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Company Value Moderates The Relationship Of Profitability, Liquidity, And Political Connections To Stock *Returns*

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ABSTRACT
Investors increasingly demand stock investments, as evidenced by the number of Indonesian capital market investors reaching 10 million in 2022. This surge shows the public's high interest in gaining profits from stock investments, necessitating in-depth research on factors influencing stock returns for optimal profits. This research examines the influence of profitability, liquidity, and political connections on stock returns, using firm value as a moderating variable. Employing a quantitative, descriptive methodology and purposive sampling, 29 firms listed in LQ45 from 2020-2022 were selected. The study uses primary and secondary data, analyzed with Eviews 12 software through a panel data regression model. Findings reveal that profitability positively affects stock returns, while liquidity and political connections do not. However, firm value affects stock returns and can moderate the impact of profitability but not liquidity or political connections.

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INTRODUCTION

Investment in the form of shares is an investment that is very much in demand by individuals, institutions, and business entities in the current era of globalization and growing economic dynamics. As the central place to invest, the capital market continues to attract investor interest with significant growth in the number of investors, as evidenced by data on the development of the number of Indonesian capital market investors released by PT. The Indonesian Central Securities Depository (KSEI) explained that from 2017 to 2022, to achieve 10 million investors, the number of capital market participants will keep rising. This number has increased 9 times in the last 5 years. This phenomenon reflects public trust and awareness of the importance of capital market investment.

One indicator that is well known to investors is Likuid 45 (LQ45), an index of stocks that shows the performance of the Indonesian Stock Exchange businesses with the highest market capitalization and liquidity. This index regularly changes companies every six months, reflecting the dynamics in the Indonesian capital market. As reported via www.investasi.kontan.co.id (2022), from 2020 to 2022, the performance of the LQ45 index showed an increase. However, it was still characterized by share price volatility, which was influenced by the impact of the COVID-19 pandemic. Despite experiencing a decline in net profit of 41.4% in 2020, shares in LQ45 mainly experienced an increase in 2021, despite profit taking. Foreign investor interest

remains high, as evidenced by significant net buys, while the potential for increased performance in LQ45 is visible in 2022. This gives investors hope to achieve better profits because good company performance can increase share prices and returns.

Research by Sulistyowati et al., (2022) states that stock returns can influence investment decisions, where a high level of return tends to increase investors' interest in investing. However, research by Nur (2019) explains that a high level of return cannot influence investors' interest in investing because high returns will result in high risks and vice versa. Therefore, every investor who wants optimal stock returns requires in-depth research and study on the variables that might affect the purchase of stock returns. According to Samsul (2006), these factors are divided into micro and macro, where micro factors include internal aspects of the company, such as operational performance and stock market conditions, while macro factors involve external elements, such as economic and political conditions.

One of the micro factors used in this research is profitability, which is measured through Return On Assets (ROA). Kasmir (2019) asserts that ROA summarizes how well a company's management generates profits from the assets it controls. A higher ROA value indicates more efficient use of assets. Although ROA does not directly measure stock returns, good performance in ROA can positively impact profitability and ultimately improve the company's stock performance (Tandelilin, 2017). Several previous studies, such as Dewi & Fajri (2019), Asikin et al., (2021), and Irawan & Polimpung (2021), found that Return On Assets (ROA) has a significant positive influence on stock returns.

Another micro factor used in this research is liquidity, measured through the Current Ratio (CR). According to Kasmir (2019) a higher number in the current ratio denotes stronger liquidity and indicates the company's capacity to meet its short-term financial obligations. According to Dewi and Fajri (2019), companies with high CR tend to be attractive to investors because they have a lower risk of bankruptcy and can meet short-term obligations. Several previous studies, such as Telaumbanua et al., (2021) and Rochim & Ghoniyah (2017), found that the Current Ratio (CR) had a significant positive effect on stock returns.

The macro factor influencing stock returns in this research is the company's political connections, which involve business relationships with political figures or government institutions. According to Wongchoti and Young (2015), Companies can benefit economically from their political ties, adding value to their operations. Companies with political connections tend to have better financial performance due to preferential access and policy support. This influences investors' perceptions and increases demand for the company's shares, thus potentially affecting stock returns. Research by Faraji et al., (2020) and Wongchoti & Young (2015) found that political connections influence stock returns.

Apart from micro and macro factors, investors can also consider company value, which reflects investors' perceptions of company performance and is related to share prices (Dewi & Sri, 2016). Company value can be increased through operational optimization and achieving profits according to targets, increasing investor welfare through dividends, supporting company growth, and maintaining business sustainability (Lestari, 2019). Price to Book Value (PBV), which compares the share value with the book value per share, is frequently used to estimate a company's value. A low PBV might suggest that the stock is cheap, whereas a high PBV shows

that the market appreciates the company's assets and growth prospects. Higher returns might be possible if the market eventually places a higher value on the company's assets. Investors must nevertheless, however, take into account additional elements in their research, such as macro and micro aspects.

In this study, the impact of macro-level variables (political linkages) and micro-level ones (profitability and liquidity) on stock returns is moderated by business value. Although these factors can positively impact stock returns, company value attracts investors' attention because it reflects operational solid and managerial performance. Highly valued companies tend to be rated better by investors, increasing share prices and stock returns. According to research by Kumala Ahya (2020), when both profitability and company value are high, there is a greater demand for shares, which can mitigate the effect of profitability on stock returns.

The background material provided has piqued the researcher's interest in doing study with the goal of retesting previous findings. Based on the research gap mentioned above, researchers are interested in investigating variables that impact stock returns by using firms listed on LQ45 as the study object. Companies listed in LQ45 generally have a high level of liquidity and include companies from various economic sectors in order for them to offer a generally accurate representation of the Indonesian stock market's performance. Apart from that, companies registered in LQ45 are generally relatively large and usually have many political connections.

LITERATURE REVIEW

Profitability

A profitability ratio metric is used to assess a company's potential for profit. This ratio also assesses how well a company's management performs (Kasmir, 2019). The capacity of a business to turn a profit (profitability) at particular revenue, asset, and share capital levels may be determined using profitability ratios (Pratiwi & Sucipto, 2023). The return on assets is one financial indicator and ratio that may be used to evaluate the profitability ratio. A statistic called return on assets (ROA) compares a company's net profit to all of its assets to evaluate its profitability, according to (Brigham and Houston, 2010). Thus, it can be said that this ratio can give a general idea of how well the business uses its assets to produce net profit.

Liquidity

The liquidity ratio, also known as the working capital ratio, may give an overview of a firm's liquidity and ability to satisfy short-term commitments (Kasmir, 2019). Greater liquidity will raise investors' interest in investing in a firm and boost its short-term profitability (Dewi & Fajri). The current ratio is one kind of liquidity frequently used to evaluate a company's capacity to meet its financial commitments. It is obtained by comparing current assets and current liabilities. Bad management practices are indicated by a high current ratio (Telaumbanua et al., 2021).

Political Connections

Political connections are ties that can make it easier for business people to make government decisions that impact the interests of society in a country (Kurniasih et al., 2022).

Politically connected companies can gain several benefits, such as simple access to financing and contracts for government purchases, apart from that, they are also able to have a relatively high market share and low tax rates (Wang et al., 2018). Thus, politically connected companies will have a better chance of enjoying higher revenues and greater productivity.

Company Value

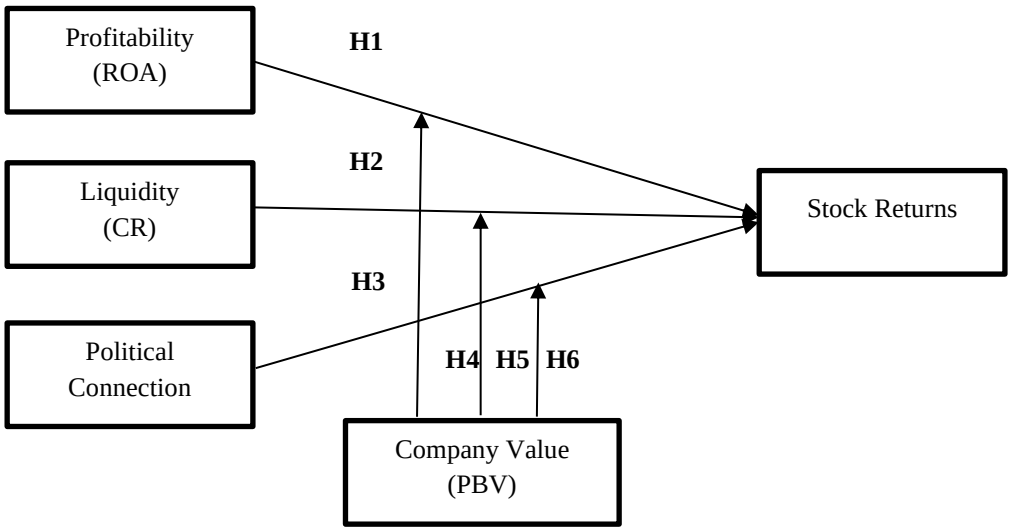
A firm's "company value" is a particular state that it has attained as an indication of investor trust in the business following years of commercial operations, which began with the company's foundation and continues to this day (Hery, 2017). If the company is estimated as a company with prospects for the future, then the value of its shares will be high. On the other hand, if the company is deemed to have fewer prospects, the s hare price will be low (Nur, 2019). Price-to-book worth (PBV) ratios may be used to quantify a company's worth. By employing these ratios, investors can ascertain the multiple by which a share's market value has increased relative to its book value (Putu et al., 2018).

Stock returns

Stock returns are changes in share prices due to demand and supply, which can cause differences in value (Jogiyanto, 2017). Share returns are the primary goal of shareholders to obtain results from the investments made (Kurniasih et al., 2022). For investors, return is one of the parameters for assessing how profitable a stock is (Kumala & Ahya, 2020). Thus, the higher the return offered, the greater the number of investors interested in investing in these shares (Asikin et al., 2021).

RESEARCH MODEL

The conceptual framework in this research is to review the influence that the variables Profitability (X1), Liquidity (X2), and Political Connection (X3) have on Stock Returns (Y) using Company Value (Z) as a moderating variable.



Based on the Conceptual Framework above, the research hypothesis is as follows :

HI: Profitability (ROA) and stock returns have a significant favorable influence.
H2: Liquidity (CR) and stock returns have a significant favorable influence.
H3: There is a significant favorable influence between political connections and stock returns.
H4: Company value can moderate the effect of profitability (ROA) on stock returns.
H5: Company value can moderate the effect of liquidity (CR) on stock returns.
H6: Company value can moderate the influence of political connections on stock returns.

METHOD

This study uses a descriptive methodology and is classified as quantitative research. The official websites of each firm under investigation and the IDX website (www.idx.co.id) were used to collect research data. Purposive sampling was used to obtain samples from 29 firms sequentially registered in LQ45 between 2020-2022, which served as the sample for this study. The following criteria were used to choose the research sample:

Table 1. Sample Criteria

No	Kriteria	Number of Companies
1.	Companies listed in LQ45	45
2.	Companies not listed in LQ45 in a row from 2020 to 2022.	(15)
3.	Companies that do not have complete data and are not available for research variables in financial reports from 2020 to 2022	0
4.	Companies that experienced losses during the observation period from 2020 to 2022	(1)
	Amount	**29**

Source: processed data, 2023

Meanwhile, this study employs panel data regression model analysis, which uses Eviews 12 software to merge time-series and cross-section data. There are several stages for carrying out the analysis in this research, namely selecting a data regression estimation model panel by conducting the Chow, Haustman, and Lagrange multiplier tests. Next, hypothesis testing and MRA testing will be carried out.

ANALYSIS AND DISCUSSION

Descriptive Statistical Analysis

Table 2. Descriptive Analysis Results

	Y	X1	X2	X3	Z
Mean	0.062565	0.082664	1.791028	0.574713	3.567506
Median	0.002899	0.059865	1.543202	1.000000	1.539354
Maximum	1.303571	0.454267	5.654751	1.000000	56.79190
Minimum	-0.443325	0.000168	0.234245	0.000000	0.246765
Std. Dev.	0.311637	0.084370	1.116675	0.497253	8.329396
Skewness	1.195932	2.101031	1.265987	-0.302244	5.169247
Kurtosis	5.195496	7.844933	4.670883	1.091351	29.51996
Jarque-Bera	38.21192	149.0988	33.35994	14.53025	2936.948

Probability	0.000000	0.000000	0.000000	0.000700	0.000000
Sum	5.443131	7.191741	155.8194	50.00000	310.3730
Sum Sq. Dev.	8.352115	0.612168	107.2388	21.26437	5966.580
Observations	87	87	87	87	87

Source: processed data, 2023

Based on descriptive analysis of 87 research data, the profitability variable (ROA) shows a minimum value of 0.000168 (Wijaya Karya Tbk.) and a maximum of 0.454267 (Indo Tambangraya Megah Tbk.), with a mean of 0.082664 and a standard deviation of 0.084370, indicates varying data. The liquidity variable (CR) has a minimum value of 0.234245 (Tower Bersama Infrastructure Tbk.) and a maximum of 5.654751 (Vale Indonesia Tbk.), with a mean of 1.791028 and a standard deviation of 1.116675, indicating less variable data. The political connection variable has a minimum value of 0 and a maximum of 1, with a mean of 0.574713 and a standard deviation of 0.497253, indicating less variation in the data. The company value variable (PBV) shows a minimum value of 0.246765 (Erajaya Swasembada Tbk.) and a maximum of 56.79190 (Unilever Indonesia Tbk.), with a mean of 3.567506 and a standard deviation of 8.329396, indicating varied data. The stock return variable shows a minimum value of -0.443325 (Wijaya Karya Tbk.) and a maximum of 1.303571 (Aneka Tambang Tbk.), with a mean of 0.062565 and a standard deviation of 0.311637, indicating varying data.

Panel Data Regression Test

Table 3. Panel Data Regression Results with Three Models

Variabel		Model Estimasi		
		CEM	FEM	REM
Profitabilitas (ROA)	Coefficient	1.435787	1.861939	1.350308
	Std.Error	0.526006	0.802979	0.531307
	t-Statistic	2.729604	2.318788	2.541483
	Prob.	0.0078	0.0245	0.0130
Likuiditas (CR)	Coefficient	0.041117	0.099869	0.049493
	Std.Error	0.055967	0.144069	0.065350
	t-Statistic	0.734675	0.693198	0.757353
	Prob.	0.4647	0.4913	0.4511
Koneksi Politik	Coefficient	0.043872	-0.119988	0.079214
	Std.Error	0.116582	0.349963	0.135838
	t-Statistic	0.376322	-0.342861	0.583154
	Prob.	0.7077	0.7331	0.5615
Nilai Perusahaan	Coefficient	0.058387	0.305439	0.072175
	Std.Error	0.043553	0.116355	0.050354
	t-Statistic	1.340592	2.625072	1.433339
	Prob.	0.1839	0.0114	0.1557
R-squared		0.119147	0.621378	0.099398
Adjusted R-squared		0.041097	0.361539	0.019598
F-statistic		1.526546	2.391396	1.245587
Prob(F-statistic)		0.170464	0.002229	0.288365

Source : Output Eviews 12, 2024

The next step in determining the most appropriate model for panel data regression analysis is to conduct several tests. The Chow test is used to select the best model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). The Hausman test is used to

determine whether the Random Effect Model (REM) or Fixed Effect Model (FEM) is more appropriate. Meanwhile, the Lagrange Multiplier Test selects the best model between the Common Effect Model (CEM) and the Random Effect Model (REM).

Chow Test

Table 4. Chow Test Estimation Model Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.416066	(28,51)	0.0031
Cross-section Chi-square	73.458544	28	0.0000

Source : Output Eviews 12, 2024

The Fixed Effect Model (FEM) was selected for the Chow test because, according to the results table above, the obtained value of Prob. The Chi-square cross-section is 0.000 < 0.05. Thus, the Fixed Effect Model (FEM) is the suitable model to apply for panel data regression.

Hausman Test

Table 5. Hausman Test Estimation Model Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	15.226990	7	0.0332

Source : Output Eviews 12, 2024

As can be seen from the Hausman test results table above, the value of Prob. The Fixed Effect Model (FEM) is the model used for the Hausman test since the random cross-section is 0.0332 < 0.05. The Fixed Effect Model (FEM) is the best acceptable model to utilize for panel data regression in this study because it was selected for the Chow and Hausman tests.

Hypothesis Testing

Partial Test (T Test)

Table 6. Partial Test Results (T Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.609341	0.340865	-1.787632	0.0798
X1	1.861939	0.802979	2.318788	0.0245
X2	0.099869	0.144069	0.693198	0.4913
X3	-0.119988	0.349963	-0.342861	0.7331
Z	0.305439	0.116355	2.625072	0.0114

Source : Output Eviews 12, 2024

Based on the table of partial test results above, it can be seen as follows:

1. With a regression coefficient value of 1.8619 and a probability t-statistic value of 0.0245 <0.05, the independent variable profitability—which is proxied by ROA (X1)—has a substantial impact on the dependent variable, which is stock returns.
2. The likelihood t-statistic value of 0.4913 > 0.05 and the regression coefficient value of 0.0998 for the independent variable liquidity proxied by CR (X2) indicate that the liquidity variable (CR) does not affect the dependent variable, which is stock returns.
3. The likelihood t-statistic value of 0.7331 > 0.05 and the regression coefficient value of -0.1199 for the independent variable, political connection (X3), indicate that the political connection variable does not affect the dependent variable, which is stock returns.
4. The likelihood t-statistic value of 0.0114 < 0.05 and the regression coefficient value of 0.3054 for the business value moderating variable proxied by PBV (Z) indicate that the company value variable (PBV) significantly influences the dependent variable, which is stock returns.

Simultaneous Test (F Test)

Table 7. Simultaneous Test Results (F Test)

R-squared	0.621378
Adjusted R-squared	0.361539
S.E. of regression	0.249010
Sum squared resid	3.162298
Log likelihood	20.73785
F-statistic	2.391396
Prob(F-statistic)	0.002229

Source: Eviews Output 12, 2024

Profitability (ROA), liquidity (CR), and political ties are the independent variables, as indicated by the Prob (F-statistic) value of 0.0022 < 0.05 in the preceding table of simultaneous test results (f test). At the same time, it dramatically impacts the dependent variable, stock returns.

Coefficient of Determination (R Square)

Table 8. Coefficient of Determination Test Results (R Square)

R-squared	0.621378
Adjusted R-squared	0.361539
S.E. of regression	0.249010
Sum squared resid	3.162298
Log likelihood	20.73785
F-statistic	2.391396
Prob(F-statistic)	0.002229

Source : Output Eviews 12, 2024

From the previous table of coefficient of determination test results, the R-squared value is 0.6213, or 62%. According to one interpretation, the variables profitability (ROA), liquidity (CR), political ties, and company value influence 62% ofof the stock return variable. The remaining 38% of variables are factors that have not been researched and can influence stock performance.

Moderated Regression Analysis (MRA)

Table 9. Moderated Regression Analysis (MRA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1Z	0.458421	0.182760	2.508323	0.0154
X2Z	-0.056908	0.049586	-1.147664	0.2565
X3Z	-0.050619	0.116468	-0.434616	0.6657

Sumber : Output Eviews 12, 2024

Based on the table of moderated regression analysis test results above, it can be seen that:

1. The company value variable can attenuate (strengthen) the impact of profitability on stock returns, according to the interaction between the company value variable and the profitability variable (ROA), with a probability value of 0.0154 < 0.05.
2. The probability value of the interaction between the company value variable and the stock return variable (CR) is 0.2585 > 0.05, indicating that the company value variable is not able to moderate (lessen) the impact of liquidity on stock returns.
3. The probability value of the interaction between the political connection and company value variables on the stock return variable is 0.6657 > 0.05, indicating that the company value variable cannot moderate (lessen) the impact of political ties on stock returns.

DISCUSSION

The Effect of Profitability (ROA) on Stock Returns

This study demonstrates that return on assets (ROA), a proxy for the profitability ratio, significantly impacts stock returns. The study's findings, which indicate that high profitability (ROA) value raises stock returns and vice versa, support this. A profitability ratio expresses how much profit or return a business makes on its investments and sales. Meanwhile, a company's capacity to manage its assets to produce a profit may be summarized by its Return on Assets (ROA), a profitability metric.

Therefore, the signal theory proposed by Jogiyanto (2017) says that businesses send out signals or information about their state to pique the attention of outside parties, particularly investors, to invest in the firm. This theory is relevant to the fact that if the value of profitability (ROA) increases, an increase will follow it in company profits, and this will provide a positive signal regarding investors' interest in investing in the company because, according to Asikin et al., (2021), investors pay attention to profits. Or profits obtained by the company will ultimately

increase the return on the shares it receives. This research is in line with several previous studies, namely Dewi & Fajri (2019), Asikin et al., (2021), and Irawan & Polimpung (2021), whose research results state that profitability (ROA) has a significant positive effect on stock returns.

The Effect of Liquidity (CR) on Stock Returns

This study demonstrates that stock returns are unaffected by the liquidity ratio, as measured by the current ratio (CR). Research data supports this by showing that changes in the liquidity value (CR) do not affect stock returns. An assessment of the company's capacity to pay short-term commitments using current assets is given by the liquidity assessed by CR. According to Harahap (2015), because current assets and liabilities have varying levels of liquidity, a low current ratio only sometimes indicates that the organization cannot satisfy short-term obligations. Therefore, if some assets can be swiftly turned into cash or the liabilities are sufficiently long, a low current ratio may only sometimes indicate that the firm cannot satisfy its short-term obligations.

Thus, liquidity does not directly affect stock returns because a low current ratio does not always impact the company's stock performance. On the other hand, the company's stock performance may be more influenced by other, more significant factors. According to Hadri et al., (2021), this element may result from the market's belief in the company's capacity to meet its present commitments The company's strong financial foundation often drives this investor's confidence. However, despite the importance of liquidity, investors usually focus more on other factors such as revenue growth, profits, and long-term business prospects. Therefore, although liquidity has an essential value in assessing a company's financial condition, liquidity is not the only factor that influences a company's stock performance and does not directly impact stock returns. The findings of this study are consistent with those of earlier studies by Pratiwi & Sucipto (2023), Hadri et al., (2021), and Irawan & Polimpung (2021), which discovered that stock returns are unaffected by the liquidity ratio, as measured by the current ratio.

The Influence of Political Connections on Stock Returns

This research shows that political connections do not affect stock returns. This is proven by research data, which shows that the presence or absence of political connections in a company will not affect the increase or decrease in the company's stock returns. In this way, even politically connected companies often get various privileges from the government, such as more accessible access to credit and lower tax costs. However, the value of stock returns in politically connected companies is not always positive. In addition, political connections are not considered the main factor influencing stock returns. Still, investors will focus more on other more significant components in influencing stock returns, such as company fundamental factors and overall market conditions.

The results of this research align with previous research, namely, Kurniasih et al., (2022), which found that political connections did not affect stock returns. This is because it is possible that investors will not fully enjoy some of the company's value. Still, some of the value will be used for their own personal or political interests. As a result, investors only get a fraction of the company value that would otherwise be accessible if no political connections were involved.

In other words, political connections can cause company value to be distributed unevenly because, according to Angelia & Munandar (2024), some of the company's profits or value will benefit political parties more than investors. Thus, political connections can be considered a factor that can hamper potential growth and profits for investors and create uncertainty regarding company shares' performance. So, political connections do not always have a significant positive impact on stock returns.

The Effect of Profitability (ROA) on Stock Returns with Company Value as Moderation

This research shows that company value, as proxied by price to book value, significantly influences stock returns. This is proven by research data, which shows that an increase will follow high company value in stock returns because, according to Kasmir (2011), high company value (PBV) can reflect that the market provides an upbeat assessment of the company's performance and growth and is willing to pay the price. Higher for its shares. In addition, company value (PBV) can moderate the relationship between profitability (ROA) and stock returns, as proven by research data which shows that the higher the company value, the increase in profitability (ROA) tends to result in a more significant increase in stock returns compared to companies with higher value. Low.

Therefore, the signal theory put forward by Michael Spence explains how someone can signal their quality to outsiders through education and work experience. So, if the company has a high value, it will give a positive signal to the market about its future performance and stability. Meanwhile, when a company has high profitability (ROA), high company value will strengthen investors' perceptions that profits are sustainable and reflect operational efficiency. Thus, high company value can maintain the positive influence of profitability (ROA) on stock returns because investors have more confidence in companies with a good reputation and high market value. That way, investors will be uniquely attracted to invest in the company.

The results of this research align with previous research, namely Kumala & Ahya (2020), which states that company value can moderate the influence of profitability on stock returns. This means that company value (PBV) can strengthen the relationship between profitability (ROA) and stock returns by describing how the market assesses the company's fundamental performance and investor perceptions and sentiment regarding growth prospects. This reflects how factors beyond a company's financial performance can influence stock market valuations.

The Effect of Liquidity (CR) on Stock Returns with Company Value as Moderation

This study demonstrates that price-to-book value, a proxy for firm value, significantly impacts stock returns. However, evidence from studies showing no effect of changes in the liquidity value (CR) on stock returns indicates that company value (PBV) cannot mediate the link between liquidity (CR) and stock returns. Therefore, although company value significantly influences stock returns, the relationship between company value and liquidity is not always linear or directly affects stock returns.

According to Kumala and Ahya (2020), company value can be an essential indicator of a company's fundamental aspects of performance and long-term prospects, which can attract investors and increase demand for company shares. However, high company value does not

always result in high liquidity because other, more significant factors influence liquidity. The financial structure significantly impacts liquidity (CR), gauging a business's capacity to pay short-term commitments using its existing assets rather than corporate valuation.

For instance, a corporation with a high current ratio can have a lot of liquidity. Still, it does not guarantee good stock performance if other factors, such as revenue growth, operational efficiency, or market conditions, are unfavorable. Conversely, companies with low liquidity (CR) can have high stock returns if they generate strong earnings growth or exploit profitable investment opportunities. This research is in line with the findings of Pratiwi & Sucipto (2023) and Lestari (2019), which state that company value cannot moderate the influence of liquidity on stock returns, so company value is not able to increase stock returns when liquidity is high or low.

The Influence of Political Connections on Stock Returns with Company Value as Moderation

The study's findings demonstrate that price-to-book value (PBV), a firm worth gauge, significantly impacts stock returns. However, since political ties within a corporation do not affect whether stock returns rise or fall, PBV cannot control the link between political relations and stock returns. The correlation between political ties and corporate value is not necessarily straight or linear, even if it can affect stock returns.

High company value can attract political interest and create opportunities to build profitable relationships. Companies with strong political connections may have access to government contracts or subsidies that increase company value, but this does not always directly result in higher stock returns. Based on research by Kurniasih et al., (2022), some of the company value from political relations is not fully enjoyed by investors but is used for personal or political interests.

In some cases, high company value can increase stock returns and attract the interest of political parties, but this can be detrimental to the company because political connections can hinder information disclosure to outside parties, as stated by Seftiana et al. (2022). Non-disclosure of information worsens investors' view of the company, affects share prices, and negatively impacts the company's market performance. The findings of this study are consistent with earlier research by Kurniasih et al. (2022), which found no relationship between political ties and stock returns. Similarly, studies by Angelia & Munandar (2024) and Seftiana et al. (2022) found no relationship between political relations and company value.

CONCLUSION

Based on the research, profitability, as measured by return on assets (ROA), has a significant favorable influence on stock returns, meaning that increasing profitability will increase stock returns because investors are attracted to profitable companies. On the other hand, liquidity, as measured by the current ratio and political connections, does not significantly influence stock returns because other factors, such as income growth and business prospects, influence stock returns more than liquidity or political connections. As measured by price to book value (PBV), company value has a significant favorable influence on stock returns because a

high PBV reflects a positive market assessment of the company's assets, attracting investor interest and increasing share prices.

In addition, company value (PBV) can moderate the relationship between profitability (ROA) and stock returns, indicating that the combination of high ROA and PBV strengthens market perceptions of the company's performance and prospects, thereby encouraging higher stock returns. However, company value (PBV) cannot moderate the relationship between liquidity and political connections on stock returns. This is because liquidity does not play an essential role in determining stock performance, and political connections can hinder the disclosure of company information to investors, thereby preventing the increase in share prices.

Therefore, it is recommended that companies improve financial performance to attract investors and increase company value. Investors should conduct in-depth research on the factors influencing stock returns, especially profitability and company value, to make optimal investment decisions. Future researchers are expected to develop research by adding new variables, increasing samples, and changing research objects to find new findings that did not exist before.

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