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THE EFFECT OF PROFITABILITY, ESG, AND LIQUIDITY ON THE MARKET VALUE OF CONVENTIONAL BANKING FIRMS LISTED IN THE KOMPAS100 INDEX (2020-2024)

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ABSTRACT

This study aims to analyze the effects of profitability, ESG, and liquidity on the market value of conventional banking firms listed in the KOMPAS100 Index on the Indonesia Stock Exchange during the 2020–2024 period. Using a quantitative approach, secondary data were obtained from the financial statements, annual reports, and sustainability reports of the sampled firms. The sample was selected through purposive sampling, resulting in 20 firms and 91 observations, with the dataset consisting of unbalanced panel data. Data were analyzed using panel data regression with the Fixed Effects Model (FEM), which was subsequently corrected using cluster-robust standard errors. The results show that profitability, as proxied by both Return on Assets (ROA) and Return on Equity (ROE), has a positive and significant effect on market value. ESG also has a positive and significant effect on market value in both models. Liquidity, proxied by the Loan to Deposit Ratio (LDR), has a positive and significant effect in the ROE model, but no significant effect in the ROA model. These findings indicate that the market value of banking firms is influenced not only by financial performance but also by the firms' commitment to sustainability.

Keywords: Market Value, Profitability, ESG, Liquidity, Firm Size, Firm Age

1. INTRODUCTION

The capital market plays a crucial role in the economy as a medium for channeling long-term funds through financial instruments such as stocks and bonds, while also reflecting investor confidence in a country's economic prospects (Petry et al., 2023; Khan et al., 2024). In practice, investment decisions are influenced not only by expected returns but also by risk factors and a company's fundamental quality. Therefore, a firm's market value becomes an important consideration for investors when evaluating corporate performance and prospects more comprehensively (Alamsyah & Malanua, 2021).

In recent years, the Indonesian capital market has experienced significant fluctuations, driven by both global and domestic economic factors. Data from the Indonesia Stock Exchange (IDX) show that the Composite Stock Price Index (IHSG) fell by more than 30% in March 2020 due to the COVID-19 pandemic (Gessal et al., 2025). In 2022, the market faced pressure from rising interest rates and foreign capital outflows (OJK, 2022). Although the market began stabilizing in 2023–2024, fluctuations remained high, reflecting ongoing uncertainty. This prompted investors to focus more on company valuations rather than short-term stock price movements (OJK, 2025a).

In addition to macroeconomic factors, investors are increasingly paying attention to sustainability aspects, particularly through Environmental, Social, and Governance (ESG) principles, as stipulated in POJK No. 51/POJK.03/2017. By 2023, 94% of listed companies had issued sustainability reports (BEI, 2025). The implementation of ESG reporting is gaining momentum, enhancing transparency and helping standardize ESG disclosures. This growing emphasis on sustainability is believed to influence firm market valuations.

Alongside this shift toward sustainability, investors continue to evaluate firm value through market-based indicators, particularly

stock prices. Market valuation, as reflected in stock prices, serves as a key indicator of investor assessments of a company's financial performance and prospects (Syahzuni & Sari, 2022). Strong financial performance and growth prospects typically lead to higher market valuations, while declining performance and rising risks may undermine market confidence. Figure 1.1 illustrates the IHSG trend from 2020 to 2024.

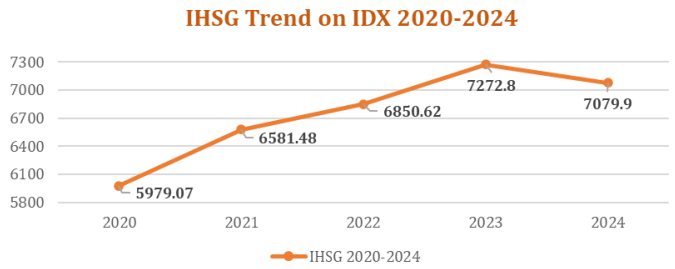


Figure 1.1 IHSG Movement Trend, 2020–2024
Source: Author's analysis (2026)

As shown in Figure 1.1, the IHSG dropped sharply to 5,979.07 in 2020 due to the impact of COVID-19, then increased to 6,850.62 in 2022, peaking at 7,272.8 in 2023. The index slightly corrected to 7,079.9 in 2024, suggesting that both global and domestic pressures, such as inflation and monetary policy, continued to affect market sentiment (Syahzuni & Sari, 2022). This trend indicates that the Indonesian capital market remained highly dynamic, making investor assessments of firm value increasingly important, particularly in evaluating a company's ability to sustain performance amid market uncertainty.

Given these market dynamics, this study focuses on conventional banking firms listed in the KOMPAS100 Index, which includes companies with strong fundamentals, large market capitalization, and high liquidity. The KOMPAS100 Index represents 70–80% of the total market capitalization on the IDX, making it a useful benchmark for understanding market conditions in Indonesia (Kristanti et al., 2019). The banking sector, which plays a crucial role in the national economy, has faced challenges related to the pandemic, credit risk, and liquidity pressures amid global interest rate volatility. As investors increasingly evaluate banks not only in terms of financial performance but also in terms of sustainability practices, ESG principles have become important in enhancing transparency and market confidence (Yunica & Rokhim, 2023; Defung et al., 2024).

This study examines three key factors expected to influence firm market value: profitability, ESG, and liquidity. Profitability is measured using Return on Assets (ROA) and Return on Equity (ROE), ESG is assessed based on the GRI Standards, and liquidity is proxied by the Loan to Deposit Ratio (LDR). Although prior studies have examined the relationship between these factors and market value, the findings remain inconsistent. These inconsistencies highlight the need for further investigation. Therefore, this study aims to provide empirical evidence on how profitability, ESG, and liquidity affect the market value of conventional banking firms listed in the KOMPAS100 Index during the 2020–2024 period.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Signaling Theory

Signaling theory, as explained by Spence (1973), suggests that management possesses an informational advantage over investors, leading them to rely on signals such as financial reports and strategic policies to assess company value (Svetek, 2022). Effective signals must be observable and credible (Carson & Westerman, 2023). Over time, signaling theory has expanded to include non-financial disclosures, such as ESG practices, which reflect long-term company prospects (Nguyen, 2025). In this study, profitability (ROA and ROE), liquidity (LDR), and ESG disclosures serve as key signals that may influence market valuation through the Price-to-Book Value (PBV) indicator.

2.2. Stakeholders Theory

Stakeholder theory, as explained by Freeman (1984), suggests that companies are responsible not only to shareholders but also to all parties affected by their activities, including employees, customers, governments, communities, and the environment (Chipriyanov et al., 2024). The theory emphasizes that a company's long-term sustainability depends on its ability to manage relationships with these stakeholders. In this study, ESG practices reflect the company's commitment to stakeholder interests and may strengthen trust, reputation, and firm market value (Fang & Guo, 2025).

2.3. Agency Theory

Agency theory, as described by Jensen and Meckling (1976), explains the relationship between principals (owners) and agents (managers), where information asymmetry may create conflicts of interest and agency costs (Sonbay, 2021; Kurniawansyah et al., 2018). To minimize these costs, companies need proper oversight, transparency, and aligned incentives (Ng & Daromes, 2016). In the banking sector, this theory is relevant for explaining managerial decisions related to profitability, liquidity, and ESG, which may affect investor confidence and firm market value (Oktrivina et al., 2025).

2.4. Market Value

Market value reflects investor confidence in a firm's performance and prospects (Salehi et al., 2022). A high market value typically signals strong financial stability, while a low value suggests deficient performance or external challenges (Bustani et al., 2021). In the capital market, the Price-to-Book Value (PBV) ratio is a key indicator, with a high PBV reflecting market optimism, while a low PBV indicates undervaluation due to financial uncertainty (Gavrilakis & Floros, 2023). This study uses PBV as a proxy for market value, as it captures investor perceptions of company performance, particularly in banking, where profitability, liquidity, and ESG factors influence valuation.

2.5. Profitability

Profitability is a key financial indicator, reflecting a firm's ability to generate profit and manage resources effectively. This study uses Return on Assets (ROA) and Return on Equity (ROE) as profitability indicators. ROA measures how efficiently a company uses its assets to generate profit, with higher values signaling

better market performance (Isayas, 2022). ROE, particularly relevant in the banking sector, measures return on equity, with higher values positively impacting stock prices (Chipriyanov et al., 2024). The Financial Services Authority (OJK) uses these ratios to assess bank health, with high ROA and ROE indicating strong financial performance (POJK No.4/POJK.3/2016).

2.6. Environmental, Social, and Governance

Environmental, Social, and Governance (ESG) is a framework used to evaluate a company's commitment to sustainability and social responsibility (Gavrilakis & Floros, 2023). According to Rahman et al. (2023), ESG commitment enhances market value and delivers sustainable returns for shareholders. In the banking sector, ESG promotes economic sustainability, strengthens risk management, builds customer trust, and improves reputation (Chow & Shan Ho, 2024). This study measures ESG using the 2016 Global Reporting Initiative (GRI) guidelines, based on data from annual and sustainability reports.

2.7. Liquidity

Liquidity is a key ratio used to assess a bank's ability to meet short-term obligations and maintain operational stability (Setiawan & Pratama, 2019). This study uses the Loan-to-Deposit Ratio (LDR) as a liquidity proxy, measuring the balance between loans and deposits. An optimal LDR balances credit distribution and liquidity, while a high or low LDR can indicate liquidity risks or underutilization of deposits (Siahaan & Asandimitra, 2016). In the Indonesian banking sector, a well-managed LDR improves market trust and positively impacts market value (Pinasti & Mustikawati, 2018).

2.8. Control Variables

2.8.1 Firm Size

Firm size indicates a company's capacity to sustain its operations. According to signaling theory, larger firms have greater access to various funding sources, signaling financial strength and growth prospects, which boosts investor confidence and market value. This finding is consistent with McAllister & McManus (1993), who argue that larger banks are more stable due to economies of scale and scope, allowing for better risk diversification compared to smaller banks (Nguyen, 2018).

2.8.2 Firm Age

Firm age reflects a company's maturity and experience in navigating business dynamics. Older companies, particularly in the banking sector, tend to exhibit better profitability, driven by accumulated operational experience that enhances reputation, stability, and risk management effectiveness (Işik, 2022). These findings align with Zarefar (2024), who suggests that older firms send stronger signals regarding business sustainability.

2.9. Relationship Among Variables and Hypothesis Development

2.9.1 Profitability (ROA) and Market Value (PBV)

Profitability is a key indicator of a company's ability to generate profit from its operations. In this study, profitability is proxied by Return on Assets (ROA), which measures how efficiently a company uses its total assets to generate earnings. A higher ROA indicates better asset management and stronger financial performance (West et al., 2021). Previous studies have shown that ROA has a positive and significant effect on firm value, as measured by PBV (Jihadi et al., 2021; Fitriyah & Wardana, 2023). Similarly, Randanan & Furqan (2025) found that ROA positively impacts PBV in firms engaged in green investments. These findings suggest that higher profitability signals a company's commitment to stable long-term growth, which is viewed positively by investors. Based on these findings, we hypothesize:

H1a: ROA has a positive effect on PBV.

2.9.2 Profitability (ROE) and Market Value (PBV)

Return on Equity (ROE) is a key indicator of a company's profitability, reflecting its ability to generate profit from shareholders' equity. As such, ROE is a crucial factor for investors when evaluating company performance. Badruzaman et al. (2022) found that ROE positively influences PBV in companies listed on the LQ45 Index, suggesting that higher ROE attracts greater investor interest due to effective equity management. This is consistent with studies by Wahyuni & Gani (2022) and Pustika et al. (2022), which also demonstrate a positive relationship between ROE and PBV. Based on these findings, we hypothesize:

H1b: ROE has a positive effect on PBV.

2.9.3 ESG and Market Value (PBV)

Environmental, Social, and Governance (ESG) factors evaluate how companies address environmental, social, and governance issues in their operations. Strong ESG performance enhances a company's reputation and operational stability (Yunica & Rokhim, 2023). Studies by Hamid & Elika (2022) and Nathania & Ekawati (2024) show that ESG performance positively affects PBV. Kusno et al. (2024) further support this, finding that companies with high ESG scores perform better and generate higher returns. Based on these findings, we hypothesize:

H2: ESG has a positive effect on PBV.

2.9.4 Liquidity (LDR) and Market Value (PBV)

Liquidity indicates a bank's ability to meet short-term obligations without affecting operations. The Loan to Deposit Ratio (LDR) reflects how effectively a bank channels third-party funds into loans. According to signaling theory, an optimal LDR signals financial stability and effective fund management. Research by Tjahjadi & Munandar (2022), Refrayadi & Kufepaksi (2024), and Melda et al. (2022) shows a positive effect of LDR on PBV. Based on these findings, we hypothesize:

H3: LDR has a positive effect on PBV.

3. RESEARCH MEHODOLOGY

3.1 Research Design

This study employs a quantitative, causal-associative research design to examine the effect of profitability (ROA and ROE), ESG, and liquidity (LDR) on market value, as measured by Price-to-Book Value (PBV), of conventional banking firms listed in the KOMPAS100 Index on the IDX from 2020 to 2024. A causal-associative design is chosen to explore the relationships between these financial and non-financial factors, enabling an empirical investigation of how profitability, ESG, and liquidity collectively influence market value. By focusing on these factors, the study aims to provide insights into how financial metrics and ESG commitment shape investor perceptions and market valuation in the Indonesian banking sector. The conceptual framework of the study is illustrated in Figure 3.1.

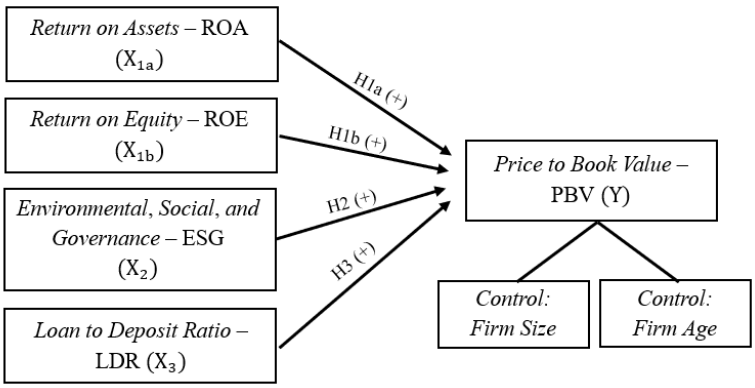


Figure 3.1 Research Design
Source: Author's analysis (2026)

3.2 Population and Sample

The population of this study consists of all conventional banking firms listed in the KOMPAS100 Index on the Indonesia Stock Exchange during the period from 2020 to 2024. The sample was selected using purposive sampling based on the following criteria:

1) Banks that were listed in the KOMPAS100 Index during the study period.
2) Conventional banks within the KOMPAS100 Index from 2020-2024.
3) Banks that published complete financial and sustainability reports throughout the period.
4) Banks with available stock price data from 2020-2024.

Based on these criteria, 20 firms were selected, resulting in a total of 91 observations. Outlier testing was performed using the Interquartile Range (IQR) method, and the data used in this study consists of unbalanced panel data.

3.3 Data Collection

Data for this study were collected from secondary sources, including financial statements, annual reports, and sustainability reports of conventional banking firms listed in the KOMPAS100 Index from 2020-2024. This data was accessed through the official websites of the Indonesia Stock Exchange (IDX), and Investing.com. Additionally, a literature review was conducted to gather relevant theories and concepts that support the study.

3.4 Measures

3.4.1 Market Value

Market value is measured using Price-to-Book Value (PBV), which compares a company's market price per share with its book value per share. Mathematically, PBV is calculated as follows (Bustani et al., 2021):

$$\text{Price to Book Value (PBV)} = \frac{\text{Stock Market Price}}{\text{Book Value Per Share}}$$

3.4.2 Profitability

Profitability refers to a company's ability to generate profit from its business activities. In this study, profitability is measured using Return on Assets (ROA). ROA is calculated as follows (Kurniawan, 2021):

$$\text{Return on Assets (ROA)} = \frac{\text{Net Income after Tax}}{\text{Total Assets}}$$

Profitability is also measured using Return on Equity (ROE), which reflects a company's ability to generate net income from shareholders' equity. Mathematically, ROE is calculated as follows (Rumbly, 2023):

$$\text{Return on Equity (ROE)} = \frac{\text{Net Income after Tax}}{\text{Total Equity}}$$

3.4.3 Environmental, Social, and Governance

ESG measured using the GRI 2016 Index. The score is calculated using a dummy variable approach, where a value of 1 indicates that the company has made a disclosure, and 0 indicates no disclosure.

$$\text{ESG Disclosure} = \frac{\sum \text{ESG Indicator Disclosed}}{\text{Number of Indicator in GRI}}$$

3.4.4 Liquidity

Liquidity is measured using the Loan-to-Deposit Ratio (LDR), which compares total loans with total deposits. Mathematically, LDR is calculated as follows (Liu, 2024):

$$\text{Loan to Deposit Ratio (LDR)} = \frac{\text{Bank Loans}}{\text{Bank Deposits}}$$

3.4.5 Control Variables

Firm size is measured using the natural logarithm of total assets, as this approach helps reduce differences in data scale across firms (Priyatama & Pratini, 2021). The formula is:

$$\text{Firm Size} = \ln(\text{Total Asset})$$

Firm age is used as a control variable in this study, representing the duration since a company's establishment. It is calculated as follows (Margaretha & Viriany, 2023):

$$\text{Firm Age} = \text{Obs Year} - \text{Year of Incorporation}$$

3.5 Data Analysis

The data were analyzed using panel data regression with StataMP 17 to investigate the effects of profitability (ROA, ROE), ESG, and liquidity (LDR) on market value (PBV) from 2020 to 2024. Descriptive statistics were first calculated to summarize the data, followed by outlier detection using the IQR method. To ensure the validity of the results, classical assumption tests for multicollinearity, heteroscedasticity, and autocorrelation were performed. The optimal panel data model was selected using the Chow test, Hausman test, and Lagrange Multiplier test. Hypothesis testing was then conducted, utilizing t-tests and evaluating the coefficient of determination (R^2) to assess model fit.

4. RESULTS AND DISCUSSION

4.1 Outlier Identification

Before proceeding with further analysis, the data were tested for outliers using the Interquartile Range (IQR) method, where values outside the lower bound (Q1 − 1.5 × IQR) or upper bound (Q3 + 1.5 × IQR) were considered outliers. Outliers were then re-evaluated based on the characteristics of each variable, with ROA, ROE, and LDR assessed using the OJK bank soundness standards (POJK No. 4/POJK.3/2016), and PBV evaluated using a Z-score test. Outliers that could potentially distort the results were excluded, resulting in an unbalanced panel dataset. It was found that all ROA and ROE observations for Bank KB Indonesia Tbk during 2020–2024 were outliers, leading to the exclusion of this bank from the sample. The final sample consisted of 20 firms. For panel data analysis, the Fixed Effect Model (FEM) was employed, as it requires multiple time observations per unit to account for within-unit variation, consistent with Allison (2019), who notes that FEM uses time-based variation for estimation.

4.2 Descriptive Statistical Analysis

Table 4.1 Descriptive Statistics

Variable	Obs	Mean	Std. dev.	Min	Max
PBV	97	1,8243	2,2036	0,39	16,75
ROA	95	0,0160	0,0118	0,0008	0,0476
ROE	95	0,0903	0,0712	0,0021	0,2713
ESG	100	0,6708	0,1242	0,39	0,89
LDR	96	0,8055	0,1584	0,1235	1,1376
SIZE	100	18,4872	1,8759	14,59	21,61
AGE	100	59,65	28,7786	22	129

Source: Author's analysis (2026)

Based on Table 4.1, the conventional banking firms in the sample had an average Price-to-Book Value (PBV) of 1.82 during 2020–2024. This value indicates that the market valued the firms above their book value. A PBV greater than 1 reflects a favorable market assessment of a firm's prospects (Sukanto et al., 2025). The average Return on Assets (ROA) of 1.60% and Return on Equity (ROE) of 9.03% indicate that these firms were able to generate profits from their assets and equity. Meanwhile, the average ESG score of 0.67 suggests that the firms were relatively active in sustainability disclosure. The average Loan-to-Deposit Ratio (LDR) of 80.55% shows that liquidity remained within a healthy range. Additionally, the average firm size of 18.48 and firm age of 59.65 years suggest that most firms in the sample were large and mature.

4.3 Selection of the Panel Data Regression Model

Table 4.2 Results of Regression Model Selection

Model	Chow Test	Hausman Test	Lagrange Multiplier Test	Result
Model 1a	0,0000	0,0000	-	FEM
Model 1b	0,0000	0,0000	-	FEM

Source: Author's analysis (2026)

Based on the results presented in Table 4.2, the Fixed Effect Model (FEM) was selected as the most appropriate panel data regression model for both Model 1a and Model 1b.

4.4 Classical Assumption Tests

4.4.1 Multicollinearity Test

Table 4.3 Pearson Correlation Test (Model 1a)

	PBV	ROA	ESG	LDR	SIZE	AGE
PBV	1,0000					
ROA	0,3024	1,0000				
ESG	-0,2612	0,4183	1,0000			
LDR	0,0026	0,1390	0,2012	1,0000		
SIZE	-0,1683	0,4877	0,5965	0,1088	1,0000	
AGE	-0,2421	0,1850	0,3846	0,1759	0,6161	1,0000

Source: Author's analysis (2026)

Table 4.4 Pearson Correlation Test (Model 1b)

	PBV	ROE	ESG	LDR	SIZE	AGE
PBV	1,0000					
ROE	0,1346	1,0000				
ESG	-0,2612	0,4484	1,0000			
LDR	0,0026	0,0217	0,2012	1,0000		
SIZE	-0,1683	0,6469	0,5965	0,1088	1,0000	
AGE	-0,2421	0,3069	0,3846	0,1759	0,6161	1,0000

Source: Author's analysis (2026)

Based on the results of the Pearson correlation test presented in Tables 4.3 and 4.4, there is no significant multicollinearity among the independent variables in Models 1a and 1b, as all correlation coefficients are below 0.80. This indicates that the relationships among the independent variables are not strong enough to raise multicollinearity concerns in the regression models. To further confirm these findings, the Variance Inflation Factor (VIF) test was also conducted.

Table 4.5 Multicollinearity Test (VIF)

Variable	Model 1a mean VIF = 1,70		Model 1b mean VIF = 1,99	
	VIF	**1/VIF**	**VIF**	**1/VIF**
ROA	1,84	0,543299	-	-
ROE	-	-	2,56	0,390775
ESG	1,54	0,647887	1,51	0,660478
LDR	1,08	0,924037	1,11	0,903428
SIZE	2,49	0,401670	3,25	0,307759
AGE	1,53	0,652498	1,51	0,661484

Source: Author's analysis (2026)

Based on Table 4.5, the VIF test results for Models 1a and 1b further confirm the absence of multicollinearity issues. The VIF values in both models are below 10, with the average VIF being 1.70 for Model 1a and 1.99 for Model 1b. These results suggest that multicollinearity among the independent variables is not severe enough to affect the regression estimates, indicating that both models are suitable for further analysis.

4.4.2 Heteroskedasticity Test

Table 4.6 Heteroskedasticity Test (Wald Test)

Model	*Chi-Square*	Sig	Results
Model 1a	3347.97	0,0000	Heteroskedasticity Detected
Model 1b	1797.60	0,0000	Heteroskedasticity Detected

Source: Author's analysis (2026)

Based on Table 4.6, the Wald test results for Models 1a and 1b indicate the presence of heteroskedasticity in both models, as evidenced by p-values of 0.0000. These results suggest that the error variance is not constant across observations. To address this issue and ensure more reliable estimation results, cluster-robust standard errors were subsequently applied.

4.4.3 Autocorrelation Test

Table 4.7 Autocorrelation Test (Wooldridge Test)

Model	F-statistic	Prob > F	Results
Model 1a	2.346	0,1440	No Autocorrelation
Model 1b	2.118	0,1638	No Autocorrelation

Source: Author's analysis (2026)

The Wooldridge test was applied to detect autocorrelation in the regression model. Based on Table 4.7, both Model 1a and Model 1b show no evidence of autocorrelation, with p-values of 0.1440 and 0.1638, respectively. Since these p-values are above 0.05, autocorrelation is not considered a problem in either model.

4.5 Hypothesis Testing (t-test)

Table 4.8 Hypothesis Testing (t-test)

Variable	Price to Book Value (PBV)	
	Model 1a (ROA)	Model 1b (ROE)
Return on Assets (ROA)	37,9248 (0,008)***	
Return on Equity (ROE)		5,8764 (0,003)***
Environmental, Social, and Governance (ESG)	6,7884 (0.001)***	6,7699 (0,001)***
Loan to Deposit Ratio (LDR)	1,5569 (0,134)	1,7928 (0,097)*
Firm Size	-0,4214 (0,277)	-0,4032 (0,284)
Firm Age	-0.4091 (0,001)***	-0,3973 (0,001)***
Constant	28,5059 (0,000)***	27,3152 (0.000)***
Observations	91	91
Number of Firms	20	20
F test	0,0020	0,0020
Cluster Robust SE	YES	YES
Within R-Squared	0,4470	0,4579

Notes: * p < 0,1; ** p < 0,05; *** p < 0,01.

Source: Author's analysis (2026)

Based on the t-test results in Model 1a (Table 4.8), the regression coefficient for ROA is 37.9248 with a significance level of 0.008 ($p \leq 0.01$), confirming H1a that ROA has a positive effect on PBV. ESG has a coefficient of 6.7884 with a significance level of 0.001 ($p \leq 0.01$), supporting H2 that ESG positively influences PBV. However, LDR does not significantly affect PBV ($p > 0.10$), leading to the acceptance of H0, which states that LDR has no significant effect on PBV. In Model 1b (Table 4.8), ROE shows a regression coefficient of 5.8764 with a significance level of 0.003 ($p \leq 0.01$), supporting H1b that ROE positively affects PBV. ESG also demonstrates a positive effect with a coefficient of 6.7699 and a significance level of 0.001 ($p \leq 0.01$), supporting H2. LDR shows a positive effect in this model with a coefficient of 1.7928 and a significance level of 10%, supporting H3.

The within R-Squared (R^2) value for Model 1a is 0.4470, indicating that 44.70% of the variation in PBV is explained by the independent variables in the model. Model 1b, has a within R-squared of 0.4579, indicating that 45.79% of the variation in PBV is explained, which suggests that Model 1b has slightly greater explanatory power than Model 1a.

4.6 Discussion

4.6.1 The Effect of ROA on Market Value (PBV)

Based on Table 4.8, Return on Assets (ROA) in Model 1a has a regression coefficient of 37.9248 and is significant at the 1% level ($p = 0.008$), indicating a positive and significant effect on PBV. A 1% increase in ROA is associated with a 0.3792 increase in PBV, highlighting the company's ability to generate profit from its assets. According to signaling theory, a high ROA serves as a positive signal of effective corporate performance, thereby enhancing investor confidence, increasing stock demand, and ultimately raising market value. These findings are consistent with previous studies by Fitriyah & Wardana (2023) and Nawawi et al. (2024), which reinforce the role of ROA in enhancing market value and strengthening investor confidence. In addition, Jonathan & Purwaningsih (2023) found that a high ROA increases investor confidence in the company's ability to generate sustainable value, thereby encouraging greater investment interest. Therefore, ROA remains a key indicator that reflects not only corporate performance but also investor confidence and market value.

4.6.2 The Effect of ROE on Market Value (PBV)

Based on Table 4.8, the Return on Equity (ROE) in Model 1b has a positive and significant effect on the market value of the company (PBV), with a regression coefficient of 5.8764 and a significance level of 0.003 ($p < 0.01$). This implies that a 1% increase in ROE will raise PBV by 0.0588, assuming other variables remain constant. This finding suggests that a higher ROE signals positive market expectations, indicating effective management in generating profits from equity (Danang & Rumintjap, 2025). According to signaling theory, a high ROE is perceived as a positive signal of the company's ability to generate optimal returns and reduce information asymmetry. Furthermore, it highlights the company's potential for value creation through efficient equity utilization. These results align with studies by Pratiwi & Sugara (2023) and Bahraini et al. (2021), confirming the positive relationship between ROE and PBV.

4.6.3 The Effect of ESG on Market Value (PBV)

Based on Table 4.8, the Environmental, Social, and Governance (ESG) variable in both models has a positive and significant effect on market value, as measured by PBV, with regression coefficients of 6.7884 in Model 1a and 6.7699 in Model 1b, both significant at the 1% level ($p = 0.001$). This suggests that a 0.1 increase in ESG is associated with a significant increase in PBV, implying that companies with strong sustainability and governance practices tend to be valued more highly by the market. According to signaling theory, companies that prioritize ESG practices send a positive signal to investors regarding their operational quality and long-term sustainability, thereby enhancing their market attractiveness. These findings are also consistent with stakeholder theory, which suggests that effective ESG management strengthens relationships with stakeholders and contributes to higher market value. They are further supported by the studies of Aras & Kazak (2022), Nathania & Ekawati (2024), and Yuliyanti et al. (2025).

4.6.4 The Effect of LDR on Market Value (PBV)

Based on Table 4.8, the Loan to Deposit Ratio (LDR) in Model 1a has a regression coefficient of 1.5569 and is not statistically significant ($p = 0.134$), indicating that LDR has no significant effect on PBV. This suggests that LDR does not directly influence investors' assessment of market value, as investors also consider credit quality and the risks associated with lending activities (Arhinful et al., 2025). Without effective risk management, higher LDR could lead to an increase in non-performing loans, negatively affecting market perception. These findings are consistent with studies by Nawawi et al. (2024) and Kansil et al. (2021).

In Model 1b, LDR has a coefficient of 1.7928 and is significant at the 10% level, indicating a positive but marginal effect on PBV. This suggests that a higher LDR may contribute to an increase in PBV, although the effect appears to be relatively weak. In other words, while investors may perceive banks with higher LDR as using their funds more efficiently, other factors are likely to play a more substantial role in determining market value. These results are supported by the findings from Tjahjadi & Munandar (2022) and Refrayadi & Kufepaksi (2024), which also show a positive but weak relationship between LDR and PBV.

4.6.5 The Effect of LDR on Market Value (PBV)

Based on Table 4.8, the firm size in both Model 1a and Model 1b shows no significant effect on PBV, with p-values of 0.277 (Model 1a) and 0.284 (Model 1b). This indicates that firm size does not significantly influence investors' assessment of market value. According to agency theory, larger firms often face greater complexity and potential conflicts of interest, which may not necessarily be perceived positively by investors (Mawardi & Malikah, 2025). These findings are consistent with the results of Putra et al. (2021) and Oktaviani et al. (2024).

In contrast, the firm age control variable shows a negative and significant effect on PBV, with coefficients of -0.4091 (Model 1a) and -0.3973 (Model 1b) respectively, both significant at the 1% level. This indicates that older firms tend to have lower market values, possibly due to difficulties in adapting to market changes and increasing operational complexity. These results are consistent with previous research by Harsono & Susanto (2023) and Hermawinata & Sufiyatia (2023).

5. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The findings of this study provide empirical evidence of the significant effects of profitability, ESG, and LDR on the market value (PBV) of conventional banking companies. Specifically

1) Return on Assets (ROA) has a positive and significant effect on PBV.
2) Return on Equity (ROE) also has a positive and significant effect on PBV.
3) Environmental, Social, and Governance (ESG) factors have a positive effect on PBV in both Model 1a (ROA) and Model 1b (ROE).
4) Loan to Deposit Ratio (LDR) has a positive effect on PBV when profitability is measured using ROE, but it does not have a significant effect when ROA is used as the profitability proxy.

5.2 Recommendations

This study has several limitations. First, the use of the GRI Index to measure ESG may not fully capture the actual impact of a company's ESG activities. Second, the focus on conventional banking firms listed in the KOMPAS100 Index limits the generalizability of the findings to other sectors. Third, data on ROA and ROE for Bank Neo Commerce Tbk were available for only two periods, namely 2020 and 2024, which may affect the estimates of the Fixed Effects Model (FEM). Furthermore, this study uses only 20 clusters for the Cluster-Robust Standard Errors (CRSE) analysis, even though a larger number of clusters is generally recommended to obtain more reliable variance estimates. Future research may consider including additional variables, such as macroeconomic factors, dividend policy, or capital structure, expanding the sample to other sectors, applying more robust estimation methods, and increasing the number of clusters to improve the reliability of the results.

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