ANALYSIS OF FINANCIAL PERFORMANCE OF UNDERVALUED COMPANIES IN THE MANUFACTURING SECTOR ON THE INDONESIAN STOCK MARKET

Mahardika Burhan[*]**, Rahmat Hidayat, Satriani Jamarang, Sarah Alifa**

Department of Accounting, Faculty Economics, University Karya Dharma

Makassar, Indonesia

Abstract

This research aims to explore how to utilize the value investing approach for investing in the Indonesian stock market to identify a list of undervalued companies deemed suitable for investment. The analytical method used in this study is quantitative descriptive analysis. The research findings indicate that out of 178 companies listed on the Indonesian stock market, only 6 companies fall into the undervalued category with good financial performance based on the value investing approach and financial ratios. The 6 selected companies considered worthy for investment consideration are PT. Intanwijaya International Tbk. (INCI), PT. Wilmar Cahaya Indonesia Tbk. (CEKA), PT. Wismilak Inti Makmur Tbk (WIIM), PT Astra Otoparts Tbk (AUTO), PT Sekar Laut Tbk (SKLT), and PT Sat Nusapersada Tbk (PTSN).

Keywords: *Stock Market, Value Investing, Stock Price.*

1. INTRODUCTION

The capital market plays a significant role in the world economy, including in Indonesia. The capital market holds a vital role in the economy by facilitating companies to raise funds, contributing to overall economic growth. This demonstrates that the capital market significantly contributes to economic expansion. The stock market has a crucial role in economic growth. Companies can acquire funds for their operational activities through the capital market. This is evidenced by the increasing number of companies listed on the Indonesia Stock Exchange (IDX) to sell shares to investors.

The capital market itself comprises instruments such as stocks, bonds, rights, warrants, stock index futures contracts, and mutual funds. Stocks represent ownership securities, indicating that the shareholder is an owner of the company. The larger the shareholding in a company, the greater the control the shareholder holds in that company. Factors influencing financial performance and company value include stock prices.

Evaluating a company's financial performance aims to gauge its success level. In other words, assessing a company's financial performance is crucial for all parties with interests in the company's existence (Chanifah and Budi, 2019). Financial statement information within investor-owned companies is one factor that can influence demand for stocks. Financial performance reflects the financial state of a company over a specific period, resulting from numerous continuous decisions made by management. Information something new to knowledge of accounting about financial performance is crucial for investors as a decision-making tool (Rambe, 2020). According to (Savestra et al., 2021), the process of enhancing financial performance can be influenced by several factors related to managerial and institutional ownership.

Stocks represent a document indicating that the holder of that document is an owner of the company, and issuing the document signifies ownership of the company issuing it (Muslih et al., 2020). Stock prices reflect a company's value; a good company will achieve desired outcomes, making its stocks attractive to numerous investors.

Coressponding author. Email address: mahardikaburhan@gmail.com

In 2020, the economic recession caused by the COVID-19 pandemic affected many companies, leading to financial difficulties. Company performance was also impacted by these conditions. There was a mismatch between stock prices and actual company performance in some cases, such as the situation in 2020 due to the COVID-19 pandemic. Despite initially dropping by up to 30% in March 2020 from January 2020, stock prices experienced a significant increase. This phenomenon indicates that stock prices can be influenced by factors other than a company's real performance. It is essential to note that stock prices do not always directly reflect a company's actual condition.

According to Shiyammurti, Saputri, and Syafira (2020), foreign investors tended to experience an increase in stock trading value. The increased dominance of foreign investors is worrisome as it is suspected to be hot money. As domestic capital markets integrate more with the global market, the dependency level increases, making certain fluctuations affect investor decisions and result in rapid capital outflow, which can endanger the economy by affecting domestic liquidity.

Several conditions and situations determine fluctuations in stock market performance. Factors affecting stock price fluctuations include Economic Factors, market factors, and Company Characteristics (Muslih and Bachri, 2020). There are various ways to evaluate financial performance, one of which is assessing a company's profitability using return on assets (Chanifah and Budi, 2019). Return on equity indicates a company's ability, especially common equity, to generate profits. Another perspective states that Return On Equity is used to measure a company's ability to generate profits from its equity (Muslih and Bachri, 2020). Companies aim for profit to benefit stakeholders, investors, and company management (Rambe, 2020).

In Dharma et al.'s (2021) research, Return on Equity significantly influenced stock prices. This means that companies with high profitability levels can finance their business activities with retained earnings they possess.

One method companies can employ to evaluate financial performance is through financial ratio analysis (Chanifah and Budi, 2019). According to Dwi (2016), companies can assess financial performance through financial ratio analysis:

1. Profitability Ratios: return on assets, return on equity, net profit margin, gross margin.
2. Earnings Per Share: indicates a company's profitability level.
3. Management Ratios: asset turnover, fixed asset turnover, inventory turnover, day sales outstanding, average collection period, which shows the utilization level of company assets (effectiveness and efficiency).
4. Liquidity Ratios: current ratio, quick ratio, cash ratio, displaying a company's liquidity level (its ability to settle short-term liabilities).
5. Financing Ratios: debt ratio, debt to equity ratio, times interest earned, demonstrating a company's funding condition (debt utilization).
6. Capitalization Ratios: book value per share, price-earnings ratio, illustrating a company's capitalization and its valuation in the capital market.

The value investing method involves buying a company below its book value and holding it until its stock price returns to its book value. However, this approach also requires financial ratio analysis to find undervalued companies with good financial performance, suitable for investment. Based on the preceding introduction, the research problems are: (1) How to employ value investing in the Indonesian stock market? and (2) What are the undervalued companies with good financial performance?

The research conducted by Sulistijo et al. (2021) serves as a reference in this study with different research objects and timeframes. In Sulistijo et al.'s research, utilizing financial ratios, they found that out of 700 companies in Indonesia, only five were categorized as undervalued companies with good financial performance.

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Therefore, the objective of this research is to demonstrate how to utilize the value investing approach in the Indonesian stock market to compile a list of undervalued companies suitable for investment consideration.

2. LITERATURE STUDY

AgencyTtheory

Agency theory is the relationship between two parties: the first being the owner (principal) and the second being management (agent). This theory explains that an agency relationship arises when one or more individuals (principals) employ another individual (agent) to provide a service and subsequently delegate decision-making authority to that agent (Lesmono et al., 2021). Agency theory provides two specific contributions to organizational thinking. First, the treatment of information. Second, the implications of information risk. The treatment of information is considered as a commodity incurring costs and being purchasable.

From the definition above, it can be concluded that agency theory is a concept explaining the agency relationship between owners and management. This theory contributes to organizational thinking by emphasizing the treatment of information as a commodity and realizing information risk in agency relationships.

Financial Performance

The financial performance of a company depicts its financial condition during a specific period, encompassing aspects related to fund procurement and allocation, typically measured by capital adequacy indicators (Chanifah and Budi, 2019). Assessing a company's financial performance aims to determine its level of success.

Therefore, it can be concluded that a company's financial performance reflects its financial condition and can be measured using capital adequacy indicators. Assessing a company's financial performance aims to determine its success level by evaluating efficiency, profitability, and financial stability.

Financial Statement

Financial statements represent a form of responsibility for the management's handling of resources to stakeholders (Dharma et al., 2021). These financial statements aim to provide an understanding of a company's financial position, operational results, and cash flow to parties with interests in economic decision-making. According to Herawati (2019), financial statements in a company are essentially the outcome of an accounting process acquired to serve as a communication tool between the financial data or activities of the company and stakeholders interested in that data or the company's activities.

The creation of financial statements must be carried out with full responsibility. These reports must be accurate, reliable, and free from any manipulation or detrimental errors. This is crucial to maintain the integrity of financial reports and ensure that the information conveyed to stakeholders can be trusted.

Financial Ratio Analysis

Financial ratio analysis is a tool used to assess a company's performance by comparing financial data found in financial statements (balance sheets, income statements, cash flow statements) (Chanifah and Budi, 2019).

Financial Ratios

Financial ratios are among the tools used to assess the performance achieved by a company. The financial ratios to be utilized here include book value, debt to equity ratio, price

to earnings ratio, return on assets, and return on equity. The criteria for the price to book value are < 1, debt to equity < 1, return on equity > 10%, and price to earnings ratio < 10.

1. **Book Value**

According to Putra (2019), Book Value is the value of a company's net capital divided by the number of outstanding shares. So that the use of this *book value* will be able to provide an overview of an expensive or cheap company when compared to the price of shares that are being traded on the stock market. And for the criteria of *price to book value* is < 1. The formula for finding *the book value* is as follows.

$$Book\ Value = \frac{Amount\ of\ equity\ attributable\ to\ owners\ of\ parent\ entity}{Total\ Circulating\ Shares}$$

2. **Price To Book Value**

According to Hidayat (2019) *Price to book value* It can be interpreted as how much time the price paid by investors to acquire part of the company's assets. The higher *price to book value* then the more expensive the share price. And for the kirteria of *price to book value* is < 1. As for the formula for searching *price to book value* are as follows:

$$Price\ To\ Book\ Value = \frac{Price\ of\ Shares\ Traded}{Company\ Book\ Value}$$

3. **Return on Equity**

According to Muslih and Bachri (2020) *Return On Equity* Used to measure the ability of own capital to generate profits. The higher *return on equity* Then the better the performance of a company. And for the criteria of *return on equity* be > 10%. As for the formula for searching *return on equity* are as follows:

$$Return\ on\ Equity = \frac{Profit\ attributable\ to\ parent\ entity}{Amount\ of\ equity\ attributable\ to\ owners\ of\ parent\ entity}$$

4. **Price to Earnings Ratio**

Price to earning ratio One of the financial ratios used to assess the valuation of a stock. This ratio is often used by investors to determine whether the stock price is expensive or cheap. According to Putra (2019) states that the smaller *price to earning* The ratio, the cheaper a company is, related to the company's income level. And for the criteria of *price to earnings rasio* be <10. As for the formula for searching *price to earnings* The ratio is as follows:

$$Price\ To\ Earnings = \frac{Price\ of\ shares\ traded}{Earning\ per\ share}$$

5. **Debt to Equity**

According to Hung (2018), *Debt to Equity* is the ratio of how much the ratio between the total liabilities owned by the company compared to the company's working capital or equity. And for the *debt to equity* criterion is < 1, the formula for finding the Debt to Equity *ratio is as follows:*

$$Debt\ to\ Equity = \frac{Total\ Liabilities}{Amount\ of\ equity\ attributable\ to\ owners\ of\ parent\ entity}$$

3. RESEARCH METHODOLOGY

This research is a quantitative research. And the analytical method used in this study is quantitative descriptive. Quantitative descriptive method is an analysis used to describe or

describe data that has been collected quantitatively on financial ratios to analyze and assess undervalued manufacturing companies in the Indonesian stock market

The type of data used in this study is secondary data, secondary data is data obtained by researchers from existing sources which include financial statements for 2017-2021. And the source of data used is in the form of financial statements of manufacturing companies listed on the IDX for 2017-2021. Financial statements are the result of the accounting process that can be used as a tool to communicate between financial data in a company (Alpha, Faridah, and Thanwain, 2021).The data collection methods in this study are:

1. Documentation studies are data collection procedures in the form of secondary data that reveal financial information, namely in the form of financial statements.
2. Library *Research* is a collection of data carried out by reading various books related to the discussion in this study.
3. *Internet Searching* is research conducted by collecting various additional information sourced from the internet to complete the author's references related to the problem under study.

4. RESULT AND DISCUSSION

In this study using financial ratios as mentioned earlier. A total of 6 companies were selected with the condition of the company undervalue and with good performance performance. The 6 companies are PT. Intanwijaya International Tbk. (INCI), PT. Wilmar Cahaya Indonesia Tbk., (CEKA), PT. Wismilak Inti Makmur Tbk (WIIM), PT Astra Otoparts Tbk (AUTO), PT Sekar Laut Tbk (SKLT), and PT Sat Nusapersada Tbk (PTSN).

First, PT. Intanwijaya International Tbk. (INCI) based on data released from the 4th quarter 2021 financial statements, it was found that PT. Intan Wijaya International Tbk. has 0.1 billion outstanding shares and equity that can be distributed to the parent is Rp.379 billion. So that it is obtained Book value is Rp.1935/share. Compared to the stock price, it is traded at Rp.550/share, price to book value PT. Intan Wijaya Internasional Tbk. is 0.28x (<1). Then judging from the net profit data attributable to the owners of the parent company of Rp. 58 billion, then return on equity is 3% (>10%). The comparison between the price of shares traded with the profit per share of the company is obtained price to earnings the ratio is 0.94x (<10) and with liabilities of Rp.131 billion, the ratio debt-to-equity The company's ratio is 0.35 (<1). So PT. Intanwijaya Internasional Tbk. (INCI), is included in the investment category undervalue which is worth considering for investment.

Table 1 Financial Ratios of PT. Intanwijaya Internasional Tbk from 2017-2021

Information	2017	2018	2019	2020	2021
Number of outstanding shares (Billion)	0,1	0,1	0,1	0,1	0,1
Ekuitas (Milliar)	268	319	340	368	379
Liabilities (Billions)	35	71	65	76	131
Net Profit (Billion)	11	17	11	27	58
Price per share	630	545	394	835	550
Book Value (Milliar)	1.482	1.631	1.734	1.880	1.935
PBV (X)	0,33	0,33	0,23	0,44	0,28
Return on Equity (%)	6%	5%	4%	8%	3%
Price to Earnings (X)	5,72	3,20	3,58	3,09	0,94
Debt to Equity (X)	0,13	0,22	0,19	0,21	0,35

Data sources processed 2023

Second, PT. Wilmar Cahaya Indonesia Tbk., (CEKA) based on data released from the 4th quarter 2021 financial report, it was found that PT. Wilmar Cahaya Indonesia Tbk. has 0.5 billion outstanding shares and equity that can be distributed to parent holders is Rp 1,387 billion. So that the Book value is Rp 2,331 / share. Compared to its stock price traded at Rp 1,875 / share, the price to book value of PT. Wilmar Cahaya Indonesia Tbk. is 0.80x (<1). Then judging from the net profit data attributable to the owners of the parent company of IDR 187 billion, the return on equity is 13.48% (>10%). The comparison between the price of shares traded with the company's profit per share results results the price-to-earnings ratio is 6.23x (<10) and with liabilities of IDR 310 billion, the debt-to-equity ratio of this company is 0.22 (<1). So PT. Wilmar Cahaya Indonesia Tbk, is included in the category of undervalue investments that are worth considering for investment.

Table 2 Financial Ratios of PT. Wilmar Cahaya Indonesia Tbk (CEKA)
from 2017-2021

Information	2017	2018	2019	2020	2021
Number of outstanding shares (Billion)	0,5	0,5	0,5	0,5	0,5
Ekuitas (Milliar)	903	976	1.131	1.260	1.387
Liabilities (Billions)	489	192	261	305	310
Net Profit (Billion)	107	92	215	181	187
Price per share	1.400	1.060	1.465	1.875	1.875
Book Value (Milliar)	1.517	1.641	1.901	2.118	2.331
PBV (X)	0,92	0,65	0,77	0,88	0,80
Return on Equity (%)	11,90	9,49	19,05	14,42	13,48
Price to Earnings (X)	6,54	5,76	3,40	5,85	6,23
Debt to Equity (X)	0,54	0,20	0,23	0,24	0,22

Data sources processed 2023

Third, PT. Wismilak Inti Makmur Tbk (WIIM) based on data released from the 4th quarter 2021 financial report, it was found that PT. Wismilak Inti Makmur Tbk. has 2.0 billion outstanding shares and equity that can be distributed to parent holders is IDR 1,318 billion. So that it is obtained Book value is Rp 628/share. Compared to the stock price, it is trading at Rp 474/share, price to book value PT. Wismilak Inti Makmur Tbk. is 0.75x (<1). Then judging from the net profit data attributable to the owners of the parent company of IDR 177 billion, then return on equity is 13.40% (>10%). The comparison between the price of shares traded with the profit per share of the company is obtained price to earnings the ratio is 5.35x (<10) and with liabilities of Rp 572 billion, the ratio debt-to-equity The company's ratio is 0.43 (<1). So PT. Wismilak Inti Makmur Tbk, is included in the investment category undervalue which is worth considering for investment.

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Table 3 Financial ratios of PT. Wismilak Inti Makmur Tbk (WIIM) from 2017-2021

Information	2017	2018	2019	2020	2021
Number of outstanding shares (Billion)	2,0	2,1	2,0	2,0	2,0
Ekuitas (Milliar)	978	1.005	1.033	1.185	1.318
Liabilities (Billions)	247	250	266	428	572
Net Profit (Billion)	41	51	27	172	177
Price per share	260	245	124	960	474
Book Value (Milliar)	466	478	492	565	628
PBV (X)	0,56	0,53	0,25	1,70	0,75
Return on Equity (%)	4,14	5,08	2,64	14,53	13,40
Price to Earnings (X)	12,68	10,09	9,18	11,16	5,35
Debt to Equity (X)	0,25	0,25	0,26	0,36	0,43

Data sources processed 2023

Fourth, PT Astra Otoparts Tbk (AUTO) based on data released from the 4th quarter 2021 financial statements, it was found that PT Astra Otoparts Tbk has 4.8 billion outstanding shares and the equity that can be distributed to parent holders is IDR 11,845 billion. So that *the Book value* is IDR 2,457 / share. Compared to its stock price traded at Rp 1,085/share, the price *to book value* of PT Astra Otoparts Tbk is 0.44x (<1). Then judging from the net profit data attributable to the owners of the parent company of IDR 611 billion, the *return on equity* is 5.16% (>10%). The comparison between the price of shares traded with the company's profit per share results results the ratio is 8.54x (<10) and with liabilities of IDR 5,101 billion, the *debt-to-equity* ratio of this company is 0.43 (<1). So that PT Astra Otoparts Tbk, is included in the undervalue investment category that is worth considering for investment.

Table 4 Financial Ratios of PT Astra Otoparts Tbk (AUTO) from 2017-2021

Information	2017	2018	2019	2020	2021
Number of outstanding shares (Billion)	4,8	4,8	4,8	4,8	4,8
Ekuitas (Milliar)	10.759	11.263	11.650	11.270	11.845
Liabilities (Billions)	4.009	4.626	4.365	3.909	5.101
Net Profit (Billion)	551	611	739	2,2	611
Price per share	1.795	1.640	1.050	1.040	1.085
Book Value (Milliar)	2.232	2.336	2.417	2.338	2.457
PBV (X)	0,80	0,70	0,43	0,44	0,44
Return on Equity (%)	5,13	5,42	6,35	0,02	5,16
Price to Earnings (X)	15,70	12,90	6,86	2,31	8,54
Debt to Equity (X)	0,37	0,41	0,37	0,35	0,43

Data sources processed 2023

Fifth, PT Sekar Laut Tbk (SKLT) based on data released from the financial statements for the 4th quarter of 2021, it was found that PT Sekar Laut Tbk has a total of 0.6 billion outstanding shares and the equity that can be distributed to the parent holder is IDR 541 billion. So that it is obtained *Book value* is Rp 784/share. Compared to the stock price, it is traded at Rp 2,110 / share, *price to book value* PT Sekar Laut Tbk is 2.69x (<1). Then judging from the net profit data attributable to the owners of the parent company of Rp 84 billion, then *return on equity* is 15.60% (>10%). The comparison between the price of shares traded with the profit per share of the company is obtained *price to earnings* the ratio is 15.07x (<10) and with

liabilities of Rp 347 billion, the ratio *debt-to-equity* The company's ratio is 0.64 (<1). So that PT Sekar Laut Tbk, is included in the investment category *undervalue* which is worth considering for investment.

Table 5 Financial ratios of PT Sekar Laut Tbk (SKLT) from 2017-2021

Information	2017	2018	2019	2020	2021
Number of outstanding shares (Billion)	0,6	0,6	0,6	0,6	0,6
Ekuitas (Milliar)	307	339	380	407	541
Liabilities (Billions)	328	408	410	366	347
Net Profit (Billion)	23	32	45	42	84
Price per share	1.100	1.500	1.610	2.310	2.110
Book Value (Milliar)	445	491	550	589	784
PBV (X)	2,47	3,05	2,92	3,92	2,69
Return on Equity (%)	7,51	9,47	11,83	10,45	15,60
Price to Earnings (X)	28,70	28,14	21,46	33,00	15,07
Debt to Equity (X)	1,07	1,20	1,08	0,90	0,64

Data sources processed 2023

Sixth, PT Sat Nusapersada Tbk PTSN) based on data released from the 4th quarter 2021 financial statements, it was found that PT Sat Nusapersada Tbk has 1.7 billion outstanding shares and the equity that can be distributed to parent holders is IDR 1,281 billion. So that the *Book value* is Rp 241 / share. Compared to its stock price traded at Rp 216/share, the price *to book value* of PT Sat Nusapersada Tbk is 0.90x (<1). Then judging from the net profit data attributable to the owners of the parent company of Rp 83 billion, the *return on equity* is 6.48% (>10%). The comparison between the price of shares traded with the company's profit per share results results in a *price-to-earnings* ratio of 4.42x (<10) and with liabilities of IDR 83 billion, the company's *debt-to-equity* ratio is 0.93 (<1). So that PT Sat Nusapersada Tbk, is included in the undervalue investment category that is worth considering for investment.

Table 6 Financial Ratios of PT Sat Nusapersada Tbk PTSN) from 2017-2021

Information	2017	2018	2019	2020	2021
Number of outstanding shares (Billion)	1,7	1,7	1,7	1,7	1,7
Ekuitas (Milliar)	684	1.008	980	1.166	1.281
Liabilities (Billions)	16	217	90	46	83
Net Profit (Billion)	7	173	13	68	83
Price per share	220	1215	165	202	216
Book Value (Milliar)	386	569	184	219	241
PBV (X)	0,57	2,13	0,89	0,92	0,90
Return on Equity (%)	0,97	17,23	1,28	5,85	6,48
Price to Earnings (X)	53,52	12,02	21,59	5,05	4,42
Debt to Equity (X)	0,33	3,13	1,29	0,57	0,93

Data sources processed 2023

The following is a combination of seven companies that are categorized as *undervalued* with good financial performance so that these seven companies are worthy of consideration for investment.

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Table 7 Summary Results of Financial Ratio Analysis

Stock Code	Stock Sheet	Equity	Liab ility	Net Profit	Share Price	Book Value	PBV	ROE (%)	PER	THE
PEARL	0,1	379	131	58	550	1.935	0,28	3%	0,94	0,35
NSA	0,5	1.387	310	187	1.875	2.331	0,80	13,48	6,23	0,22
SKLT	0,6	541	347	84	2.110	784	2,69	15,60	15,07	0,64
PTSN	1,7	1.281	83	83	216	241	0,90	6,48	4,42	0,93
WIIM	2,0	1.318	572	177	474	628	0,75	13,40	5,35	0,43
AUTO	4,8	11.845	5.101	611	1.085	2.457	0,44	5,16	8,54	0,43

Data sources processed, 2023

Based on the results of the Financial Ratio Analysis Summary table 4.7, the company with the ratio *price to book* value the smallest is an INCI company with a PBV of 0.28, ROE of 3%, and a PER of 0.94. while for companies with fairly expensive prices that can be included are companies with stock code AUTO. AUTO has a PBV of 0.44, ROE of 5.16%, and a PER of 8.54.

If you look at the comparison with the smallest price to book value, the company PT. Intanwijaya International Tbk., (INCI) ranks first with a PBV of 0.28. As for the comparison between the price per share paid by investors with the net income per share that investors can get, the smallest price-to-earnings ratio is the company PT. Intanwijaya International Tbk., (INCI) with a PER of 0.94.

Thus, overall PT. Intanwijaya International Tbk., (INCI) is the company with the lowest share price based on PBV and PER, while PT Astra Otoparts Tbk (AUTO) is a company with a fairly expensive share price. However, PT Astra Otoparts Tbk (AUTO) also showed better performance in generating profits based on ROE.

5. CONCLUSION

By analyzing using an approach value investing and the financial ratio of 178 companies listed on the Indonesian stock market, so only 6 companies are included in the category undervalue with good financial performance. Method value investing Used with financial ratios using data sourced from the company's financial statements so that financial ratios are obtained that describe the performance of the company. The 6 companies selected to be worthy of consideration for investment are: be PT. Intanwijaya International Tbk. (INCI), PT. Wilmar Cahaya Indonesia Tbk., (CEKA), PT. Wismilak Inti Makmur Tbk (WIIM), PT Astra Otoparts Tbk (AUTO), PT Sekar Laut Tbk (SKLT), and PT Sat Nusapersada Tbk (PTSN).

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