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Does Profitability Mediate the Relationship between Financial Characteristics and Firm Value? Evidence from Islamic Capital Markets

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Abstract

This study aims to analyze the effect of liquidity, leverage, and company size on company value with profitability as an intervening variable. This study focuses on companies listed on the Jakarta Islamic Index (JII) for the 2021-2023 period. The research method uses a quantitative approach with a purposive sampling technique, resulting in 18 companies as samples. Data analysis was carried out using multiple linear regression and the Sobel test to test the mediation effect. The results of the study indicate that liquidity has no significant effect on company value, leverage has a significant negative effect on company value, and company size has a significant positive effect on company value. Profitability is proven to mediate the relationship between leverage and company value, but does not mediate the relationship between liquidity and company size and company value.

Keywords: Profitability; Liquidity; Leverage; Company Size; Company Value

Introduction

Planning early is essential amidst fierce competition and an uncertain future. Careful planning helps one to be better prepared, reduce risks and improve future prosperity. Investment is a concrete step to allocate income in growing assets, in order to achieve financial stability and face economic challenges. Wise investments also enable long-term preparations such as children's education, retirement, and emergency needs, so understanding the investment strategy right is crucial to achieving prosperity.

The Islamic stock investment industry is experiencing rapid growth, with the number of investors reaching 136,418 as of December 2023, an increase of 211% in the last five years. The performance of the Islamic stock index increasingshows great

potential, but it is still fluctuating and not yet optimal. Jeffrey Hendrik, Director of Development at the IDX, emphasized that the Islamic stock market has significant growth prospects, but still needs strengthening.(Majid & Purwanto, 2024)

Investors need to pay attention to the company's overall performance, including financial statements, management, and business prospects, so that investments are in accordance with sharia principles and potentially profitable. According to Sujoko and Soebiantoro, the company's success is reflected in the relationship between company value and stock price, where an increase in stock price indicates an increase in value and profit for shareholders. The stock price reflects the market mechanism as well as the public's perception of the company's success in achieving its business objectives (Perusahaan et al., 2022).

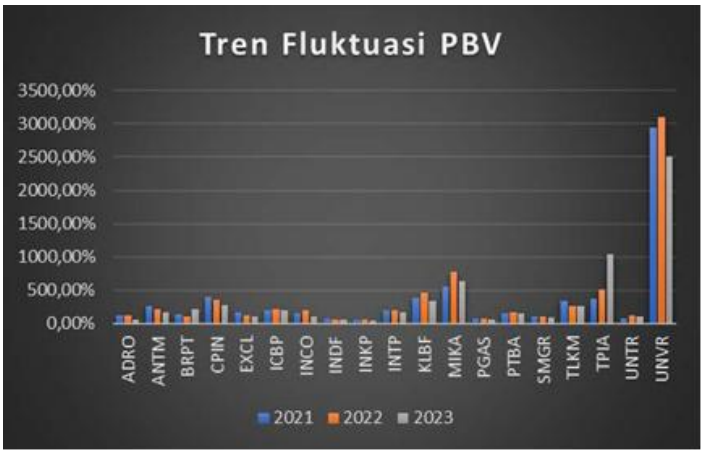
In addition to stock prices, company value can also be measured through Price to Book Value (PBV), which is a ratio that compares stock prices to their book value. Brigham and Houston state that a PBV high indicates the level of shareholder prosperity, so the company is considered successful in achieving its goals.(Aliyah, 2022) PBV helps investors in assessing whether a stock is overvalued or undervalued, where companies well-managedgenerally have a PBV above one, indicating the market value of the stock is higher than its book value.(Wiratno & Yustrianthe, 2022)

Investors are more interested in companies with high PBV because they are considered stable and profitable. To attract investors, company management needs to optimize asset strategies, control costs, and increase revenue to maximize company value and shareholder welfare. The value of companies listed in the Jakarta Islamic Index (JII) is the focus of this research.(Vianti et al., 2023)

The Jakarta Islamic Index (JII) consists of companies that conduct their business in accordance with Islamic sharia principles and plays an important role in the development of Islamic economics in Indonesia. Companies in the JII must be financially sound and meet strict criteria set by the National Sharia Council. Each year, 30 companies are selected for inclusion in the index, ensuring that only companies that adhere to sharia principles and have good growth prospects remain listed.

Companies in the JII experience turnover due to periodic reviews that are conducted twice a year (May and November). If a

company no longer meets the sharia criteria, it will be replaced by another company that is more suitable. This ensures that only companies that truly meet sharia standards can remain in the index.



Source: https://www.idx.co.id/id/idx-syariah/indeks-saham-syariah

Figure 1. PBV Fluctuations

PBV data for companies in the JII shows variations in value from 2021 to 2023. Some companies experienced significant increases, while others experienced fluctuations or decreases. For example, PT Aneka Tambang Tbk experienced a 64% decline in PBV in 2022 and 30% in 2023, while PT Unilever Indonesia Tbk experienced a 386% surge in 2022 before falling 563% in 2023. In contrast, PT Chandra Asri Petrochemical Tbk continued to increase with growth of 108% in 2022 and 20% in 2023. These fluctuations in value show that many companies in the JII still face challenges in maintaining company value.

Factors such as profitability, liquidity, leverage, and firm size are key considerations for investors as they have a direct impact on valuefirm. High profitability reflects the ability to generate profits, good liquidity indicates the capacity to meet short- term obligations, balanced leverage indicates optimal use of debt, and firm size affects access to capital and business stability. The combination of these factors determines the attractiveness of the company to investors and affects the perception of firm value.(Ompusunggu & Rahayu, 2023).

Profitability is a significant financial performance indicator in determining firm value.(Faizah Ikramina Indilla1, 2024) Previous studies

show mixed results regarding the effect of profitability on firm value. Ghufron Nurul Majid and Agus Purwanto found a significant positive effect, while Imam Hidayat and Khusnul Khotimah found that profitability had no significant effect. In contrast, Jamaluddin Ali, Ridwan Faroji, and Osman Ali found a negative effect of profitability on firm value.

Liquidity reflects the company's ability to meet its short-term obligations. (Iman et al., 2021) Choirul Iman, Fitri Nurfatma Sari, and Nanik Pujiati found a significant positive effect of liquidity on firm value, while Annisa Fadillah and Ika Rosyada Fitriati found a negative effect. Candra Kurnia Saputri and Axel Giovanni even found a negative and significant effect.

Leverage measures the extent to which a company's assets are financed with debt. (Anggita, 2022) Khosyi Tiara Anggita and Andayani found that leverage has a positive effect on firm value, while Dina Anggraeni Susesti and Endah Tri Wahyuningtyas found a negative effect. Studies by Nur Anisa, Sri Hermuningsih, and Alfiatul Maulida also show a negative and significant effect.

Company size affects firm value because the scale of the business determines financial stability and management capacity. Valentina Sinta Dewi and Agustin Ekadjaja found a positive and significant effect of company size on firm value. However, Dedi Irawan and Nurhadi Kusuma found that firm size has no significant effect, while Zahra Ramdhonah, Ikin Solikin, and Maya Sari found a negative effect.(Dewi & Ekadjaja, n.d.)

Profitability was chosen as an intervening variable because it acts as a mediator in the relationship between liquidity, leverage, and firm size on firm value. High profitability indicates the efficiency of asset management in generating profits, providing positive signals to investors, and increasing market confidence. Therefore, a deeper understanding of the role of profitability as an intervening variable can explain the indirect effect of these factors on firm value.

Literature review

Signalling Theory

Signaling theory, introduced by Spence (1973), explains that company management provides signals to investors regarding business conditions and prospects. This signal affects how investors assess and respond to the company in making investment decisions. The information conveyed can be in the form of positive signals (good news), such as good financial performance, which encourages investors to buy shares and increase the value of the company. Conversely, negative signals (bad news), such as financial difficulties, can cause a decrease in stock prices and company value.(Yuniari et al., 2021)

Signals can also arise through debt issuance decisions, which reflect the financial condition and prospects of the business. Competent managers may use debt to show confidence in the company's growth, while less competent managers may struggle to service debt, increasing the risk of bankruptcy. In addition, the level of business risk is also a consideration for investors, where high risk can be perceived as negative, while promising investment opportunities can be a positive signal that improves investors' perception of the company.(Mahendra & Daljono, 2023)

In this study, Signaling Theory is used to analyze the effect of liquidity, leverage, and firm size on firm value, with profitability as an intervening variable. This theory is closely related to management in providing financial statement information, which is the basis for investor decisions. The rise and fall of the company's value provides a signal for stakeholders in assessing the company's performance and prospects in the future (Aditya et al., 2021).

Company Value

Firm value reflects how the market assesses the performance and prospects of a company. This value is often measured through share price and profitability. A company with a high value is seen as successful and has the potential to grow, while a low value may indicate uncertainty regarding the company's performance." (Yemri Tanapuan,2022)

Stock price is a key indicator of firm value, as price changes reflect investors' perceptions of the company's performance and prospects. An increase in stock price signals market optimism and increased shareholder wealth, while a decrease in stock price is often associated with a decrease in company value and risk for investors.

Overall, firm value reflects investors' perceptions of business success, influenced by company performance and strategy. This value is important because it influences investment decisions and business strategies, and shows the effectiveness of company management in achieving its long-term goals.(Septriana & Mahaeswari, 2019)
Profitability

The profitability ratio is a measure used by companies to assess their ability to generate revenue. By evaluating the profitability ratio, the company can evaluate its overall performance, and determine strategies to increase profitability in the future.(Putranto & Setiadi, 2023)

Effect of Liquidity on Firm Value

Liquidity reflects a company's ability to meet short-term obligations using liquid assets. High liquidity reduces risk financialand increases investor confidence, which has a positive impact on firm value. Conversely, low liquidity increases the risk of financial distress, which may decrease the value of the company.

According to signaling theory, high liquidity provides a positive signal about the financial stability of the company. A study by Marthonius Ndruiru and colleagues found that liquidity has a positive effect on firm value.

H1: Liquidity has a positive effect on firm value.

The Effect of Leverage on Firm Value

Leverage indicates the extent to which a company uses debt in funding. A high leverage ratio indicates dependence on debt, which can increase financial risk and decrease the value of the company. In signal theory, the Debt to Asset Ratio (DAR) reflects the funding structure and financial risk. In signaling theory, the Debt-to-Assets Ratio (DAR)

reflects a company's financing structure and financial risk. Agency theory also states that shareholders tend to pursue risky projects, so creditors will demand risk compensation, which ultimately increases the cost of capital (Rizky Ramadhan, 2025). High leverage can reduce investor and creditor confidence. Studies by Kristofel and colleagues show leverage has a negative effect on valuefirm. Wildan's research findings also indicate that leverage has a negative impact on firm value (M. Cholid Iwal Wildan & Astri Fitria, n.d.).

H2: Leverage has a negative effect on firm value.

Effect of Company Size on Company Value

Firm size, measured by total assets or revenue, affects its ability to access funding and manage risk. Large companies tend to be more stable and attractive to investors, thus increasing the value of the company.

According to signal theory, large companies signal stability and growth potential better than small companies. The study by Yudha Arie Putra and colleagues shows that company size has a positive effect on firm value. Also, according to Prasetyorini's research, firm size has a significant positive effect on firm value (Sendy Andika Putra & Dewi Urip Wahyuni, 2019)

H3: Company size has a positive effect on firm value. Effect of Profitability on Company Value

Profitability is measured by Return on Assets (ROA), which reflects a company's efficiency in generating profits from its assets. ROA High indicates good financial performance, increases investment attractiveness, and encourages an increase in company value.

In signal theory, high profitability provides a positive signal to investors about the potential return on investment. The study by Maulana Haifizh Dimaisyqi and Faisal shows profitability has a positive effect on firm value. A study by Rosa Indriana also found that profitability has a significant positive impact on a company's value (Rosa indriana, n.d.)

H4: Profitability has a positive effect on firm value.

Effect of Liquidity on Profitability

Liquidity reflects a company's ability to meet short-term obligations through liquid assets such as cash, receivables, and inventory. Liquidity ratios, such as Current Ratio (CR) and Quick Ratio, measure the extent to which liquid assets can cover current debt.

According to signaling theory, high liquidity provides a positive signal to investors about the company's financial stability. Healthy liquidity also allows the company to allocate funds for profitable investments without relying on external funding.

Profitability as measured by Return on Assets (ROA) reflects the effectiveness of using assets to generate profits. Companies with high liquidity tend to be more stable and efficient in their operations, thus having a positive impact on profitability. Studies by Amrita Maulidia Rahman et al., as well as research from Risa Lusiana show liquidity has a positive effect on profitabi Research by Risa Lusiana also shows that liquidity has a positive effect on profitability (Aryani & Sihono, 2024; Risa Lusiana & Shinta Avriyanti, 2023)

H5: Liquidity has a positive effect on profitability.

Effect of Leverage on Profitability

Leverage refers to the use of debt in corporate funding to increase profit potential. A high Debt to Asset Ratio (DAR) indicates that the company more uses debt to finance its assets. If managed well, debt can be allocated to productive investments such as business expansion and product innovation, thereby increasing revenue and efficiency.

According to signaling theory, a capital structure that involves debt can signal the company's financial strategy to investors. Optimal leverage allows companies to obtain additional capital without sacrificing equity, support business expansion, and increase profitability.

Studies by Ida Bagus Gde, Indra Wedhana Purbaya, and Putu Yadnya show that leverage has a positive effect on profitability because it allows companies to take advantage of greater investment opportunities (Ida Bagus Gde Indra Wedhana Purba & & Yadnya, 2015)

H6: Leverage has a positive effect on profitability. Effect of Company Size on Profitability

Company size reflects the scale of the business and the resources under management. Large companies tend to be morestable, market trusted and have a competitive advantage over small companies. Larger scale also provides positive signals to investors regarding the stability and operational capabilities of the company.

According to signaling theory, companies with large total assets have wider access to funding sources, more efficient economies of scale, and better risk management capabilities. Profitability measured by ROA shows that large companies tend to be more efficient in operations, have competitivenessstronger, and wider investment opportunities.

Studies by Anggraeni Eka Pratiwi and Ulyung Suitan Indomo support that large companies provide higher confidence signals to investors, positively impacting profitability (Ardini, n.d.)

H7: Company size has a positive effect on profitability.

The Effect of Liquidity on Firm Value through Profitability

Liquidity reflects the company's ability to meet its short-term obligations through current assets such as cash, receivables, and inventory. A highlevel o liquidity increases financial stability and investor attractiveness, measured by the Current Ratio (CR) ratio. Based on signaling theory, high liquidity provides a positive signal to investors regarding the company's financial stability. Good liquidity also allows companies to allocate funds for profitable investments without excessive dependence on external funding, which ultimately increases the company's value (Price to Book Value /PBV).

Profitability, measured by Return on Assets (ROA), reflects the efficiency of asset management in generating profits. Companies with high liquidity tend to be more stable and efficient in their operations, thus having a positive impact on profitability. Good profitability increases investor confidence and strengthens firm value.

Previous research by Yudha, Putri, and Fitri showed that profitability mediates the relationship between liquidity and firm value in manufacturing companies listed on the Indonesia Stock Exchange (2016-2020).

H8: Liquidity has a positive effect on firm value through profitability (ROA). The Effect of Leverage on Firm Value through Profitability

Leverage describes the company's funding structure and is measured by the Debt to Asset Ratio (DAR), which shows the proportion of assets financed by debt. High leverage can increase financial risk but also provide benefits if managed optimally. Based on signaling theory, leverage provides positive or negative signals depending on the effectiveness of its use. If it is used for productive projects, leverage increases profitability, but if the interest expense is too high, profitability can decrease and have a negative impact on firm value (PBV).

Profitability (ROA) is a mediating variable in the relationship between leverage and firm value. Well-managed leverage can increase profitability, which then has a positive impact on firm value. Conversely, non-optimal leverage decreases profitability and firm value.

Research by Rizki Mardiyah Harahap, et.al., found that profitability mediates the relationship between leverage and firm value in the sector energylisted on the IDX (2017-2022) (Rizki Mardiyah Harahap, Edyanus Herman Halim, 2022)

H9: Leverage has a positive effect on firm value through profitability (ROA). The Effect of Company Size on Firm Value through Profitability

Company size reflects the capacity and scale of operations as measured by total assets, revenue, or market capitalization. Large companies tend to have greater resources, wider access to funding, and stronger competitiveness. Based on signaling theory, large companies provide positive signals to investors because they are considered more financially stable. Large scale also allows for operational efficiency,

access to technology, and business diversification that increases profitability and firm value (PBV).

Profitability (ROA) acts as a mediation between firm size and value. Large companies tend to have the opportunity for profitabilityhigher, which in turn increases firm value.

Research by Waiti, Arjunaidi, Yanti, and Solikhain and Nurhayati shows that profitability mediates the relationship between company size and firm value in the energy and sector consumer goodson the IDX (2015-2022).

H10: Company size has a positive effect on firm value through profitability (ROA).

The descriptions above produce a model of earning quality. The complete picture of the model is presented in Figure 2.

Conceptual Framework

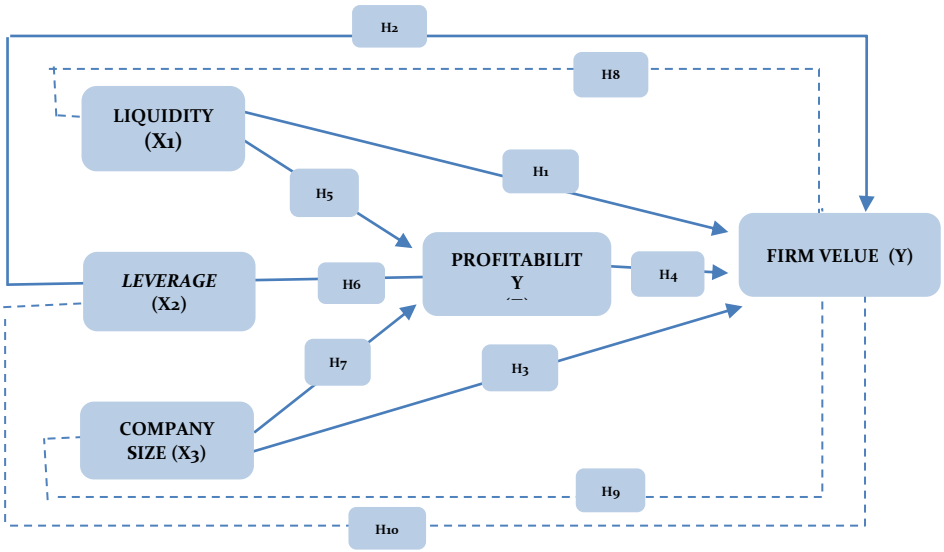


Figure 2. Conceptual Framework

Keterangan:

-------- = Indirect relationship

⟶ = Direct relationship

Research methods

This research uses quantitative methods, which aim to measure the relationship between variables or to understand phenomena through statistical analysis that results in conclusions. method This researchinvolves hypothesis testing as well as descriptive analysis and multiple linear regression using SPSS 24 and the Sobel Test with the help of cailcuilaition for the sobel test. The data used comes from the 2021-2023 annual financial statements.

The research subject population consists of companies listed on the Jakart Islamic Index (JII). The sampling method used purposive samples. The sample criteria to be selected in this study are: (1) Companies listed on the Jakarta Islamic Index (JII). (2) Companies listed on the Jakarta Islamic Index (JII) for 3 consecutive years for the 2021-2023 period. (3) Companies that are not suspended for the 2021-2023 period. 18 companies were obtained that met the criteria. Of the 30 companies listed in the JII, 11 were consecutively delisted and one

company was suspended, leaving 18 companies that met all criteria. Thus, the total observational data in the study was 54, obtained from 18 companies over three years of observation.

Operational Definition of Variables and Variable Measurement

The dependent variable in this study is firm value (Y), which is the market's perception of a company's performance and prospects, as reflected in its stock price. Firm value reflects the extent to which investors assess a company's ability to generate future prosperity (Saputri & Giovanni, 2021). A commonly used indicator to measure firm value is Price to Book Value (PBV), with the formula:

$$\text{Price to Book Vailuie (PBV)} = \frac{\text{Price per Share of Stock}}{\text{Price to Book Value}}$$

The first independent variable is profitability (X1), which is the company's ability to generate profits from operational and investment activities. Profitability indicates management's effectiveness in managing assets. A commonly used indicator is Return on Assets (ROA) (Fatmawati et al., 2020), with the formula:

$$\textit{Retuirn on aisset (ROA)I} = \frac{\text{Net Worth}}{\text{Totail Assets}}$$

The second independent variable is liquidity (X2), which reflects a company's ability to meet short-term obligations, particularly debt payments as they fall due (Agam Mei Yudha & Ramdani Bayu Putra, 2022). Liquidity is measured using the Current Ratio (CR), with the formula:

$$\textit{Cuirrent Raitio} = \frac{\text{Current Activitiees}}{\text{Current Dents}}$$

The third independent variable is leverage (X3), which is the company's level of dependence on debt-based funding. Leverage indicates the proportion of assets financed by debt and the level of financial risk borne by the company (Widarti, 2021). The indicator used is the Debt to Asset Ratio (DAR), with the formula:

$$Debt\ to\ asset\ \text{raisio} = \frac{\text{Totail Debt}}{\text{Total Assets}}$$

The fourth independent variable is firm size (X4), which describes the scale of a firm through total assets, market capitalization, and book value. Firm size is measured using the natural logarithm of total assets (Fajriah & Ahmad Idris, 2022), with the formula:

Size=ln(Total Assets)

Larger companies generally have better access to information, higher levels of public visibility, and stronger investor confidence, potentially increasing their value. These variables were then analyzed to analyze the effect of profitability, liquidity, leverage, and company size on company value for issuers listed on the Jakarta Islamic Index (JII) for the 2021–2023 period.

Multiple regression analysis

The Multiple Linear Regression Analysis is used to intuitively identify the independent variables in relation to the dependent variables. The multiple linear regression analysis is used to intuitively identify the independent variables, namely Profitability (Return on Assets), Liquidity (Current Assets), Leverage (Debt to Assets Ratio) and Total Assets in relation to the dependent variable, namely Price to Book Value. The regression analysis is used to predict the regression equation as follows:

$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$

Information:

Y	: Firm Value
a	: Constant
$B_{1,2,3,4}$	: Regression Coefficients for Variables X_1,X_2,X_3,X_4
X_1	: Profitability (ROA)
X_2	: Liquidity (CR)
X_3	: Solvency (DAR)
X_4	: Firm Size
e	: Eror Term

Results and discussion

Multiple Linear Regression Analysis

Regression analysis is a statistical technique for examining and modeling the relationship between variables. This analysis consists of independent and dependent variables. the results of multiple linear regression analysis tests can be seen in the tablefollowing:

Tabel 1. Multiple Linear Regression Analysis Test Results 1

Model	B	Std.Error	Beta	t	Sig.
(Constant)	624,543	198,690		3,143	,003
CR	-43,246	78,842	-,077	-,549	,586
DAR	-1124,666	251,711	-,593	-4,468	,000
UK	14,461	6,798	,256	2,127	,039

Source: Data processed using SPSS 24

Based on the table above, the multiple linear regression results are as follows:

Profitability = 624,543 – 43,246X1 – 1124,666X2 + 14,461X3 + e

Based on the equation above, it can be explained:

1. The Constant value is 624.543 indicating that if the Liquidity variable as (X1), Leverage as (X2), and Company Size (X3), are constant or unchanged (equal to zero).
2. The constant value of the Liquidity variable regression of -43.246 (X1) means that if the other independent variables are constant and Profitability increases by 1%, then the Company Value will increase by -43.246. The coefficient is positive, meaning that there is a positive relationship between Liquidity and Profitability.
3. The constant value of the Levearge variable regression of -1124.666 (X2) means that if the other independent variables are constant in value and Levearge experiences a 1% increase, the company value will increase by -1124.666. The coefficient is positive, meaning that there is a positive relationship between leverage and profitability.
4. The constant value of the regression of the Company Size variable is 14.461 (X3), which means that if the other independent variables

are fixed and the company size increases by 1%, the Company Value will increase by 14.461. The coefficient is positive, meaning that there is a negative relationship between Company Size and Profitability.

Tabel 2. Multiple Linear Regression Analysis Test Results 2

Model	B	Std.Error	Beta	t	Sig.
(Constant)	79,956	88,613		,902	,372
CR	35,609	31,947	,138	1,115	,271
DAR	-400,001	122,139	-,460	-3,275	,002
UK	6,017	2,880	,233	2,089	,042
ROA	,171	,060	,373	2,842	,007

Source: Data processed using SPSS 24

Based on the table above, the multiple linear regression results are obtained as follows: Company Value = 79.956 + 35.609X1 - 400.001X2 + 6.017X3 + 0.171X4 + e

1. The Constant value is 79.956 indicating that if the Liquidity variable as (X1), Leverage as (X2), Company Size (X3), and Profitability (Z) are constant or do not change (equal to zero).
2. The constant value of the Liquidity variable regression of 35.609 (X1) means that if the independent variables are constant other and Liquidity increases by 1%, the Company Value will increase by 35.609. The coefficient is positive, meaning that there is a positive relationship between Liquidity and Firm Value.
3. The constant value of the regression Levearge variableof - 400.001 (X2) means that if the other independent variables are fixed and Levearge experiences a 1% increase, the company value will increase by - 400.001. The coefficient is valuable, meaning that there is a positive relationship between leverage and firm value.
4. The constant value of the regression of the Company Size variable is 6.017 (X3), which means that if the other independent variables are constant and the company size increases by 1%, the Company Value will increase by 6.017. The coefficient is positive, meaning that

there is a negative relationship between Company Size and Company Value.

5. The constant value of the regression of the Profitability variable is 0.171 (X3), which means that if the variables are constant other and Profitability tatistict increases by 1%, the Company Value will increase by 0.171. The coefficient is positive, meaning that there is a relationship tatisti between Profitability and Firm Value.

Determination Coefficient Test

The coefficient of determination (Adjusted R2) is used to show the percentage of influence of all variables independent on the dependent variable. This percentage shows the extent to which the independent variable can explain the dependent variable.

Tabel 3. Uji R2 1

Model summary[b]

Model	R	R Square	Adjusted R Square	Std.Eror of the Estimate	Durbin-Watson
1	,655[a]	,429	,391	259,12951	1,489

a. Predictors: (Constant), UK, DAR, CR

b. Dependent Variable: ROA

Source: Data processed using SPSS 24

Table 3 provides an explanation of the relationship between the dependent variable and all variablesstatistical . The amount of Adjusted R Square is 0.391 or 39.1%. It can be concluded that the effect of Liquidity, Leverage, and size is 39.1% while other factors not listed in this study account for the remaining 60.9% (100% - 60.9%).

Tabel 4. Uji R2 2

Model summary[b]

Model	R	R Square	Adjusted R Square	Std.Eror of the Estimate	Durbin-Watson
1	,753[a]	,568	,528	104,64969	,727

c. Predictors: (Constant), ROA, UK, CR, DAR

d. Dependent Variable: NILAI

Source: Data processed using SPSS 24

Table 4 provides an explanation of the relationship between the dependent variable and all variabel independent. The amount of Adjusted R Square is 52.8%. It can be concluded that the effect of

Profitability, Liquidity, Leverage, and size is 52.8% while other factors not listed in this study are the remaining 47.2% (100% - 72.3%).

Uji Persial (Uji T)

The T test is used to determine whether the independent variable has a separate impact on the dependent variable. variable independent has a partial impact if its significance value is <0.05, and has no effect on the dependent variable if value tatistict its significanceis >0.05. The yielded the following findings:

Tabel 5. T-test Results T 1

Model	B	Std.Error	Beta	t	Sig.
(Constant)	624,543	198,690		3,143	,003
CR	-43,246	78,842	-,077	-,549	,586
DAR	-1124,666	251,711	-,593	-4,468	,000
UK	14,461	6,798	,256	2,127	,039

Source: Data processed using SPSS 24

Based on the t-test results in table 5, shows a significant result of 0.586. This value is greater than 0.05 (0.586> 0.05) and the value of t count < t table (0.268 < 1.6848). Then H0 is accepted and Ha is rejected, so it the CR variable statistically can be concluded that the CR variable partially has no significant effect on ROA. Based on the t-test results in table 5, shows a significant result of 0.000. This value is smaller than 0.05 (0.000 <0.the DAR variable statistically 05) and the value of t count> t table (0.951> 1.6848). Then H0 is rejected and Ha is accepted, so it can be concluded that the DAR variable partially has no significant effect on ROA. Based on the t-test results in table 5, the SIZE variable statistically shows a significant result of 0.039. This value is smaller than 0.05 (0.039 <0.05) and the value of t count> t table (2.151> 1.6848). Then H0 is rejected and Ha is accepted, so it can be concluded that the SIZE variable partially has a effect significanton ROA.

Tabel 6. T-Test Results 2

Model	B	Std.Error	Beta	t	Sig.
(Constant)	79,956	88,613		,902	,372
CR	35,609	31,947	,138	1,115	,271
DAR	-400,001	122,139	-,460	-3,275	,002
UK	6,017	2,880	,233	2,089	,042
ROA	,171	,060	,373	2,842	,007

Source: Data processed using SPSS 24

Shows a significant result of 0.271. This value is greater than 0.05 (0.271> 0.05) and the value of t count < t table (1.319 < 1.684). Then H0 is accepted and Ha is rejected, so it can be concluded that the CR variable partially has no significant effect on PBV.

Based on the t-test results in table 6, shows a significant result of 0.002. This value is the DAR variable statistically smaller than 0.05 (0.002 <0.05) and the value of t count> t table (-0.090> 1.6848). Then H0 is rejected and Ha is accepted, so it can be concluded that the DAR variable partially has no significant effect on PBV.

Based on the t-test results in table 8, shows a significant result of 0.043. This value is smaller than 0.05 (0.043 <0.05) and the value of t count> t table (0.050> 1.6848). Then H0 is rejected and Ha is accepted, so it can be concluded that the SIZE variable the SIZE variable statistically partially has no significant effect on PBV.

Based on the t-test results in table 8, shows a significant result of 0.007. This value is smaller than 0.05 (0.007 <0.05) and the value of t count> t table (the ROA variable statistically 3.692> 1.6848). Then H0 is rejected and Ha is accepted, so it can be concluded that the ROA variable partially has a significant effect on PBV.

Sobel Test

The Sobel test is a test conducted to determine the ability of the mediating variable to mediate the relationship between the independent variable and the dependent variable. The Sobel test is carried out by comparing the z value with the z table or the p-value above or below the 5% significance level. The following are the results of calculating the z value using the calculation for the sobel test.

Input:			Test statistic:	Std. Error:	*p*-value:
a	-43.246	Sobel test:	-0.53862967	13.72940706	0.59014241
b	0.171	Aroian test:	-0.50924888	14.52151637	0.61057779
s_a	78.842	Goodman test:	-0.57376316	12.88870818	0.56612808
s_b	0.060	Reset all	Calculate		

Source: Data processed using the calculation for the Sobel test.

Figure 3. Sobel Test Results 1

Based on the calculation results using the calculation for the Sobel test in Figure 3, the z-value is -0.538 < from the z-table of 1.96, and the p-value is 0.59 > 0.05. Therefore, H0 is accepted and H6 is rejected. Therefore, it can be concluded that profitability (ROA) is unable

Input:			Test statistic:	Std. Error:	*p*-value:
a	-1124.7	Sobel test:	-2.40282936	80.04051539	0.01626878
b	0.171	Aroian test:	-2.36116464	81.45289708	0.01821764
s_a	251.711	Goodman test:	-2.44678052	78.60275926	0.01441386
s_b	0.060	Reset all	Calculate		

to mediate the relationship between the influence of liquidity (CR) and firm value (PBV).

Source: Data processed using the calculation for the Sobel test.

Based on the calculation results using the calculation for the Sobel test in Figure 4, the z-value obtained is -2.402 < from the z table, which is 1.96, and the p-value is 0.01 > 0.05. Therefore, H0 is

Input:			Test statistic:	Std. Error:	*p*-value:
a	14.461	Sobel test:	1.70473495	1.45056626	0.08824387
b	0.171	Aroian test:	1.64109176	1.50682068	0.10077837
s_a	6.798	Goodman test:	1.77640754	1.39204037	0.07566577
s_b	0.060	Reset all	Calculate		

accepted or H6 is rejected. Therefore, it can be concluded that profitability (ROA) is able to mediate the relationship between the influence of leverage (DAR) on firm value (PBV).

Source: Data processed using the calculation for the Sobel test.

Figure 6. Sobel Test Results 3

Based on the calculation results using the calculation for the Sobel test in Figure 6, the z-value obtained is 1.704 < from the z table, which is 1.96, and the p-value is 0.08 > 0.05. Therefore, H0 is accepted or H6 is rejected. Therefore, it can be concluded that profitability (ROA) is able to mediate the relationship between the influence of company size (SIZE) on company value (PBV).

DISCUSSION

This study analyzes the effect of Liquidity (CR), Leverage (DAR), and Company Size (SIZE) on Firm Value (PBV) with Profitability (ROA) as an intervening variable using the Sobel test.

Effect of Liquidity (CR) on Company Value (PBV)

The regression results show that Liquidity (CR) has a coefficient of 35.609 and a probability of 0.271 (>0.05), so it has no significant effect on Firm Value (PBV), and hypothesis H1 is rejected. In the Signaling Theory perspective, the ineffectiveness of CR on PBV indicates that liquidity is not the main factor in investment decisions. Investors consider other aspects such as ROA or profit growth. CR that is too high can be considered negative because it shows the accumulation of current assets that are not productively utilized.

These results are consistent with the research of Hardiyanti et al. (2023) and Sakdiah (2019) who also found that Liquidity has no effect on Firm Value. Overall, CR is not the main signal for investors in assessing firm value.

The Effect of Leverage (DAR) on Company Value (PBV)

Leverage (DAR) has a coefficient of -400.001 and a probability of 0.002 (<0.05), so it has a significant negative effect on Firm Value (PBV), and hypothesis H2 is rejected. In Signaling Theory, a decrease

in DAR provides a positive signal because it indicates healthier financial management and lower financial risk. Companies with low DAR are considered more stable because they are less dependent on debt, making them attractive to investors and increasing PBV.

This result is in line with the research of Susesti & Wahyuningtyas, and Anisa et al., who found that leverage has a effect significant on firm value. Investors are more likely to assess companies with low debt negative as more stable and high value.

Effect of Company Size (SIZE) on Company Value (PBV)

Company size has a coefficient of 6.017 with a probability of 0.043 (<0.05), showing a positive and significant effect on Firm Value (PBV), so hypothesis H3 is accepted. In the Signaling Theory perspective, an increase in company size provides a positive signal to investors regarding business stability and growth prospects. Larger companies generally have access easierto funding, investment flexibility, and higher competitiveness.

These results are supported by Dewi & Ekadjaja's research, as well as Suisainto & Suiryaini, which show that the larger the company size, the higher the company value. Investors tend to see large companies as more stable and have the potential to survive in competitionindustrial .

Effect of Profitability (ROA) on Company Value (PBV)

Profitability (ROA) has a coefficient of 0.171 with a probability of 0.007 (<0.05), showing a positive and significant effect on Firm Value (PBV), so hypothesis H4 is accepted. In Signaling Theory, an increase in ROA reflects the efficiency of asset management and better growth prospects, providing a signal positiveto investors. Companies with high ROA tend to be more stable, have strong business fundamentals, and are more attractive to investors, which has an impact on increasing PBV.

These results are consistent with the research of Loe & As'ari (2023) and Effendie et al. (2024), which show that ROA has a significant positive effect on firm value. Investors consider an increase in ROA as

the main in assessing company performance and profit potential.indicator

Effect of Liquidity (CR) on Profitability (ROA)

Liquidity (CR) has a coefficient of -43.246 with a probability of 0.586 (>0.05), indicating that liquidity has no effect on profitability (ROA), so hypothesis H5 is rejected. In Signaling Theory, liquidity is not the factor main in assessing the company's ability to generate profits. Although CR indicates the ability to meet short-term obligations, excess liquidity may indicate a lack of asset optimization in productive investment.

This result is in line with Husniar and Sonjaya et al.'s research, which found that liquidity has no significant effect on profitability. This indicates that the company needs a management strategy more effective to increase ROA.set

The Effect of Leverage (DAR) on Profitability (ROA)

Leverage (DAR) has a coefficient of -1124.666 with a probability of 0.000, showing a negative effect on profitability (ROA), so hypothesis H6 is rejected. According to Signaling Theory, a decrease in DAR provides a signal positivebecause the company reduces dependence on debt, increases financial stability, and allocates more funds for productive investment. With lower interest expenses, companies can increase efficiency and profitability.

Afrianti & Purwaningsih's research supports these findings, showing that lower leverage contributes to higher profitability. Overall, a healthy capital structure and wise debt management have a positive impact on ROA.

Effect of Company Size (SIZE) on Profitability (ROA)

Company size has a coefficient of 14.461 with a probability of 0.039 (<0.05), showing a positive and significant effect on profitability (ROA), so hypothesis H7 is accepted. In Signaling Theory, company size growth indicates business expansion and better operational efficiency. Large companies have stronger competitiveness, wider

access to funding, and greater economies of scale, which increase profitability.

Pratiwi & Ardini's research shows that large companies are more efficient in allocating resources, increasing bargaining power, and optimizing assets to increase profits. Therefore, an increase in size company provides a positive signal to investors and the market regarding the prospect of higher profitability.

The Effect of Liquidity (CR) on Firm Value (PBV) through Profitability (ROA)

Based on Figure 2, liquidity has a influence negativeon firm value through profitability with statistics -0.538 and p-value 0.590 (>0.05), so the eighth hypothesis (H8) is rejected. In Signaling Theory, stable liquidity reflects the company's ability to meet obligationsshort-term, but does not always have an impact on increasing profitability (ROA). If CR increases without being followed by significant profits, its impact on firm value (PBV) remains limited.

The data shows that the increase in ROA is not able to maintain PBV, indicating that profitability is not strong enough to maintain company value. Investors tend to respond to stronger and more consistent financial signals than just aspects of liquidity or profitability. Thus, profitability (ROA) cannot be a mediator between liquidity (CR) and firm value (PBV). This result is consistent with the research of Pinayungan Siagian & Syahrizal Chalil (2024), which concluded that profitability is unable to mediate the effect of liquidity on valuefirm.

The Effect of Leverage (DAR) on Firm Value (PBV) through Profitability (ROA)

Based on Figure 2, it shows that leverage has a negative influence on firm value through profitability with statistics -2.402 and p-value 0.016 (<0.05), so the hypothesis is accepted. According to Signaling Theory, a decrease in Debt to Asset Ratio (DAR) can reduce financial risk and be a positive signal to investors. However, this positive impact only lasts if the company is able to increase its profitability.

The data shows that an increase in ROA goes hand in hand with an increase in PBV, suggesting that profitability may mediate the relationship between DAR and PBV. However, when ROA declines again, PBV also falls, confirming that a reduction in leverage without profitability stable is not enough to increase firm value sustainably. Investors pay more attention to consistent financial signals, such as growing profitability and efficient debt management. Therefore, profitability acts as a key mediator in the relationship between leverage and firm value. This finding is in line with the research of Ni Putu Diah Arika Dewi & Ni Luh Putu Wiagustini (2024).

The Effect of Company Size (SIZE) on Firm Value (PBV) through)Profitability (ROA

Based on Figure 3, it shows that company size has a positive influence on firm value through profitability with statistics 1.704 and p-value 0.088 (>0.05), so the hypothesis is rejected.

In Signaling Theory, companies largeare often considered more stable and have higher market power. However, without a consistent increase in profitability, this signal is less effective in increasing firm value. The data shows that while SIZE remains stable, PBV decreases as ROA decreases. If profitability is indeed a mediator, an increase in firm size should directly contribute to an increase in ROA and PBV. However, in this study, ROA is not strong enough to continue the impact of SIZE on PBV.

Investors consider sustainable profitability more than just firm size. Therefore, companies need to improve operational efficiency so that company size has a real impact on firm value. This result is in line with the research of Muliana & Khilyatin Ikhsani (2019), which found that profitability is unable to mediate the effect of company size on firm value.

Conclusion

This study analyzes the effect of liquidity, leverage, and company size on firm value through profitability as an intervening variable in Jakarta Islamic Index companies for the period 2013-2021

with 18 samples. Testing using multiple linear regression, path analysis, and Sobel test resulted in the following conclusions:

a. Liquidity has no effect on firm value.
b. Leverage has no effect on firm value.
c. Company size has a positive effect on firm value.
d. Profitability has a positive effect on firm value.
e. Liquidity has no effect on profitability.
f. Leverage has no effect on profitability.
g. Company size has a positive effect on profitability.
h. Profitability does not mediate the relationship between liquidity and firm value.
i. Profitability mediates the relationship between leverage and firm value.
j. Profitability does not mediate the relationship between firm size and value.

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