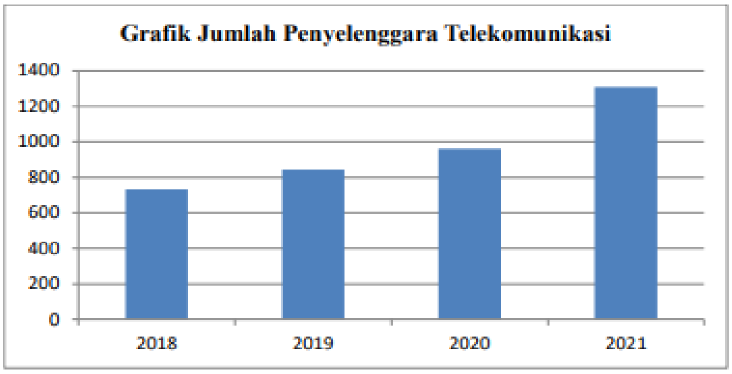

Figure 2. Graph of the Number of Telecommunication Operators
Source: Ministry of Communication and Information Technology

With a large population and a very large area, Indonesia is an attractive market as well as a challenge for the telecommunications industry This has been responded to through the growth in the number of telecommunication operators that continues to increase As seen in the graph above, in 2021 there were 1,307 companies that had obtained permits to operate telecommunication services in Indonesia This number increased compared to 2020 which amounted to 959 companies, in 2019 there were 843 companies and in 2018 there were 733 companies (Economic Outlook 2022, 2022)

Financial health is a state that describes the state and stability of a person's or company's financial condition (The Balance Money, 2021) According to the Corporate Finance Institute (2021), financial health is a basic measurement to evaluate and know the ability of a company or individual as a description of the level of financial resilience of a company or individual Financial health is related to the ability of a company to manage its financial performance Corporate health can show the financial condition of a company with the implementation of each company's target in accordance with the company's vision and goals and the fulfilment of the company's own financial health standards (Khaerunnisa, 2018) The company's financial health can be seen from the analysis of financial statements that provide information about the company's finances.

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Telecommunications subsector companies have a low Return On Assets (ROA) value Siti Masitoh's research (2018), states that if the return on assets increases, it means that the company's profitability increases, so that the final impact is an increase in profitability that shareholders receive and the possibility of the company experiencing poor financial health will decrease On the other hand, if the ROA value is low, it means that the company is not efficient in generating profits from the assets it owns ROA measures the company's ability to generate net profit from every pound of assets owned The lower the ROA value, the smaller the profit the company will generate This will certainly make the company's financial performance deteriorate because the company is considered unable to generate profits Poor financial performance affects the financial health of the company

Companies with low ROA scores tend to have poor levels of financial health On average, telecommunications subsector companies have a current ratio below 1, which means that telecommunications subsector companies have a larger amount of short-term liabilities than current assets PT Smartfren Telecom Tbk and PT First Media Tbk recorded low CR for four years This situation indicates a high liquidity risk and the company is having difficulty meeting its financial obligations that will mature in the short term Current ratio is a ratio that measures a company's ability to meet short-term obligations that are due soon The increasing number of short-term liabilities rather than current assets indicates a poor health condition of the company

Debt to Assets Ratio (DAR) is a ratio that measures the proportion of debt to the total assets of a company Research by (Berhe, 2017) states that a debt to asset ratio that exceeds the optimal level can result in a higher risk of financial health problems and also a low company value Table 14 shows that the DAR value of telecommunications subsector companies is below 1 This shows that the proportion of the company's debt looks lower compared to its total assets.

LITERATURE REVIEW

Signalling Theory

The signalling theory was first proposed by Spence (1973) who explained that the sender of information (the owner of the information) provides a signal or signal in the form of information that reflects the condition of a company that is beneficial to the recipient (investor) According to Brigham and Houston (2011), signal theory explains management's perception of the company's future growth The signal is in the form of information that explains management's efforts in realising the owner's wishes Signal theory is an action taken by company management that provides investors with instructions on how management views the company's prospects.

Financial Health

Financial health is a state that describes the state and stability of a person's or company's financial condition (The Balance Money, 2021) According to the Corporate Finance Institute (2021), financial health is a basic measurement to evaluate and know the ability of a company or individual as a description of the level of financial resilience of a company or individual Financial health is related to the ability of a company to manage its financial performance Corporate health can show the financial condition of a company with the implementation of each company's target in accordance with the company's vision and

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goals and the fulfilment of the company's own financial health standards (Khaerunnisa, 2018) The company's financial health can be seen from the analysis of financial statements that provide information about the company's finances.

Profitability

Profitability is the ability of a company to generate profits Munawir (2010:246) defines profitability as a ratio that measures the effectiveness of overall management which is indicated by the amount of profits obtained in relation to sales and investment, the profitability of a company is measured by the success of the company and the ability to use its assets productively so that the profitability of a company can be known by comparing the profits obtained in a period with the amount of assets or the amount of capital of the company.

Likuidity

The liquidity ratio provides an overview of the company's ability to meet obligations that mature within a period of one year (Kipkemoi, 2019) The liquidity ratio is an indicator of a company's ability to meet all short-term financial obligations at maturity using available current assets The liquidity ratio used in this study is the current ratio (CR) Current ratio is one of the liquidity ratios used to assess the liquidity position of a company by using the relationship between current assets and current liabilities.

Leverage

The leverage ratio used in this study is the debt to asset ratio This ratio is a debt ratio used to measure the ratio between total debt and total assets In other words, how much of a company's assets are financed by debt or how much the company's debt affects asset management If the company's financing uses too much debt, there will be a risk of default in the future because the amount of debt is greater than the amount of assets owned by the company.

Price to Book Value (PBV)

Price to Book Value is a term used to assess the stock price of a company whether it is cheap or expensive PBV compares the stock price to the book value of a company A PBV ratio smaller than 1 can indicate a cheap company stock and above 1 expensive company stock.

METHODS

This research was conducted on the Indonesia Stock Exchange (IDX) on telecommunications subsector companies on the wwwidxcoid website and the official website of each company This study uses financial data for four years in the observation period from 2018 to 2021 The population used in this study is 19 telecommunications subsector companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2021 period In this study, the sample used was as many as 16 data from telecommunication subsector companies The sampling technique was determined using the purposive sampling method.

RESULTS AND DISCUSSION

Results

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Table 1. Test of Equality Means

Tests of Equality of Group Means					
	Wilks' Lambda	F	df1	df2	Sig.
ROA	0.886	7.992	1	62	0.006
CR	0.922	5.231	1	62	0.026
DAR	0.932	4.527	1	62	0.037

The Effect of Profitability on Financial Health

Profitability proxied with ROA based on research results has an effect on financial health because it is able to distinguish the financial health condition of the company Using discrimination analysis, the value of wilks' lambda of the ROA variable was 0886 and the value of Sig 0006 The results of this study are in line with previous research by Nillasari Salim (2018) Profitability is a ratio that indicates the extent to which a company is able to generate profits from its operational activities.

This ratio also describes the level of effectiveness of the company's management from sales through company assets, capital and investment and various other aspects. Companies with healthy financial conditions have high profitability compared to companies with poor financial conditions. Good profitability shows that the company has the potential to survive, grow and be able to meet its obligations. The higher the level of profitability, the better the company's financial health condition.

The Effect of Liquidity on Financial Health

Liquidity affects financial health because it is able to distinguish between healthy and unhealthy corporate financial health conditions This can be seen that the value of Wilks' Lambda CR is 0922 and sig 0026 The results of this study are in line with the research conducted by Raden Achmad Fajri S (2018) The liquidity ratio describes the extent to which a company is able to repay its current debt Companies with good financial health have a high CR rate compared to companies with poor financial health Good liquidity indicates that the company has resources that can be quickly converted into cash so that the company's financial health remains in good condition

Effect of Leverage on Financial Health

Leverage measured by the debt to assets ratio (DAR) has an effect on financial health because it is able to distinguish the financial health conditions of telecommunication companies. The value of wilks' lambda is 0.932 and sig. 0.037. This is in line with research conducted by Raden Achmad Fajri S (2018). Leverage is a ratio that shows how debt is used to finance a company's operational activities. Healthy companies tend to have lower leverage levels than unhealthy companies. If the company's leverage level is high, it triggers the risk of loss and affects the company's financial health. On the other hand, if the leverage level is low, the risk of loss will be lower as well and the company's financial health condition will also improve.

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CONCLUSION

Based on the results of the research and discussion that has been described, the conclusions obtained are: The profitability ratio proxied to Return on Assets (ROA), the ratio proxied to the Current Ratio (CR), and the leverage ratio proxied to the Debt to Assets Ratio (DAR) have an effect on financial health because they are able to distinguish the financial health conditions of telecommunications subsector companies listed on the Indonesia Stock Exchange for the 2018-2021 period.

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