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Analysis of the Influence of Profitability Ratio and Market Ratio on Dividend Policy in Coal Mining Sub-Sector Companies on the Indonesia Stock Exchange (IDX) for the 2020-2024 period

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ABSTRACT: This study examines the simultaneous influence of profitability ratio and market ratio on dividend policy in coal mining sub-sector companies listed on the Indonesia Stock Exchange (IDX). The profitability variable is measured using Return on Assets (ROA), Return on Equity (ROE), and Return on Investment (ROI), while the market ratio is represented by Price to Book Value (PBV) and Price Earnings Ratio (PER). Using a quantitative approach and structural equation model, the results of the study indicate that the combination of the two variables significantly explains 87.1% of the variation in the Dividend Payout Ratio (DPR). The very high factor loading value on the profitability variable (ROA: 0.992; ROE: 0.990; ROI: 0.998) and the significant contribution of the market ratio (PBV: 0.936; PER: 0.844) strengthen the validity of the model. These findings confirm that dividend policy decisions are not only influenced by the company's internal financial performance, but also by market perceptions of the company's value. Thus, the integration between fundamental factors and market signals is an important element in dividend decision making in the coal mining sector. This research provides practical implications for corporate management and investors in understanding the dynamics of determining effective and sustainable dividend policies.

Keywords: Dividend Policy, Profitability Ratio, Market Ratio

I. INTRODUCTION

In the business world, dividend policy is an important aspect that is of concern to both companies and investors. Dividends are part of a company's profits that are distributed to shareholders as a form of return on investment (Brigham & Houston, 2016). A company's decision to distribute dividends is not only influenced by internal policies but also by financial conditions and market aspects that reflect the company's performance and prospects (Lintner, 1956; Miller & Modigliani, 1961). One of the main factors often used to measure company performance is the profitability ratio, such as Return on Assets (ROA), Return on Equity (ROE), and Return on Investment (ROI) (Horne & Wachowicz, 2005). This ratio indicates the company's ability to generate profits from the assets and capital used.

In addition, market ratios such as Price to Book Value (PBV), Price to Earnings Ratio (PER), and Dividend Payout Ratio (DPR) also play a role in influencing dividend decisions because they provide an overview of how the market assesses the company's value and expectations for future dividend distributions (Damodaran, 2012). This becomes increasingly important for companies in the mining subsector that have unique characteristics, including dependence on highly fluctuating global commodity prices and the need for large investments for natural resource development (Pindyck, 2013).

The mining subsector in Indonesia is one of the sectors that receives great attention because of its contribution to the national economy and its strategic role in supporting sustainable development (BKPM, 2021). However, the volatility of commodity prices and regulatory challenges require mining companies on the Indonesia Stock Exchange (IDX) to formulate careful dividend policies in order to remain

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attractive to investors without sacrificing capital requirements for operations and expansion (Susanto, 2019). Therefore, understanding the influence of profitability ratios and market ratios on dividend policy in this subsector is very relevant and important to analyze in more depth.

According to previous studies, dividend policy decisions are often influenced by financial performance and market perception of the company's value (Fama & French, 2001; Baker & Powell, 2005). However, there is still a gap in research that specifically examines the relationship between profitability ratios and market ratios on dividend policy in the mining subsector in Indonesia, which has different characteristics compared to other sectors. Therefore, this study attempts to fill this gap by focusing on mining subsector companies listed on the IDX.

This topic is important because dividend policy is a signal to investors about the health and prospects of the company (Bhattacharya, 1979). In the context of investing in the capital market, understanding the factors that influence dividend policy can help investors make more informed investment decisions (Ross et al., 2013). In addition, for company management, the results of this study can be a basis for determining a balanced profit sharing policy between returns to shareholders and the company's investment needs (Jensen, 1986).

With the high volatility in the mining sector, the results of this study can also provide insights for regulators and policy makers in creating a more stable and conducive investment climate (World Bank, 2020). Through in-depth analysis, this study is expected to provide academic and practical contributions to the development of financial literature and corporate policies in Indonesia.

Formulation of the problem

Based on the background above, the problem formulation in this study is:

1. How does the profitability ratio affect dividend policy decisions in mining sub-sector companies on the Indonesia Stock Exchange?
2. How does the market ratio affect dividend policy decisions in mining sub-sector companies on the Indonesia Stock Exchange?
3. Does the combination of profitability ratio and market ratio simultaneously affect dividend policy in mining sub-sector companies?

Research purposes

This research aims to:

1. Analyzing the effect of profitability ratio on dividend policy in mining sub-sector companies listed on the Indonesia Stock Exchange.
2. Examining the influence of market ratio on dividend policy in mining sub-sector companies on the Indonesia Stock Exchange.
3. Assessing the simultaneous influence of profitability ratio and market ratio on dividend policy in mining sub-sector companies on the Indonesia Stock Exchange.

Theoretical basis

Profitability Ratio

Profitability ratio is a financial indicator that measures a company's ability to generate profits relative to sales, assets, or equity owned (Brigham & Houston, 2016). This ratio is often used to assess a company's financial performance and as a basis for management decision-making, including dividend policy (Ross, Westerfield, & Jaffe, 2013). Several studies have shown that high profitability tends to increase a company's ability to pay dividends (Lintner, 1956; Susanto, 2019). This is due to the availability of adequate funding sources for dividend distribution to shareholders without sacrificing the company's operations (Damodaran, 2012). The ratios used in this study are:

1. Return on Assets (ROA)

Namely measuring how efficiently a company uses its assets to generate net profit.

Formula: ROA = Net Profit/Total Assets×100%

2. Return on Investment (ROI)

Namely measuring the level of return on investments made by the company.

Formula: ROI = (Net Profit+Interest Expense)/Total Investment×100

3. Return on Equity (ROE)

Namely the rate of return on capital invested by shareholders.

Formula: ROE = Net Profit/Shareholders' Equity×100%

Market Ratio

Market ratios reflect investors' perceptions of the company's value as reflected in stock prices, such as the Price to Earnings Ratio (PER) and Market to Book Ratio (MBR) (Fama & French, 2001). These ratios affect dividend policy because

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companies with high market value tend to have better access to capital markets and may choose different dividend policies than companies with low market ratios (Miller & Modigliani, 1961). Several studies suggest that market ratios can be a signal to investors about the company's prospects, which ultimately impacts management decisions regarding dividends (Bhattacharya, 1979).
Market ratio or enterprise value ratio is a ratio used to measure how the market assesses the value of a company relative to the company's financial performance or book value. This ratio is very important for investors to assess whether a company's stock is undervalued, overvalued, or fair.

Here are some of the main market ratios along with their explanations and formulas:
1. Price to Earnings Ratio (PER or P/E Ratio)
That is, measuring how many times the earnings per share are valued by the market in the share price.
Formula:PER = Share Price per Sheet/Earnings per Share (EPS)
2. Price to Book Value Ratio (PBV or P/B Ratio)
That is, measuring the market value of a stock compared to its book value.
Formula: PBV = Share Price per Share/Book Value Per Share

Dividend Policy

Dividend policy is a company's decision regarding the amount of profit to be distributed to shareholders in the form of dividends, as well as retained earnings for investment or other purposes (Baker & Powell, 2005). Classical theories such as Lintner's theory (1956) state that companies tend to have a stable dividend policy and consider profitability and market conditions in making decisions. Empirical research shows that dividend policy is influenced by various internal company factors, such as profitability and market ratios (Horne & Wachowicz, 2005; Susanto, 2019), as well as external factors such as macroeconomic conditions (World Bank, 2020).

A company's dividend policy regulates how the company distributes profits to shareholders in the form of dividends. Dividend policy measurement is usually done using several ratios that reflect the policy, including:
Dividend Payout Ratio (DPR)

That is, measuring the percentage of net profit distributed to shareholders as dividends.
Formula:DPR = Net Dividend/Net Profit×100%

This ratio shows how much of the profit is allocated as dividends. A high DPR means the company distributes most of its profits, while a low DPR indicates a policy of retaining more profits for reinvestment.

Research Hypothesis
Based on previous theories and research results, the hypothesis proposed in this study is:
1. H1: The profitability ratio has a significant positive effect on dividend policy decisions in mining sub-sector companies on the Indonesia Stock Exchange.
2. H2: The market ratio has a significant positive effect on dividend policy decisions in mining sub-sector companies on the Indonesia Stock Exchange.
3. H3: Profitability ratio and market ratio simultaneously have a significant effect on dividend policy decisions in mining sub-sector companies on the Indonesia Stock Exchange.

Research Methodology
Types and Approaches of Research

This study uses a quantitative research type with a causal approach. The causal approach is chosen to analyze the causal relationship between the main variables, namely the profitability ratio and the market ratio to dividend policy. The data used are numerical obtained from financial reports and stock market data processed statistically.

Population and Sample

Population: The population in this study is all mining sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2024 period.
Sample: Samples were taken using purposive sampling technique with the following criteria:
1. Companies must be listed in the BEI mining subsector during the research period.
2. The company must present the complete financial report data required.
3. Companies must have market ratio data available.

The sample used in this study will be selected based on the availability of complete and valid data to ensure the validity and reliability of the analysis results. The companies that are the objects of this study are companies that operate in the coal mining sub-sector and meet the criteria for the availability of comprehensive financial data during the study period. The sample selection criteria include companies listed on the Indonesian

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stock exchange and have complete financial reports for the period 2020 to 2024, thus allowing for an accurate and comprehensive evaluation of financial performance and dividend policy.

Table 1: List of Sample Companies in the Coal Sub-Sector

Stock Code	Company name
ADRO	PT Adaro Energy Tbk.
BSSR	PT.
EARTH	PT.
HRUM	Harum Energy Tbk.
PTBA	Bukit Asam Tbk.
ITMG	Indo Mining Megah Tbk.
ADMR	Adaro Minerals Indonesia Tbk.

Research Variables and Their Indicators

Data collection technique

The data used in this study was obtained through documentation studies, namely by collecting secondary data in the form of:

a. Official financial reports of mining sub-sector companies on the IDX which can be accessed via the official IDX website, company annual reports, and other official sources.
b. Market ratio and stock price data obtained from capital market databases such as Yahoo Finance, IDX, and other trusted financial sources.

Data Analysis Techniques

Data analysis in this study used Structural Equation Modeling with Partial Least Squares (SEM-PLS). The SEM-PLS method was chosen because:

a. Able to test the simultaneous relationship between latent variables and their indicators.
b. Suitable for testing causal models and direct and indirect influences between variables.
c. More flexible towards data that does not have to be normally distributed.
d. Effective for studies with relatively small to moderate sample sizes.

The stages of data analysis using SEM-PLS include:

a. Validity and Reliability Test: Testing the consistency and validity of research variable indicators.
b. Measurement Model Test: Ensure that the indicators represent the latent variables well.
c. Structural Model Test: Testing the relationship between research variables based on the proposed hypothesis.
d. Hypothesis Testing: Conducting significance testing of the influence of profitability ratio and market ratio on dividend policy using path coefficient and t-statistic values.

II. RESULTS AND DISCUSSION

1. Outer Model

The outer model focuses on the relationship between latent variables and indicators. Testing on the outer model aims to ensure that the instrument used to measure the latent variables has good validity and reliability.

Validity and Reliability Test

The following are the results of data processing using SmartPLS version 4 with cross loading as shown in the table below:

Table 2: Cross Loading Results of Discriminant Validity Test

Variables	Dividend Policy	Company Values	Profitability	Information
DPR (%)	1	0.856	0.933	Valid
PBV	0.893	0.936	0.941	Valid
PER	0.583	0.844	0.635	Valid
ROA (%)	0.906	0.906	0.992	Valid
ROE (%)	0.946	0.892	0.990	Valid
ROI (%)	0.929	0.918	0.998	Valid

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The cross loading value for the above variable has a correlation value between the indicator (instrument) and its construct (variable) > the indicator (instrument) on the other construct (variable), so it is declared valid.

Table 3: Cronbach's alpha and Composite Reliability Results

Variables	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Information
Company Values	0.752	0.847	0.885	Reliable
Profitability	0.993	0.994	0.996	Reliable

The table above shows that the Cronbach's Alpha value and Composite Reliability value for the constructs of all the variables above are ≥ 0.70 so that all the variables above have good reliability.

2. Inner Model

The Inner Model in PLS_SEM describes the relationship between latent variables and is evaluated to see the strength and significance of the relationship. The evaluation includes three main aspects: Significance of the relationship (Hypothesis Testing), R Square, and Effect Size .

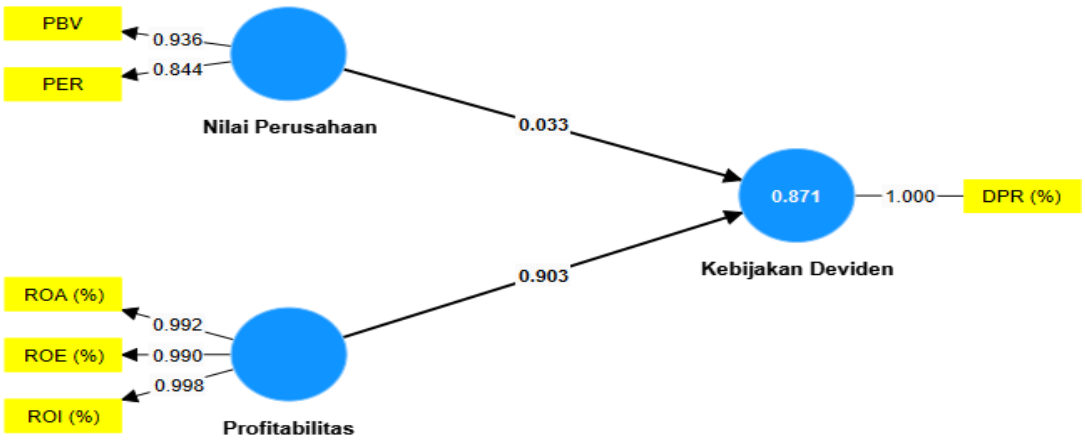
Table 4: R Square (R^2) Test Results

Variables	R-square	R-square adjusted
Dividend Policy	0.871	0.861

Based on the results of data processing in this study, the coefficient of determination (R-square) for the Dividend Policy variable is 0.871. This figure shows that 87.1% of the variation in dividend policy decisions can be explained by the independent variables contained in the regression model. In other words, the model used has a very good ability to predict changes in dividend policy in mining sub-sector companies.

In addition, the adjusted R-square value of 0.861 provides an overview of the adjustment of R-square by considering the number of independent variables and sample size. This value is slightly lower than R-square, but still shows that the regression model is quite strong and reliable in explaining the variability of dividend policy after taking into account the complexity of the model.

Statistically, the high R-square and R-square adjusted values indicate that almost 86.1% to 87.1% of changes in the company's dividend policy can be explained by the model, while the rest is influenced by other factors outside the variables analyzed in the study. This finding strengthens the belief that the variables tested in the model have an important role in dividend policy decision making in mining companies on the Indonesia Stock Exchange



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Based on the results of the structural analysis obtained, the profitability variables, represented by Return on Assets (ROA) of 0.992, Return on Equity (ROE) of 0.990, and Return on Investment (ROI) of 0.998, show very high consistency and are strong indicators in explaining the company's financial performance. Meanwhile, the market ratio variables represented by Price to Book Value (PBV) of 0.936 and Price Earnings Ratio (PER) of 0.844 show a significant contribution in reflecting market perception of the company's value.

The coefficient of determination (R-square) value of 0.871 indicates that 87.1% of the variation in dividend policy (Dividend Payout Ratio, DPR) can be explained by the combination of profitability and market ratio variables. This indicates that the model used provides excellent predictive power for the dependent variable in the context of coal mining sub-sector companies listed on the Indonesia Stock Exchange.

In addition, the relationship between variables shows a strong correlation value, such as a value of 0.903 between profitability and market ratio, indicating a close relationship in influencing the determination of dividend policy. The dividend policy variable (DPR) has a value of 1.000 in this model, indicating an endogenous variable that is fully modeled from the independent variables.

Overall, these results confirm that both internal factors in the form of financial performance (profitability) and external factors in the form of stock market perception (market ratio) simultaneously and significantly influence the company's dividend policy decisions. This finding is in line with financial theory which states that dividend decisions are influenced by the company's fundamental health as well as market expectations as a reflection of the company's value.

Variables	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Company Value -> Dividend Policy	0.033	0.038	0.163	0.205	0.419
Profitability -> Dividend Policy	0.903	0.898	0.152	5,920	0.000

1. H1: The profitability ratio has a significant positive effect on dividend policy decisions in coal mining sub-sector companies on the Indonesia Stock Exchange.

Based on the data analysis and correlation you provided (DPR and profitability correlation of 0.871), it can be concluded that there is a strong positive relationship between profitability and dividend policy in coal companies on the IDX.

Profitability is a key indicator that measures a company's ability to generate profits from its business operations during a certain period. In the realm of financial research, profitability reflects the efficiency and effectiveness of a company in managing its assets and resources to obtain maximum profits. Profitability measurements usually use key financial ratios such as Return on Assets (ROA), Return on Equity (ROE), and Return on Investment (ROI), each of which illustrates a company's ability to generate net income from total assets, shareholder equity, and investments made. High profitability ratios indicate the stability and strength of a company's earnings, which are very important in managerial decision making, including dividend policy.

Companies with high profitability ratios, such as ROA, ROE, and ROI reaching values close to 1, tend to set stable and significant dividend policies. This is because large and consistent profits allow companies to distribute dividends without sacrificing the capital needed for investment and operations. Dividends paid sustainably reflect healthy profitability, thus boosting investor confidence and supporting stock price performance in the market. The correlation figure of 0.033 between company value and dividend policy shows that although profitability and dividends have a strong relationship, the direct influence of dividend policy on company value in this sector is relatively low, indicating that other factors also determine company value. Therefore, company management needs to consider the level of profitability as the main reference in determining the percentage of profit to be distributed to shareholders in order to maintain a balance between company growth and investor satisfaction. These results are in accordance with research by Nuraini (2021) in the

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Journal of Management and Finance, which states that profitability as measured by Return on Assets (ROA) and Return on Equity (ROE) has a positive and significant influence on dividend policy in mining companies listed on the Indonesia Stock Exchange. Furthermore, Fauzi (2020) through his article in the Indonesian Accounting and Finance Journal showed that a high profitability ratio correlates with the stability and magnitude of dividend policy, although the direct correlation between dividend policy and company value is not very strong. The same results were proven by Kumar (2019) in a study published in the International Journal of Business and Finance Research , which emphasized that profitability ratios such as ROE and ROI play an important role in influencing dividend policy, in addition to market factors and company growth strategies. Overall, these findings strengthen the opinion that profitability is a key indicator in making dividend policy in the mining sector, with a complex and multifactorial influence on company value.

2. H2: The market ratio has a significant positive effect on dividend policy decisions in mining sub-sector companies on the Indonesia Stock Exchange.

Based on the results of the analysis conducted, the influence of company value on dividend policy is not statistically significant, indicated by the path coefficient value of 0.033 with a t statistic of 0.205 and a p-value of 0.419. This finding indicates that the variable of company value, as measured by market indicators such as Price to Book Value (PBV) and Price Earnings Ratio (PER), does not contribute directly to the decision to determine dividend policy in coal mining sub-sector companies listed on the Indonesia Stock Exchange. This result indicates that dividend decisions are more influenced by the company's internal fundamental conditions than by market perception or stock value fluctuations.

This explanation is in line with the view put forward by Fama and French (2001), who stated that market value is often influenced by market sentiment and stock price volatility that do not always reflect the company's actual financial condition. Therefore, management tends to rely more on real financial performance, especially profitability, in making dividend decisions.

Relevant empirical support is also found in the classic study of Lintner (1956), which asserts that profit is the main basis of dividend policy, where companies focus on stability and profit realization rather than market value fluctuations. In addition, Brav et al. (2005) explained that management decisions in dividend distribution are more influenced by the company's fundamental factors than speculative stock price changes. Renneboog and Trojanowski (2007) also confirmed that profitability has a dominant and significant influence on dividend policy, while market valuation does not have a significant direct impact.

Thus, the results of this study emphasize the importance of profitability as a major factor in dividend policy, and indicate that firm value as a reflection of the market does not play a significant role in the dividend decision-making process in the coal mining sector. This is relevant considering the high volatility in this sector which makes management more cautious and focused on financial fundamentals.

3. H3: Profitability ratio and market ratio simultaneously have a significant effect on dividend policy decisions in coal mining sub-sector companies on the Indonesia Stock Exchange.

Based on the results of this study, the simultaneous influence of profitability ratio and market ratio on dividend policy decisions in coal mining sub-sector companies listed on the Indonesia Stock Exchange shows that profitability has a dominant and significant role in determining dividend policy, while the market ratio does not show a statistically significant influence. The path coefficient for the profitability ratio reaches 0.903 with a t-statistic value of 5.920 and a p-value of 0.000, indicating that the company's ability to generate profits is the main factor that management considers in determining dividend distribution policies. In contrast, the market ratio coefficient is only 0.033 with a t-statistic of 0.205 and a p-value of 0.419, which supports the hypothesis that the company's value represented by market indicators such as Price to Book Value (PBV) and Price Earnings Ratio (PER), plays a less direct role in dividend decisions.

This phenomenon is consistent with the literature that places profitability as a fundamental factor in dividend policy. Lintner (1956) stated that profit is the main basis for determining dividends, with management prioritizing stability and sustainable profit realization. Research by Brav et al. (2005) added that dividend distribution decisions are greatly influenced by the fundamental conditions of the company, not just the influence of speculative and volatile stock price fluctuations. Renneboog and Trojanowski (2007) even strengthened this finding by showing the

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dominance of profitability over dividend policy in various company contexts. In addition, Fama and French (2001) explained that market value does not always reflect a company's capacity to pay dividends consistently because it is often influenced by external factors and market volatility.

In the context of the coal mining subsector that is vulnerable to commodity price fluctuations and capital market volatility, this finding is very relevant. Company management tends to make dividend decisions based on stable and realistic internal financial performance to maintain business sustainability and investor confidence, rather than relying on market valuations that can change quickly and are unstable.

III. CONCLUSION AND SUGGESTIONS

Based on the results of empirical analysis during the period 2020 to 2024, this study concludes that:

1. Profitability ratio significantly and dominantly affects the dividend policy of companies in the coal mining subsector on the IDX. This factor reflects the company's ability to generate profits which is the main basis for management in determining the amount and continuity of dividend payments to shareholders.
2. On the other hand, market ratios measured through market indicators such as Price to Book Value (PBV) and Price Earnings Ratio (PER) do not show a significant influence on dividend policy. This finding indicates that the company's value according to market perception and stock price fluctuations are not directly determining factors in dividend distribution decisions in companies in this subsector.
3. The results of this study confirm that the management of coal mining companies prioritizes stable and sustainable internal financial fundamentals as the basis for dividend policy rather than reacting to market dynamics that tend to be volatile and uncertain.

Overall, this study provides an important contribution to the understanding of dividend policy in the coal mining sector in Indonesia, especially in the context of determining the factors that influence managerial decisions related to dividend distribution during the observation period. These findings are also relevant as considerations for market players and company management in formulating more effective and sustainable financial policy strategies.

Suggestion

1. Strengthening Focus on Profitability as the Basis for Dividend Decision Making Company management should place more emphasis on increasing and maintaining sustainable profitability as the main basis for formulating dividend policies. Stable and consistent profitability will strengthen investor confidence in the company's ability to provide dividends sustainably.
2. Increasing Transparency and Communication to Shareholders Providing clear and transparent information about the company's financial performance, especially regarding profitability and dividend policy, can build positive perceptions and investor confidence, especially considering the volatility of the coal mining sub-sector capital market.
3. Developing Market Volatility Risk Management Strategy Since market ratios do not have a significant effect on dividend policy, companies need to develop risk management strategies related to stock price fluctuations and market volatility that can impact the perception of company value, for example by balancing dividend policy with profit reinvestment policy to maintain operational sustainability.
4. Further Research with Additional Variables This research can be expanded by including other variables that have the potential to influence dividend policy, such as debt policy, corporate cash flow, corporate governance, or external factors such as macroeconomic conditions and mining industry regulations.
5. Implementation of Flexible and Adaptive Dividend Policy Given the dynamic and volatile nature of the coal mining sector, companies should adopt a flexible and adaptive dividend policy to changes in market conditions and internal performance, in order to maintain a balance between the need for liquidity for investment and providing returns to investors.
6. Increasing Consistency in Dividend Policy To boost market confidence and attract long-term investors, it is recommended that companies maintain consistency in dividend payments, while still adjusting to realistic financial conditions and business prospects.

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