



DOI: <https://doi.org/10.31599/jmu.v5i1>

Received: November 21st, 2025 Revised: October 5th, 2025 Publish: October 14th, 2025

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The Influence of Profitability, Dividend Policy, and Firm Age on Valuation of Energy Sector Firms Listed on the Indonesia Stock Exchange from 2019 to 2023

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Abstract:

In recent years, the valuation of energy sector businesses on the Indonesia Stock Exchange (IDX) has exhibited volatility due to COVID-19 and international concerns. Profitability, dividend policy, and the company's age are considered to influence the valuation of firms in this industry. Nonetheless, the impact of these three criteria on the valuation of energy companies in Indonesia has not been well investigated. This study seeks to assess the influence of profitability, dividend policy, and company age on the valuation of energy firms listed on the IDX from 2019 to 2023. The findings of the classical assumption testing indicate that the data are appropriate for regression analysis. Partial testing findings (t-test) demonstrate that only the profitability variable significantly influences firm value, with a computed T of 3.859 exceeding the T table value of 2.003 ($3.859 > 2.003$). The dividend policy variable and the company's age do not exert a significant influence, with significance values of -1.107 and -0.460, respectively. The concurrent test results (F test) indicate that only the profitability variable significantly influences company value, whereas the dividend policy and company age do not significantly affect stock prices, evidenced by a significance value of 0.000, which exceeds 0.05 for the profitability variable. The coefficient of determination (R^2) is 0.557, or 55%, indicating that

profitability, dividend policy, and business age collectively account for 55% of the variance in company value, whereas 45% is attributed to other variables not examined in this study. This study shows that from 2019 to 2023, only profitability has been demonstrated to affect the value of energy sector businesses listed on the IDX, whilst dividend policy and company age do not exert a meaningful influence.

Keywords: *Profitability, Dividend Policy, Firm Age, Firm Valuation, Energy Sector*

INTRODUCTION

Entities within the energy industry are crucial in fulfilling the fundamental requirements that underpin Indonesia's economic progress. These companies exhibit substantial development potential as they expand in response to the increasing demand for oil, coal, and power. Equities in the energy industry persistently encounter adverse outlooks. Moreover, investor interest in the Indonesia Stock Exchange (IDX) has diminished. The volatile economic conditions in China may also influence a decline in the prices of coal and other commodities for the remainder of the year. Economic uncertainty, exemplified by the COVID-19 pandemic, necessitates that companies contemplate long-term objectives for their sustainability. One method to accomplish this is by enhancing the company's worth, which can be quantified via its stock market price.

Profitability refers to the company's capacity to employ working capital to generate profit, ensuring it can meet its short-term and long-term debt commitments and distribute dividends to its capital investors. Dividend policy governs the distribution of a company's profits to shareholders, which may occur through cash dividends, consistent dividend maintenance, stock dividends, or treasury shares. When a firm elects to distribute dividends, it will inevitably diminish retained earnings and hence lower internal funding sources. Conversely, if profits are retained rather than dispersed as dividends, the company can augment its internal resources, enhancing its developmental capacity. The age of a corporation denotes the duration from its founding to its capacity for efficient operation. Organizations with greater experience typically possess management knowledge and may formulate plans that optimize revenues and sustain competitiveness.

The value of a company can be defined as the genuine value per share that would be obtained if the company's assets were sold at market price. An elevated stock price signifies that each ownership share is becoming more valuable, which in turn increases investor confidence in the potential returns that can be obtained. Consequently, a primary purpose of the company is to optimize shareholder wealth. (Natasha 2021).

According to the context of the issue above, the author is interested in taking the title of the research titled **"The Influence of Profitability, Dividend Policy, and Firm Age on the Valuation of Energy Sector Firms Listed on the Indonesia Stock Exchange (IDX) for the Period 2019 – 2023."**

LITERATURE REVIEW

Company Value

The value of a firm reflects the process it has undertaken to establish public trust. A high value signifies that the company demonstrates strong performance and favourable prospects from the perspective of investors. Moreover, a firm's valuation is mirrored in its stock price; a decline in stock price leads to a decrease in company valuation, adversely affecting shareholder wealth. Conversely, an increase in the stock price will result in an increase in the company's valuation, which will in turn increase the fortune of shareholders. Consequently, a company's valuation is a critical consideration for shareholders. (Natasha 2021)

Corporations often seek to maximize profits, as significant earnings increase business worth. Maximizing firm value is essential as it simultaneously enhances shareholder welfare, the principal objective of every enterprise. A substantial firm's value offers optimism for the proprietors as it can be utilized to measure shareholder wealth. Moreover, a substantial corporate value will enhance public confidence, not only mirroring the company's present performance but also favourably influencing its future potential. (Natasha 2021)

Profitability

Profitability is one of the crucial ratio in financial statements, considering that the primary purpose of the company is to achieve profitable operational results. This ratio is very important for all stakeholders evaluating the annual report, especially for equity investors, as profit is a major factor influencing changes in security values. Therefore, measuring and forecasting profits becomes a crucial task for investors. (Wulandari and Efendi 2021)

Return on Assets (ROA) is a profitability ratio. ROA metric reflects a company's capacity to produce net profit relative to its total assets by pairing net profit with total assets. Profitability enables investors and creditors to evaluate potential investment returns and the company's profit, thereby assessing its capacity to repay debts based on asset utilisation and other resources. Consequently, the company's efficiency level will be apparent. A higher ratio number indicates a more favourable situation of the company according to the profitability ratio.

Dividend Policy

Dividend policy is a pivotal issue for firms, as it directly pertains to the allocation of profits to investors. However, in determining the distribution of dividends, companies must consider their development and financial strength. It is important to remember that not all profits need to be distributed in the form of dividends. (Selvy and Esra 2022). . A company's prospects of acquiring internal capital may be lowered if it chooses to pay out dividends from its profits. Therefore, dividends are regarded as an important policy for the company. Due to the critical function of dividends, the company will not reduce its dividends. Based on (sartono, 2012:491) The dividend payout ratio is the proportion of profits distributed as dividends or the ratio of dividend payments to total profits accessible to shareholders.

Firm Age

Firm age is one of the key factors in business dynamics, reflecting the accumulated experience gained throughout a company's operations. Generally, the longer a company has been established, the

greater its ability to compete and survive in the market, which is often associated with higher performance. An extended operational history enables firms to better navigate various challenges. However, according to the journal titled *'Firm Age and Performance'*, firms may become inefficient as they age. Older companies must manage and reduce costs by leveraging internal learning effects and by adopting insights from other firms, whether within the same industry or across different sectors

METHOD

Types and Sources of Data

This research utilizes a quantitative methodology, concentrating on the analysis of quantitative data through statistical methodologies. The data analysis utilized in this study is quantitative. The research employs audited yearly financial statements and firm value data from Indonesia Stock Exchange-listed energy companies for the years 2019 to 2023.

Population dan Sampel

Population of this research contains of 84 energy sector corporations that were listed on the Indonesia Stock Exchange (IDX) between 2019 and 2023. These companies exemplify the whole population of the energy sector pertinent to this research. The applied sampling approach is purposive sampling, a non-probability strategy based on established criteria. This methodology is suitable for quantitative research, since it facilitates the selection of samples that align with certain study aims. The criteria for sample selection in this study are as follows:

1. The Indonesia Stock Exchange (IDX) continuously listed energy sector companies with large-scale operations from 2019 to 2023.
2. Energy sector firms are forwarding financial reports for the years 2019-2023.
3. Energy sector firms that provide data related to research variables.
4. Energy sector firms that present financial statements in rupiah.

From the total population of 84 companies, only a subset was selected as the research sample, namely:

Table. 1 Research Sample Table

No	Company Name	Company Code
1	PT Mandiri Herindo Adiperkasa Tbk	MAHA
2	PT Harum Energy Tbk	HRUM
3	PT Bukit Asam Tbk	PTBA
4	PT Dana Brata Luhur Tbk	TEBE
5	PT Samindo Resources Tbk	MYOH
6	PT Elnusa Tbk	ELSA
7	PT Radiant Utama Interinsco Tbk	RUIS
8	PT Indika Energy Tbk	INDY
9	PT Trans Power Marine Tbk	TPMA
10	PT Mitrabara Adiperdana Tbk	MBAP
11	PT IMC Pelita Logistik Tbk	PSSI

Operational Definition of Variables

Table 2. of Operational Definitions of Variables

No	Variable	Definition	Measurement	Source
1	Profitability	The firm's capability to generate net profit from its total assets is assessed by comparing net profit to total assets.	$\text{Return On Asset} = \frac{\text{Laba Bersih}}{\text{Total Asset}}$	(Wulandari and Efendi 2021)
2	Dividend Policy	The percentage of net profit paid out as dividends and retained earnings serves as a source of funding for the company. A higher Dividend Payout Ratio is more advantageous for shareholders or investors; however, it can weaken the company's internal financial position due to the lower retained earnings.	$\text{Pay Out Ratio} = \frac{\text{Dividend Per Saham}}{\text{Laba Per saham}}$	(Selvy and Esra 2022)
3	Firm Age	One of the key factors in business dynamics is the extent to which a company's operational history reflects the experience it has accumulated over time. The longer a company has been established, the greater its ability to compete and sustain its position in the market, which is often associated with higher performance. The company's continued existence to the present day serves as evidence of its capacity to endure.	$\text{Firm Age} = \frac{\text{Research Year}}{\text{Establish Year}}$	(Yuliandhari et al. 2022)

Conceptual Framework

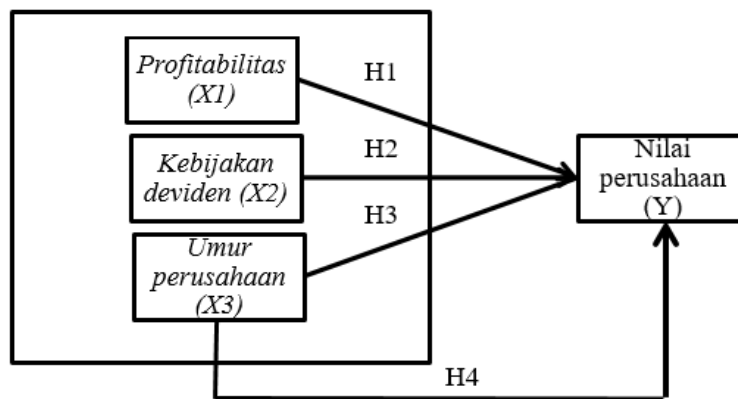


Figure 1. Conceptual Framework

RESULTS AND DISCUSSION

Data Analysis Techniques

Classical Assumption Tests

Normality Test

Table 3. Table of Normality Test Results

Sumber : Output Spss

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One-Sample Kolmogorov-Smirnov Test			
		Unstandardized Residual	
N		55	
Normal Parameters ^{a,b}	Mean	0E-7	
	Std. Deviation	.37469826	
Most Extreme Differences	Absolute	.134	
	Positive	.132	
	Negative	-.134	
Kolmogorov-Smirnov Z		.992	
Asymp. Sig. (2-tailed)		.278	

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Test for Heteroscedasticity

Table 4. Table of Heteroskedasticity Test Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.804	.315		8.893	.000
	Profitability	1.811	.483	.461	3.748	.000
	Dividend Policy	5.985	4.201	.175	1.425	.160
	Firm Age	-.046	.261	-.022	-.176	.861
a. Dependent Variable: Firm value						

Source : Output Spss

Multicollinearity Test

Table 5. Table of Multicollinearity Test Results

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Profitability	.951	1.051
	Dividend Policy	.959	1.043
	Firm Age	.978	1.022
a. Dependent Variable: Firm Value			

Source : Output Spss

Autocorrelation Test

Table 6. Table of Autocorrelation Test Results

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.430 ^a	.184	.136	.30077	1.857
a. Predictors: (Constant), LAG_X3, LAG_X1, LAG_X2					
b. Dependent Variable: LAG_Y					

Source : *Output Spss 20*, data processed

Multiple Linear Regression Test

Table 7. Table of Multiple Linear Test Results

Coefficients ^a					
Model		Standardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	2.873	.311	9.227	.000
	Profitability	1.914	.496	.487	3.859
	Dividend Policy	-.073	.066	-.139	.274
				1.107	
	Firm Age	-.120	.262	-.057	.460

a. Dependent Variable: Firm Value

Source : *Output Spss 20*, data processed

Accordingly, the following regression equation is formulated to determine the impact of the three independent variables on stock price as the dependent variable :

$$Y = 2,804 + 1,811x_1 + 5,985x_2 + -0,046x_3 + e$$

Hypothesis Testing

T Test

Table 8. Table of T Test Results

Coefficients ^a		
Model	t	Sig.
1 (Constant)	9.227	.000
Profitability	3.859	.000
Dividend Policy	-1.107	.274
Firm Age	-.460	.647

Dependent Variable: Y1

Sumber : Output Spss

F Test

Table 9. Table of F Test Results

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.387	3	.796	21.409	.000 ^b
	Residual	1.895	51	.037		
	Total	4.282	54			
a. Dependent Variable: Y1						

a. Dependent Variable: Y1

Test of the Determination Coefficient

Table 10. Table Result of the R2 Test

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.747 ^a	.557	.531	.193

a. Predictors: (Constant), umur perusahaan, profitabilitas, kebijakan devden

Discussion

The Correlation Of Profitability and Firm Valuation

The t-statistic value of 3.859 surpasses the crucial t-table value of 2.003, indicating which independent variable, profitability, exerts a positive and substantial impact on the dependent variable, firm value. The p-value of 0.000 is below the significance level ($\alpha = 0.05$), rejecting null hypothesis (H_0) and the acceptance of the alternative hypothesis (H_1). This indicates that profitability (X_1) has a positive and statistically significant impact on firm's value (Y). This conclusion suggests that increased profitability enhances business value.

High profitability indicates the company's proficient management in leveraging its assets to achieve maximum returns. It is a critical factor for investors when assessing investment prospects, especially with the decision to acquire firm shares. A favorable view of the company's profitability

improves investor confidence, potentially resulting in heightened demand for the company's stock. This subsequently leads to an increase in the firm's share price, which has a beneficial effect on its overall value. (Anggasta and Suhendah 2020).

The Impact of Dividend Policy on Firm Value

The computed t-value of -1.107 is less than the critical t-table value of 2.003 ($|-1.107| < 2.003$), indicating that the independent variable, dividend policy, does not significantly affect the dependent variable, firm value. The significant value ($p = 0.274$) is above the significance level ($\alpha = 0.05$), hence leading to the acceptance of the null hypothesis (H_0) and the rejection of the alternative hypothesis (H_2). This indicates that dividend policy (X_2) does not exert a positive and meaningful influence on business value (Y). Thus, it can be concluded that dividend policy does not affect firm value; although theoretically, an increased dividend payout could elevate firm worth, this correlation is not corroborated by the statistical results of this study.

Shareholders or investors may not place significant emphasis on the form in which investment returns are distributed, whether as dividends or cash payments. Dividend distributions by a company are not necessarily a decisive factor influencing investors' decisions to invest. As a result, increases in dividend payouts do not lead to a substantial rise in stock prices, and consequently, may not have a significant impact on the company's overall value.

Based on Miller and Modigliani (MM), The firm's valuation is solely dictated by its intrinsic profitability and business risk, rather than the allocation of its income as dividends or retained earnings. Moreover, it is asserted that a firm may allocate substantial or minimal dividends provided it can address any financing deficiencies from external sources. This decision has an identical effect on the company's valuation. Consequently, the dividend decision is inconsequential (the irrelevance of dividends).

The Firm Age Affiliation on Firm Valuation

According to the calculated t-value of -0.460 and the critical t-table value of 2.003, it is evident that the independent variable, dividend policy, does not have a significant impact on the dependent variable, firm value, as the absolute t-value is less than the critical value ($|-0.460| < 2.003$). The significant value ($p = 0.647$) above the significance level ($\alpha = 0.05$), signifying that the null hypothesis (H_0) remains unrefuted, and the alternative hypothesis (H_3) lacks support. This indicates that the dividend policy (X_2) exerts no significant or beneficial effect on the firm's value (Y). Consistent with these findings, it can be concluded that dividend policy does not significantly influence firm value; although theoretically, a higher dividend payout may indicate financial robustness, this study reveals no statistically significant correlation between dividend policy and firm value.

An extended firm history does not inherently ensure performance stability, which instills trust in investors about capital investment. The existence of dynamic corporate competition today indicates that organizations with prolonged durations cannot guarantee their survival. This signifies that the company is unable to compete with its rivals. The company's age does not impact investor interest in acquiring its shares, nor does it alter the share price or overall company valuation. Prior studies by Putri & Rachmawati (2017) and Susanti & Restiana (2018) produced divergent outcomes compared to this research. (Anggasta and Suhendah 2020).

The Relationship of Profitability, Dividend Policy, and Firm Age to Firm Valuation

The table indicates that the test involved comparing the calculated F value with the tabulated F value. Specifically, the calculated F value (1.786) exceeds the tabulated F value (3.18), and the significance level (0.162) surpasses 0.05. Consequently, it can be concluded that H_0 is rejected and H_4 is accepted, signifying that profitability, dividend policy, and company age collectively exert a significant influence on the company's value.

The preceding discussion suggests that enhancements in profitability, dividend policy, and company age within the energy sector correlate with an increase in firm value. Conversely, a reduction in these characteristics typically correlates with a diminution in firm value.

CONCLUSION

Research findings on the influence of profitability, dividend policy, and firm age on the valuation of IDX-listed energy corporations from 2019 to 2023 provide many conclusions as follows:

1. Profitability exerts a beneficial and considerable influence on the valuation of energy sector firms listed on the IDX.
2. The partial dividend policy exerts a negative albeit insignificant impact on the valuation of energy sector firms listed on the IDX.
3. Firm age exerts a negative albeit statistically negligible partial effect on the valuation of IDX-listed energy corporations.
4. Profitability, dividend policy, and firm age concurrently exert a substantial influence on the valuation of firms within the energy sector. Determined R Square is 0.557, indicating a robust unidirectional link among profitability, dividend policy, and business age with respect to company valuation, accounting for 55% of the variance. The Adjusted R Square coefficient is 0.531. Variables of profitability, dividend policy, and business age collectively account for 53% of the firm value, with the remaining 45% impacted by additional factors not examined in this study.

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