

The Effect of Operating Cash Flow, Capital Expenditure, and Earnings Quality on Firm Value

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Abstract

This research aims to examine the influence of operating cash flow, capital expenditure, and earnings quality on the value of companies in the IDXQ30 index listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024. The type of this research is quantitative with an associative approach. Data collection techniques were carried out thru documentation by accessing annual reports and financial statements of companies listed in the IDXQ30 stock index on the Indonesia Stock Exchange for the period 2020–2024. The research instrument consists of secondary data observation sheets, which were analyzed using E-Views 12 software. The research population includes 52 companies in the IDXQ30 index, while the sample was determined thru purposive sampling, resulting in 15 companies with a total of 75 observation data points. The research results show that, simultaneously (F-test), operating cash flow, capital expenditure, and earnings quality have an impact on the company's value. Partially, operating cash flow affects the company's value, earnings quality affects the company's value, while capital expenditure does not affect the company's value.

Keywords: *Operating Cash Flow, Capital Expenditure, Earnings Quality, Firm Value*

INTRODUCTION

Companies are established with the aim of obtaining maximum profits for their survival by maximizing their value (Rahmawati & Kurniawati, 2023). The value of a company can indicate its condition. The wealth of shareholders is proportional to the stock price, thus when the company's stock value increases, it indicates that the company's condition is good (Afifah et al., 2021). According to Pandapotan & Puspitasari (2022), signaling theory is when company management informs investors on how the company will be valued in the future. The main assumption of signaling theory is that it

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allows investors to understand how they will make decisions regarding company value (Mispiyanti, 2020).

During the national economic recovery after the COVID-19 pandemic, PT Telkom Indonesia Tbk. experienced a surge in demand for digital services, leading to a massive increase in expenditure for building technology networks and infrastructure. According to the company's financial statements, the capital expenditure (CAPEX) value projected through the purchase of fixed assets reached Rp29.712 trillion in 2021 and increased to Rp35.138 trillion in 2022. However, CAPEX briefly dropped to Rp33.601 trillion in 2023, as shown by the Telkom Indonesia Annual Report (2023). The real phenomenon shows a gap between the increase in investment and the company's ability to generate cash from its operations. According to the consolidated cash flow statement, Telkom's operating cash flow increased from Rp68.353 trillion in 2021 to Rp73.354 trillion in 2022. However, the operating cash flow drastically decreased to Rp60.581 trillion in 2023. This condition indicates that an increase in investment is not always followed by an increase in operating cash flow in the short term.

Several studies show that operating cash flow has a positive and significant impact on firm value. Research results by Muzaki and Widyawati (2024) show that in LQ-45, operating cash flow has a positive effect on firm value, while Octavianus and Mala (2020) found that small operating cash flows in the infrastructure, utility, and transportation sectors have no effect. However, Bantali et al. (2024) found that cash flow has a positive impact on firm value but is not significant when proxied by the Price Earning Ratio (PER).

Several studies found that capital expenditure has a positive and significant effect on firm value. This indicates that capital investment can increase investor interest, stock prices, and future company growth, according to Islamiyah and Fidiana (2024). However, this is not the case based on the study results of (Luckyanti & Anwar, 2022), which showed that there is no relationship between firm value and capital expenditure.

Earnings quality is also significant, according to Pratiwi & Cahyani (2022), because it can influence investor choices and become a standard for valuing a company. The research results of Kurniawan & Sunarto (2024) found that earnings quality has no significant effect on firm value. On the other hand, according to (Octaviani & Suhartono, 2021), it proves that earnings quality has a positive and significant effect on firm value.



METHOD

This research uses a quantitative method with an associative approach. The population in this study is all companies included in the IDXQ30 (IDX Quality 30) index listed on the Indonesia Stock Exchange (IDX) totaling 52 companies in the 2020-2024 period. The sampling technique used in this research is the purposive sampling method. The sample obtained is 15 companies. With an observation period of 5 years (2020–2024), the number of observations used in this study is 75 observations.

The data collection technique uses the documentation method. The documentation method used in this research relates to the financial statements of the companies included in the IDXQ30 (IDX Quality 30) index listed on the Indonesia Stock Exchange (IDX) during the period of 2020 to 2024. Information sources were obtained from the Indonesia Stock Exchange (IDX) website at www.idx.co.id and other information sources were also obtained from the respective websites of the companies that have been used as samples in this study.

The dependent variable in this study is firm value using the Price to book value (PBV) formula. The independent variables in this study are 3 (three), namely Operating cash flow (X1), Capital expenditure (X2), and Earnings Quality (X3).

Table 1. Research Variable Operationalization

No	Variable Name	Variable Indicator	Scale
1.	Firm Value (Mehendra and Susilowati, 2023)	PBV = Price Per Share / Book Value Per Share	Ratio
2.	Operating Cash Flow (Nur Tiyas Abdul Rahim et al., 2023)	AKO = Operating Cash Flow / Total Assets	Ratio
3.	Capital Expenditure (Shirley N & Ayu, 2024)	CAPEX = Net PPE (Fixed assets) / Total Assets	Ratio
4.	Earnings Quality (Ari Nuratriningrum, 2023)	TACC = Net Income / Cash Flow Operation	Ratio

The analysis method used consists of the Common Effect Model (CEM) or Pooled Least Square (PLS), Fixed Effect Model (FEM), and Random Effect Model (REM). The model selection analysis uses the Chow Test, Hausman Test, and Lagrange Multiplier Test. This is followed by classical assumption tests (normality test, multicollinearity test,



heteroscedasticity test, autocorrelation test), multiple linear regression analysis, coefficient of determination (R²) test, and hypothesis testing (F-test and t-test).

RESULTS AND DISCUSSIONS

Results

The minimum value of Firm Value was obtained from PT Bank Mandiri (Persero) Tbk at 0.094923 in 2021, while the maximum value was obtained from PT Mitra Keluarga Karyasehat Tbk at 6.424982 in 2022. The average value of Firm Value is 1.802739 with a standard deviation of 1.722670. The standard deviation value which is smaller than the average value indicates that the data spread is relatively low, so the Firm Value data in this study tends to be homogeneous.

Table 2. Descriptive Statistics Test Results

	Y	X1	X2	X3
Mean	1.802739	0.140642	0.269334	0.735161
Maximum	6.424982	0.356875	0.651661	2.712567
Minimum	0.094923	-0.032777	0.016326	-0.862536
Std. Dev.	1.722670	0.092924	0.196303	0.506615

The panel data regression model selection process determines that the Fixed Effect Model (FEM) is the most suitable model for this research. Based on the output of FEM, a base constant value (α) of 0.826284 is obtained, indicating that if the Operating Cash Flow (X1), Capital Expenditure (X2), and Earnings Quality (X3) variables are considered constant or have a value of 0 (zero), then the Firm Value (Y) is 0.826284. The Operating Cash Flow (X1) coefficient value of 3.921790 indicates a positive relationship between Operating Cash Flow and Firm Value. The Capital Expenditure (X2) coefficient value of 0.228435 indicates a positive relationship between Capital Expenditure and Firm Value. The Earnings Quality (X3) coefficient value of 0.497657 indicates a positive relationship between Earnings Quality and Firm Value.

Table 3. Simultaneous Test Results (F)

	Value
R-squared	0.826738
Adjusted R-squared	0.819149



F-statistic	20.44982
Prob(F-statistic)	0.000000

An F-statistic value of 20.44982 and a Prob(F-statistic) value of 0.000000 are obtained. Thus, it is known that $F_{count} > F_{table}$ or $20.44982 > 2.73364716$ and the Prob(F-statistic) value < 0.05 or $0.000000 < 0.05$. Then H_0 is rejected and H_1 is accepted (influential), meaning Operating Cash Flow, Capital Expenditure, and Earnings Quality significantly influence Firm Value.

Table 4. Partial Test Results (T)

Variable	t-Statistic	Prob.
C	2.651787	0.0102
X1	4.375906	0.0001
X2	0.530447	0.5979
X3	4.665252	0.0000

The operating cash flow variable obtains a $t_{count} > t_{table}$ value or $4.375906 > 2.73364716$. And a prob value of 0.0001 or < 0.05 is also obtained. Thus, it can be concluded that H_0 is rejected and H_1 is accepted, or it can be said that the operating cash flow variable significantly influences firm value.

The Capital Expenditure variable obtains a $t_{count} < t_{table}$ value or $0.530447 < 2.73364716$. And a prob value of 0.5979 or > 0.05 is also obtained. H_0 is accepted and H_1 is rejected, or it can be said that the Capital Expenditure variable does not significantly influence firm value.

The Earnings Quality variable obtains a $t_{count} > t_{table}$ value or $4.665252 > 2.73364716$. And a prob value of 0.0000 or < 0.05 is also obtained. Thus, it can be concluded that H_0 is rejected and H_1 is accepted, or it can be said that the Earnings Quality variable significantly influences firm value.

DISCUSSIONS

The Influence of Operating Cash Flow, Capital Expenditure, Earnings Quality on Firm Value

The Adjusted R-squared value is 0.819149. It can be seen that the Adjusted R-Squared value is 81.91%. This indicates that 81.91% of the firm value is influenced by



the operating cash flow, capital expenditure, and earnings quality variables, although other variables influence 18.09% of the firm value. Signaling theory connects company decisions such as operating cash flow, capital expenditure, and earnings quality with market perception of the company's performance and prospects.

The Influence of Operating Cash Flow on Firm Value

Shows that operating cash flow is one of the information contained in the financial statements that is considered by an investor and prospective investor before making an investment. The company's ability to manage operating cash flow can encourage the company's smoothness in meeting market demand and ensuring the company's liquidity level remains high to meet its short-term obligations. This is supported by the signaling theory which states that operating cash flow is an important element that investors need in making investment decisions.

The Influence of Capital Expenditure on Firm Value

This is because firm value does not only depend on the amount of capital investment, but also on the efficiency of the use of that capital (Luckyanti & Anwar, 2022). Based on Signaling Theory, the market responds negatively or ignores Capex if investors judge that the expenditure does not provide a guarantee of future profits. If the investment is not managed effectively or does not produce the expected results, the market can interpret it as waste or a sign of uncertainty, which can have a negative impact on firm value.

The Influence of Earnings Quality on Firm Value

This shows that earnings quality is known for the ability of earnings to accurately reflect current profit results as well as to predict future earnings by describing its stability and resilience. This is supported by the signaling theory which states that stable and high earnings indicate that management is working well, increasing market confidence, and possibly increasing the company's stock value. Keeping control over these profits can be a good signal and encourage companies to grow and see future opportunities (Alfi et al., 2024).

CONCLUSION

Based on the research, conclusions were obtained regarding the influence of operating cash flow, capital expenditure, and earnings quality on firm value in the



IDXQ30 stock index listed on the Indonesia Stock Exchange (IDX) in the 2020-2024 period. The test results of the Operating Cash Flow, Capital Expenditure, and Earnings Quality variables obtained an Fcount > Ftable value or $20.44982 > 2.73364716$ and a Prob(F-statistic) value < 0.05 or $0.000000 < 0.05$. Thus, H_0 is rejected and H_1 is accepted, meaning that simultaneously, Operating Cash Flow, Capital Expenditure, and Earnings Quality significantly influence Firm Value.

Partially, the operating cash flow variable obtained a tcount > ttable value or $4.375906 > 2.73364716$ and a prob value of $0.0001 < 0.05$, meaning it significantly influences firm value. The Capital Expenditure variable obtained a tcount < ttable value or $0.530447 < 2.73364716$ and a prob value of $0.5979 > 0.05$, meaning the Capital Expenditure variable does not significantly influence firm value. The Earnings Quality variable obtained a tcount > ttable value or $4.665252 > 2.73364716$ and a prob value of $0.0000 < 0.05$, meaning the Earnings Quality variable significantly influences firm value.

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