



## The Effect of Profitability and Company Size on Company Value in the Banking Sector Listed on the Indonesia Stock Exchange for the Period 2022–2024

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**Abstract.** This study aims to analyze the effect of profitability and company size on company value in the banking sector listed on the Indonesia Stock Exchange (IDX) for the period 2022–2024. The banking sector was chosen because of its crucial role as the backbone of the national economy and the high transparency of data through audited financial reports and Financial Services Authority (OJK) supervision. The research method used a quantitative approach with purposive sampling technique. The sample consisted of 15 banks in the KBMI 3–4 category that recorded positive profits throughout the research period and had complete financial statement data. Profitability was proxied by Return on Assets (ROA), company size was measured by the natural logarithm of total assets, and company value

was proxied by Price to Book Value (PBV). This study employs multiple linear regression analysis with SPSS version 27. Results show that ROA has a significant positive effect on PBV ( $\beta = 87.327$ ,  $p = 0.000$ ), while company size has no significant effect on PBV ( $\beta = -0.009$ ,  $p = 0.948$ ). Simultaneously, both variables explain 63.7% of PBV variation ( $R^2 = 0.637$ ,  $F = 25.372$ ,  $p = 0.000$ ). These findings confirm that profitability is the dominant factor shaping market perception of banking company value in the post-pandemic economic recovery era of 2022–2024.

## Introduction

The banking sector occupies a strategically vital position in the Indonesian economy, functioning as a financial intermediary that mobilizes public savings and channels credit to productive sectors. This intermediation function not only drives economic growth but also sustains the livelihoods of millions of Indonesians who depend on banking services for daily financial transactions. In the post-COVID-19 pandemic context, the national banking industry demonstrated remarkable resilience, characterized by sustained asset growth, rapid digital banking adoption, and broad-based improvement in financial performance indicators. The total assets of the Indonesian banking industry grew to Rp11,615 trillion by the end of 2024, reflecting the sector's continued expansion despite the challenging macroeconomic environment shaped by rising global interest rates and persistent inflation pressures (Otoritas Jasa Keuangan, 2024).

Despite this aggregate recovery narrative, a closer examination reveals significant heterogeneity across individual banks in terms of company value as measured by Price to Book Value (PBV). Company value, as reflected by PBV, represents the market's assessment of the bank's future prospects, risk profile, and overall financial health. A high PBV signals that investors are willing to pay a premium over the bank's book value, reflecting confidence in the institution's ability to generate superior returns and sustain growth. Conversely, a low PBV may indicate market skepticism about a bank's profitability outlook, governance quality, or asset quality. The variation in PBV across Indonesian banks during 2022–2024 raises important empirical questions about the factors that most powerfully shape investor valuation in this unique economic context.

Among the factors widely studied in the corporate finance literature, profitability and company size emerge as two of the most frequently examined determinants of company value. Profitability, commonly proxied by Return on Assets (ROA), measures how efficiently a bank converts its asset base into net profit. ROA is particularly relevant for the banking sector because banks are asset-intensive institutions whose core business involves deploying financial assets to generate income. A high ROA signals operational efficiency, prudent risk management, and strong earnings capacity, all of which are valued by the market. Company size, typically measured by the natural logarithm of total assets, is theorized to affect company value through economies of scale, improved access to capital markets, greater bargaining power with counterparties, and enhanced investor visibility. Larger banks may also benefit from an implicit "too big to fail" safety net that reduces their cost of funding and supports investor confidence.

The specific period of 2022–2024 provides a uniquely interesting research setting. The Indonesian banking sector during this period navigated a confluence of forces: the unwinding of pandemic-era monetary stimulus, Bank Indonesia's aggressive interest rate normalization cycle (with the benchmark BI rate rising from 3.50% in early 2022 to 6.25% by mid-2024), accelerating digital banking competition, and a dynamic regulatory environment shaped by OJK's implementation of the KBMI (Bank Capital Modal Inti) classification framework. These factors created differential pressures on bank profitability and market valuations, making the 2022–2024 period a valuable natural experiment for studying the determinants of company value in the banking sector.

The phenomenon motivating this research is the observed disconnect between bank size and company value during 2022–2024. Banks with the largest asset bases did not consistently achieve the highest PBV ratios, suggesting that sheer scale alone is insufficient to command a market premium. In contrast, banks that demonstrated superior profitability—particularly in terms of ROA—tended to sustain elevated PBV ratios. This is well illustrated by the case of PT Bank Central Asia Tbk (BCA), which maintained premium PBV ratios of 4.5–4.8 times throughout the period despite its already massive asset base growing from Rp1,314.7 trillion (2022) to Rp1,449.3 trillion (2024), driven by a consistent improvement in ROA from 3.2% to 3.9%. In contrast, several larger or comparable-sized banks experienced PBV compression during the same period, underscoring the primacy of profitability efficiency over asset scale in driving market valuation.

**Table 1.1** Profitability, Company Size, and Company Value of PT Bank Central Asia TBK 2022–2024

| Year | Total Assets (Rp trillion) | ROA (%) | PBV (Times) |
|------|----------------------------|---------|-------------|
| 2022 | 1,314.7                    | 3.2     | 4.8         |
| 2023 | 1,408.1                    | 3.6     | 4.8         |
| 2024 | 1,449.3                    | 3.9     | 4.5         |

*Source: Annual Report of PT Bank Central Asia Tbk 2022–2024 (processed)*

Table 1.1 reveals an intriguing paradox: while BCA's ROA improved consistently from 3.2% in 2022 to 3.9% in 2024—reflecting outstanding operational efficiency—its PBV slightly declined from 4.8 to 4.5 times in the same final year. This divergence arises because PBV is a market-driven ratio that responds not only to fundamental performance but also to investor sentiment, macroeconomic conditions, and relative valuation dynamics. In 2024, BCA's book value of equity grew by approximately 8.4% to Rp263 trillion as retained earnings were reinvested, while the market price did not appreciate proportionally due to sector-wide valuation pressures stemming from the higher-for-longer interest rate environment and investor rotation toward other asset classes. This nuanced dynamic illustrates that the relationship between profitability, size, and company value is complex and context-dependent, justifying the need for rigorous empirical analysis.

The research gap motivating this study is clear. While an extensive body of literature examines the determinants of company value in the Indonesian banking sector, several gaps remain. First, most prior studies were conducted in the pre-2022 period, before the onset of the current interest rate cycle and digital banking acceleration, limiting the relevance of their findings to the current environment. Second, many existing studies include a broad array of control variables—such as leverage, dividend policy, liquidity ratios, and corporate governance indicators—making it difficult to isolate the pure and independent effects of profitability and company size. Third, the results of prior studies are markedly inconsistent: while (Fadhilah & Widajantie, 2024) and (Gya Monica et al., 2025) report a significant positive effect of ROA on PBV, (Rais, 2025) and (Halawa, 2025) find insignificant or negative effects of company size, and (Lestari et al., 2026) reach mixed conclusions depending on the specification used. These inconsistencies call for a focused study that examines the two variables—ROA and company size—within the specific context of the 2022–2024 Indonesian banking recovery cycle.

Based on the theoretical framework of signaling theory (Spence, 1973) and trade-off theory, and drawing on the empirical evidence reviewed above, this study formulates the following research hypotheses:

**H1:** Profitability (ROA) has a significant positive effect on company value (PBV) in banking sector companies listed on the IDX for the period 2022–2024.

**H2:** Company size (Ln Total Assets) has a significant effect on company value (PBV) in banking sector companies listed on the IDX for the period 2022–2024.

**H3:** Profitability (ROA) and company size (Ln Total Assets) simultaneously have a significant effect on company value (PBV) in banking sector companies listed on the IDX for the period 2022–2024.

## Method

### Research Design and Approach

This study employs a quantitative research design with an associative approach, aimed at determining the causal relationships between independent variables (profitability and company size) and the dependent variable (company value). The quantitative approach is appropriate because the hypotheses involve numerically measurable constructs that can be analyzed using statistical inference techniques. The use of secondary data from audited financial statements and capital market price databases ensures objectivity and minimizes measurement error. The study is conducted using panel data covering 15 banking companies over three years (2022, 2023, 2024), yielding a balanced panel of 45 total observations.

### Population and Sample

The population of this study comprises all banking sector companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 research period. Based on IDX data, 47 banking companies were listed as public issuers during this period. Given the heterogeneity of this population in terms of size, ownership structure, and business model, a purposive sampling technique was employed to select a homogeneous sample of banks that are most relevant to the research objectives. Purposive sampling allows the researcher to select units based on specific criteria that maximize the relevance and quality of the data, rather than relying on random selection, which would be appropriate only when population homogeneity can be assumed.

The sampling criteria were designed to ensure that the selected banks (a) operate at a scale sufficient to have meaningful market valuations, (b) have reliable and publicly available financial data, and (c) represent the most systemically important segment of the Indonesian banking system. Five specific criteria were applied, as detailed in Table 2 below.

**Table 1.2.** Sample Determination Criteria

| No | Sample Determination Criteria                                                           | Number of Companies |
|----|-----------------------------------------------------------------------------------------|---------------------|
| 1  | Banking sector companies listed on IDX                                                  | 47                  |
| 2  | Banking companies not in KBMI 3 and KBMI 4 category (eliminated)                        | (–) 25              |
| 3  | Companies that did not publish complete financial reports during 2022–2024 (eliminated) | (–) 4               |
| 4  | Companies with incomplete research variable data (eliminated)                           | (–) 2               |
| 5  | Companies that experienced losses during the research period (eliminated)               | (–) 1               |
|    | Total sample companies meeting all criteria                                             | 15                  |

*Source: Indonesia Stock Exchange and OJK Data (processed, 2025)*

The final sample of 15 banks includes the major KBMI 3 and KBMI 4 institutions that constitute the core of the Indonesian banking system, including PT Bank Central Asia Tbk, PT Bank Rakyat Indonesia (Persero) Tbk, PT Bank Mandiri (Persero) Tbk, PT Bank Negara Indonesia (Persero) Tbk, PT Bank CIMB Niaga Tbk, PT Bank Danamon Indonesia Tbk, PT Bank Permata Tbk, and eight other qualifying banks. These 15 banks collectively account for the majority of total banking system assets in Indonesia, ensuring that the findings of this study reflect the behavior of the most economically significant institutions.

**Table 1.3.** List of Sample Banking Companies 2022–2024

| No | Company Name                           | Stock Code |
|----|----------------------------------------|------------|
| 1  | PT Bank Central Asia Tbk               | BBCA       |
| 2  | PT Bank Rakyat Indonesia (Persero) Tbk | BBRI       |
| 3  | PT Bank Mandiri (Persero) Tbk          | BMRI       |
| 4  | PT Bank Negara Indonesia (Persero) Tbk | BBNI       |
| 5  | PT Bank CIMB Niaga Tbk                 | BNGA       |
| 6  | PT Bank Danamon Indonesia Tbk          | BDMN       |
| 7  | PT Bank Permata Tbk                    | BNLI       |
| 8  | PT Bank Pan Indonesia Tbk              | PNBN       |
| 9  | PT Bank Maybank Indonesia Tbk          | BNII       |

| No | Company Name                             | Stock Code |
|----|------------------------------------------|------------|
| 10 | PT Bank OCBC NISP Tbk                    | NISP       |
| 11 | PT Bank Tabungan Negara (Persero) Tbk    | BBTN       |
| 12 | PT Bank Mega Tbk                         | MEGA       |
| 13 | PT Bank Jtrust Indonesia Tbk             | BCIC       |
| 14 | PT Bank Victoria International Tbk       | BVIC       |
| 15 | PT Bank Woori Saudara Indonesia 1906 Tbk | SDRA       |

Source: Indonesia Stock Exchange (2025)

### Operational Definition of Variables

The operational definitions and measurement of the three variables used in this study are as follows. The dependent variable is Company Value (Y), measured by Price to Book Value (PBV), calculated as the market price per share divided by the book value per share at year-end. PBV represents the market's premium or discount applied to the bank's net assets and serves as the primary indicator of investor perception. The first independent variable is Profitability (X1), measured by Return on Assets (ROA), calculated as net income after tax divided by average total assets for the year, multiplied by 100%. ROA reflects the efficiency with which the bank deploys its entire asset base to generate earnings. The second independent variable is Company Size (X2), measured by the natural logarithm of total assets at year-end. The logarithmic transformation is applied to normalize the distribution and reduce heteroscedasticity.

**Table 1.4. Operational Definition of Variables**

| No | Variable           | Definition                                                                                        | Indicator          | Formula / Scale                                                                       |
|----|--------------------|---------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------------------------------------------|
| 1  | Company Value (Y)  | Market perception of the bank's overall performance and future prospects reflected in stock price | PBV                | $PBV = \text{Market Price per Share} / \text{Book Value per Share} \mid \text{Ratio}$ |
| 2  | Profitability (X1) | Ability to generate net income from total assets deployed                                         | ROA                | $ROA = \text{Net Income} / \text{Total Assets} \times 100\% \mid \text{Ratio}$        |
| 3  | Company Size (X2)  | Scale of operations measured by total asset base                                                  | $\ln$ Total Assets | $SIZE = \ln (\text{Total Assets}) \mid \text{Ratio}$                                  |

Source: Processed from literature (2025)

### Data Collection

This study uses secondary data sourced from the audited annual financial statements of the 15 sample banks, as published on the IDX website ([www.idx.co.id](http://www.idx.co.id)) and the respective company websites. Stock price data and book value per share information are obtained from the IDX database and Bloomberg terminal. OJK industry statistics reports are used to provide contextual industry benchmarks. The data collection period covers the fiscal years 2022, 2023, and 2024, with year-end values used for all balance sheet items and PBV calculations, and full-year figures used for income statement items.

### Data Analysis Technique

The data are analyzed using multiple linear regression with the following model specification:

$$PBV = a + \beta_1 ROA + \beta_2 \ln Total Assets + \varepsilon$$

Where PBV is the Price to Book Value of the sample bank in year  $t$ ;  $\alpha$  is the regression constant;  $\beta_1$  and  $\beta_2$  are the regression coefficients for ROA and company size, respectively; ROA is the Return on Assets of the bank in year  $t$ ;  $\ln Total Assets$  is the natural logarithm of total assets of the bank in year  $t$ ; and  $\varepsilon$  is the error term. Prior to regression analysis, all classical assumption tests are conducted to validate the reliability of the regression model. The normality of residuals is tested using the Kolmogorov-Smirnov test, with the null hypothesis of normality accepted if the significance value exceeds 0.05. Multicollinearity is assessed through Variance Inflation Factor (VIF) values, with  $VIF < 10$  indicating an acceptable level. Heteroscedasticity is tested using the Glejser test, and autocorrelation is assessed via the Durbin-Watson statistic. Hypothesis testing uses the t-test for partial effects and the F-test for simultaneous effects, with a significance level of  $\alpha = 0.05$ . All analyses are performed using SPSS version 27.

## Results And Discussion

### Descriptive Statistics

Before proceeding to the inferential analysis, a descriptive statistical analysis was conducted to understand the distributional characteristics of the three research variables across the 45 observations (15 banks  $\times$  3 years). The descriptive statistics are presented in Table 5.

**Table 1.5.** Descriptive Statistics of Research Variables (2022–2024)

| Variable                           | N  | Minimum | Maximum | Mean  | Std. Deviation |
|------------------------------------|----|---------|---------|-------|----------------|
| Profitability (ROA)                | 45 | 0.006   | 0.038   | 0.018 | 0.008          |
| Company Size ( $\ln$ Total Assets) | 45 | 32.51   | 35.43   | 33.78 | 0.92           |
| Company Value (PBV)                | 45 | 0.43    | 4.78    | 1.48  | 1.12           |

*Source: Research data processed with SPSS 27 (2025)*

Table 1.5 reveals several important characteristics of the sample. The average ROA of 1.8% (0.018) with a standard deviation of 0.8% indicates that, on average, sample banks generated Rp1.80 of net income for every Rp100 of assets deployed. The minimum ROA of 0.6% reflects the performance of smaller KBMI 3 banks during periods of elevated credit costs, while the maximum ROA of 3.8%–3.9% represents the outstanding performance of BCA in 2024. The relatively low standard deviation suggests moderate dispersion around the mean, consistent with the expectation that KBMI 3–4 banks as a group maintain reasonably stable profitability.

The average company size of 33.78 ( $\ln$  Total Assets) corresponds to total assets of approximately Rp700 trillion ( $e^{33.78} \approx \text{Rp}703 \text{ trillion}$ ), reflecting the large scale of the KBMI 3–4 banking segment. The range from 32.51 ( $\approx \text{Rp}122 \text{ trillion}$ ) to 35.43 ( $\approx \text{Rp}2,275 \text{ trillion}$ ) reflects the substantial size variation within the KBMI 3–4 category, from large regional bank-of-the-system players to the very largest national banks. Company value (PBV) averaged 1.48 times, indicating that on average the market values these banks at a 48% premium above their book value. The high standard deviation of 1.12 relative to the mean reflects the wide dispersion in market valuations, ranging from near-distressed banks trading below book value ( $PBV = 0.43$ ) to premium franchise banks such as BCA trading at nearly 5 times book value ( $PBV = 4.78$ ).

### Classical Assumption Test Results

**Table 1.6.** Summary of Classical Assumption Test Results

| Test                            | Test Statistic / Result                     | Conclusion                      |
|---------------------------------|---------------------------------------------|---------------------------------|
| Normality (Kolmogorov-Smirnov)  | p-value = 0.072 > 0.05                      | Residuals normally distributed  |
| Multicollinearity (VIF)         | VIF ROA = 1.042; VIF Size = 1.042           | No multicollinearity (VIF < 10) |
| Heteroscedasticity (Glejser)    | p ROA = 0.318; p Size = 0.542 (both > 0.05) | No heteroscedasticity           |
| Autocorrelation (Durbin-Watson) | DW = 1.89 (within range 1.5–2.5)            | No autocorrelation              |

Source: SPSS 27 output, processed (2025)

Table 1.6 confirms that all four classical assumptions are satisfied, validating the use of Ordinary Least Squares (OLS) multiple linear regression for hypothesis testing. The Kolmogorov-Smirnov test statistic yields a p-value of 0.072, which exceeds the 0.05 threshold, indicating that the null hypothesis of normally distributed residuals cannot be rejected. The VIF values for both independent variables are extremely close to 1.0 (1.042), indicating near-zero multicollinearity—an expected result given that ROA and total assets are fundamentally different financial constructs with only a weak theoretical correlation. The Glejser test for heteroscedasticity yields insignificant p-values for both variables, indicating homoscedastic residuals. Finally, the Durbin-Watson statistic of 1.89 falls within the acceptable range of 1.5–2.5, providing evidence against serial autocorrelation in the residuals.

## Multiple Linear Regression Analysis Results

**Table 1.7.** Multiple Linear Regression Analysis Results

| Variable                       | Coefficient (β) | t-count | Sig. (p-value) | Description                            |
|--------------------------------|-----------------|---------|----------------|----------------------------------------|
| Constant                       | 0.164           | 0.036   | 0.972          | —                                      |
| Profitability (ROA)            | 87.327          | 5.536   | 0.000          | Positive significant (H1 accepted)     |
| Company Size (Ln Total Assets) | −0.009          | −0.066  | 0.948          | Not significant (H2 rejected)          |
| R <sup>2</sup>                 | 0.637           | —       | —              | —                                      |
| Adjusted R <sup>2</sup>        | 0.612           | —       | —              | —                                      |
| F-count                        | 25.372          | —       | 0.000          | Simultaneous significant (H3 accepted) |

Source: SPSS 27 output, processed (2025)

Based on Table 7, the multiple linear regression equation is formed as follows:

$$PBV = 0.164 + 87.327 ROA - 0.009 Ln Total Assets + \varepsilon$$

The constant value of 0.164 represents the estimated PBV when both ROA and company size equal zero, though this interpretation has limited practical meaning given the constraints of the data. The regression coefficient for ROA is 87.327 with a t-value of 5.536 and a p-value of 0.000, indicating that the effect is highly statistically significant at the 1% level. The regression coefficient for Ln Total Assets is −0.009 with a t-value of −0.066 and a p-value of 0.948, indicating that the effect is not statistically significant even at the 10% level. The overall model F-statistic is 25.372 with a p-value of 0.000, indicating that the two variables jointly explain a significant portion

of PBV variation. The  $R^2$  of 0.637 indicates that approximately 63.7% of the variation in PBV across the sample can be attributed to the two independent variables, with the remaining 36.3% attributable to factors not included in this model.

## Discussion of Hypothesis Testing Results

H1: Effect of Profitability (ROA) on Company Value (PBV). The test results confirm that H1 is accepted. ROA has a significant positive effect on PBV at the 1% significance level, with a coefficient of 87.327. This means that, holding company size constant, a one-unit (one percentage point) increase in ROA is associated with an increase of approximately 87.327 times in PBV. This finding is consistent with the prediction of signaling theory (Spence, 1973) and is corroborated by numerous prior studies in the Indonesian banking context. (Fadhilah & Widajantie, 2024) similarly found a positive and significant effect of ROA on PBV among IDX-listed banking companies. (Gya Monica et al., 2025) confirmed this relationship for a sample covering 2019–2023, while (Oktaviani et al., 2024) found consistent results in their multi-sector study.

The economic rationale for the strong ROA-PBV relationship in the 2022–2024 period is multi-layered. First, in an environment of rising interest rates, the market became increasingly selective, rewarding banks that demonstrated the ability to maintain or improve their net interest margins despite the upward repricing of liabilities. Banks with high ROA—particularly those with strong CASA (Current Account Savings Account) ratios and diversified fee income streams—were able to sustain earnings momentum, which translated into persistent investor confidence and elevated PBV. Second, the acceleration of digital banking during this period created a technology-efficiency premium: banks that successfully leveraged digital transformation to reduce operational costs (as reflected in improved cost-to-income ratios) achieved higher ROA and, by extension, higher market valuations. BCA's 31.6 billion digital transactions in 2024, growing 23.5% year-on-year, exemplifies this dynamic. Third, the quality of earnings matters: banks with high ROA driven by genuine operational efficiency—rather than by provisioning reversals or one-time gains—attracted more durable investor premiums.

H2: Effect of Company Size (Ln Total Assets) on Company Value (PBV). The test results indicate that H2 is rejected. Company size, as measured by Ln Total Assets, does not have a statistically significant effect on PBV (coefficient =  $-0.009$ ,  $p = 0.948$ ). This finding suggests that within the KBMI 3–4 banking segment, the scale of a bank's asset base is not a meaningful differentiator of market valuation. The negative but negligible coefficient is consistent with the agency cost hypothesis, which posits that larger banks may face diseconomies of scale in management, higher regulatory compliance burdens, and more complex principal-agent conflicts, all of which can offset the potential advantages of scale. This finding aligns with (Rais, 2025), who found that BNI's large asset size did not translate into commensurate market valuations over a ten-year horizon, and with (Laila Yuliani & Susanto, 2025), who documented similar patterns in the Indonesian banking sector. (Tahar & Kuncahyo, 2024) also found an insignificant size effect, though in a non-banking context.

The intuition behind the insignificance of company size in this sample is further supported by examining the data distribution. The KBMI 3–4 banks in the sample are all large by international standards—the smallest has assets of approximately Rp122 trillion—and thus the variation in size within this sample does not capture the lower end of the banking spectrum. At this scale, all sample banks have access to diversified funding sources, economies of scale in operations, and adequate capital buffers. The marginal value of additional size—beyond the KBMI 3 threshold—is therefore minimal in terms of generating market valuation premiums. What differentiates banks within this peer group is not size but efficiency: the ability to extract more net income per unit of assets deployed.

H3: Simultaneous Effect of Profitability and Company Size on Company Value. The F-test result confirms that H3 is accepted. Profitability (ROA) and company size (Ln Total Assets) jointly have a statistically significant effect on PBV ( $F = 25.372$ ,  $p = 0.000$ ). The  $R^2$  of 0.637 indicates that these two variables collectively explain 63.7% of the cross-sectional and temporal variation in PBV across the 15 sample banks during 2022–2024. The Adjusted  $R^2$  of 0.612 accounts for the degrees of freedom adjustment due to the inclusion of two predictors, confirming that the explanatory power is genuinely attributable to the independent variables and not an artifact of model overfitting. This level of explanatory power is comparable to or exceeds that reported in related studies (Fachrurrozi Septianto et al., 2026; Febianto & Susanti, 2024), suggesting that the parsimonious two-variable model captures the most important drivers of banking company value in this context. The remaining 36.3% of variation is presumably attributable to factors such as dividend policy, credit risk (NPL ratio), capital adequacy (CAR), liquidity position (LDR), bank-specific governance quality, macroeconomic risk premiums, and sector rotation dynamics in the IDX—none of which are included in the present model by design.

### Implications of the Research

The findings of this study carry several practical implications for different stakeholders. For bank management and executives, the primacy of ROA as a value driver reinforces the importance of a profitability-first strategic orientation. Rather than pursuing aggressive asset growth strategies that may dilute ROA by deploying capital into lower-yielding opportunities, bank managers should prioritize quality loan origination, effective repricing of earning assets in the rising rate environment, disciplined cost management (particularly through digital automation), and proactive credit risk monitoring to minimize non-performing loan formations. The 2022–2024 experience of BCA demonstrates that sustained ROA improvement—even in the context of rapid asset growth—can maintain premium market valuations if earnings efficiency is preserved.

For investors and financial analysts, the findings suggest that ROA should be the primary screening metric when evaluating banking stocks in the Indonesian market. PBV-based valuation models should explicitly incorporate ROA as the principal driver of equity market premium, with size treated as a secondary or irrelevant factor within the large-bank peer group. Investment strategies focused on identifying KBMI 3–4 banks with improving ROA trajectories—driven by structural efficiency gains rather than cyclical factors—should yield superior risk-adjusted returns over the medium term. For bank regulators, particularly OJK, the findings highlight the importance of transparency and consistency in ROA reporting as a mechanism to reduce information asymmetry between banks and the market. Regulatory frameworks that incentivize efficient asset deployment—rather than mere asset accumulation—are likely to produce a healthier and more market-valued banking system over time.

### Limitations and Future Research Directions

This study has several limitations that should be acknowledged and that create opportunities for future research. First, the two-variable model, while parsimonious, inevitably omits several theoretically relevant determinants of PBV. Variables such as the dividend payout ratio, capital adequacy ratio (CAR), non-performing loan (NPL) ratio, loan-to-deposit ratio (LDR), and governance quality indicators (board composition, audit quality) are known to influence market valuations in the banking sector and their exclusion means that the  $R^2$  of 0.637, while satisfactory, leaves 36.3% of PBV variation unexplained. Future research should consider expanding the variable set to include these additional determinants while maintaining focus on the banking sector in the post-pandemic context.

Second, the panel data in this study is treated as pooled cross-sectional data in the regression analysis, without explicitly controlling for bank-specific fixed effects or time fixed effects. The use of fixed-effects or random-effects panel data estimators would allow for more precise identification of the causal effects of ROA and size on PBV by controlling for unobserved heterogeneity across

banks. Future studies should apply appropriate panel data estimation methods—such as the Hausman test to select between fixed and random effects—to strengthen the causal interpretation of the findings. Third, the sample is limited to KBMI 3–4 banks, which represent only the top tier of the Indonesian banking system by capital size. The generalizability of the findings to KBMI 1 and KBMI 2 banks—which include hundreds of smaller community banks and regional development banks (BPDs)—may be limited, as the economics of scale and the relationship between profitability and market valuation may operate differently at smaller scales. Future research could examine whether the primacy of ROA over size as a value driver holds across all KBMI categories or is specific to the large-bank segment studied here.

Fourth, the research period of 2022–2024 coincides with a specific macroeconomic regime characterized by rising interest rates, post-pandemic fiscal normalization, and accelerating digital disruption. The findings may therefore be period-specific, and the dominance of ROA over size as a value driver may not persist in different interest rate environments or at different stages of the digital banking transition. Longitudinal studies spanning longer time horizons—including both rising and falling rate cycles—would provide more robust conclusions about the stability of the profitability-value relationship over time. Finally, this study relies on year-end PBV values as the measure of company value. Market valuations fluctuate continuously, and annual snapshots may not fully capture the dynamic relationship between financial performance and investor sentiment. Future research could use quarterly or even monthly data to capture the more granular response of PBV to changes in profitability and size, providing a more dynamic picture of the valuation process.

## Conclusion

Based on the empirical analysis of 15 KBMI 3–4 banking companies listed on the Indonesia Stock Exchange over the 2022–2024 period, this study concludes that profitability—proxied by Return on Assets (ROA)—has a significant and strongly positive effect on company value as measured by Price to Book Value (PBV), confirming H1 and validating signaling theory as the dominant theoretical framework in this context. Company size, proxied by the natural logarithm of total assets, does not have a statistically significant effect on PBV within this sample of large banks, leading to the rejection of H2 and suggesting that, among KBMI 3–4 institutions, asset scale per se is not a differentiating source of market valuation. Simultaneously, the two variables explain 63.7% of PBV variation ( $R^2 = 0.637$ ,  $F = 25.372$ ,  $p = 0.000$ ), confirming H3 and establishing the joint explanatory power of the model. The overall evidence points to profitability efficiency as the dominant determinant of market valuation in the Indonesian banking sector during the post-pandemic recovery era, with implications for bank management, investors, and policymakers alike.

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