



The Effect of Net Income and Net Cash Flow on Market Capitalization

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Abstract. *Market capitalization reflects a company's value from the perspective of investors and serves as an important indicator in assessing growth prospects and overall financial performance. This study aims to examine the effect of net income and net cash flow on market capitalization of companies listed on the Indonesia Stock Exchange during the 2019–2023 period. The research employs a quantitative approach using multiple linear regression analysis based on secondary data derived from companies' annual financial reports. The results indicate that net income has a positive and statistically significant effect on market capitalization, suggesting that higher profitability enhances investor confidence and increases firm value. In contrast, net cash flow shows a positive but statistically insignificant effect on market capitalization, indicating that cash flow information is not the primary consideration for investors in valuing firms during the observation period. Furthermore, the relatively low coefficient of determination suggests that market capitalization is influenced by other factors beyond the variables examined in this study. These findings highlight the importance of profitability as a key determinant of firm value in the capital market.*

Abstrak. Kapitalisasi pasar mencerminkan nilai perusahaan di mata investor dan menjadi indikator penting dalam menilai prospek pertumbuhan serta kinerja keuangan secara keseluruhan. Penelitian ini bertujuan untuk menganalisis pengaruh laba bersih dan arus kas bersih terhadap kapitalisasi pasar pada perusahaan yang terdaftar di Bursa Efek Indonesia selama periode 2019–2023. Penelitian ini menggunakan pendekatan kuantitatif dengan metode analisis regresi linier berganda berdasarkan data sekunder yang diperoleh dari laporan keuangan tahunan perusahaan. Hasil penelitian menunjukkan bahwa laba bersih berpengaruh positif dan signifikan terhadap kapitalisasi pasar, yang mengindikasikan bahwa peningkatan profitabilitas mampu meningkatkan kepercayaan investor dan nilai perusahaan. Sementara itu, arus kas bersih berpengaruh positif namun tidak signifikan terhadap kapitalisasi pasar, yang menunjukkan bahwa

informasi arus kas belum menjadi pertimbangan utama bagi investor dalam menilai nilai perusahaan selama periode penelitian. Selain itu, nilai koefisien determinasi yang relatif rendah mengindikasikan bahwa kapitalisasi pasar juga dipengaruhi oleh faktor lain di luar variabel yang diteliti. Temuan ini menegaskan bahwa profitabilitas merupakan faktor yang lebih dominan dalam memengaruhi kapitalisasi pasar dibandingkan arus kas.

Keywords:

*Market capitalization;
Net Profit; Net Cash
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Introduction

In the era of globalization, capital markets play a strategic role in supporting economic growth through efficient resource allocation mechanisms. In this context, market capitalization serves as one of the primary indicators used to evaluate a company's value from the perspective of investors. Market capitalization reflects the aggregate value of outstanding shares and is often used as a proxy for market perception of a firm's performance and future prospects. A study by Siska et al. (2023) shows that market capitalization, along with the adoption of financial technology, has a significant impact on bank profitability. Furthermore, Kumar and Kumara (2021) define market capitalization as the total market value of a publicly traded company, calculated by multiplying the share price by the number of outstanding shares, which is consistent with the view of Azmi (2023). Thus, market capitalization not only reflects firm size but also serves as an important indicator of a company's position in the market, including its classification into large-cap and small-cap categories, as emphasized by Amani et al. (2022).

Despite its widespread use as a measure of firm value, prior studies have tended to examine financial variables in isolation, resulting in a limited understanding of the relationships among these variables. This one-dimensional approach has not been sufficient to comprehensively explain the interaction between net profit, net cash flow, and market capitalization. Therefore, further research is needed to examine these variables simultaneously in order to provide a more comprehensive understanding of the factors influencing firm value.

Net profit is a key indicator used to assess a company's financial performance, as it reflects the firm's ability to generate earnings from both operational and non-operational activities. Companies that generate higher profits generally demonstrate stronger performance and tend to experience increases in their stock prices. According to Saputra (2022), net profit has the potential to influence stock prices because investors tend to prefer companies with strong financial performance. An increase in net profit can enhance investor confidence and attract greater interest in a company's shares, thereby driving an increase in market capitalization. In addition, Mudzakir (2021) states that net profit represents the income available to shareholders after taxes, which also reflects the firm's ability to distribute dividends. This is supported by Silalahi and Sembiring (2020), who argue that an increase in net income is perceived as a positive signal by investors, as it indicates the company's ability to provide higher dividends and achieve future growth.

In the context of economic decision-making, profit information also plays a crucial role as a basis for evaluating management performance and as a consideration for external stakeholders (Mardianto & Trisnawati, 2022). Net profit reflects a company's ability to generate earnings from the products or services it offers (Laoli et al., 2021) and represents the final outcome of operational activities

influenced by factors such as sales growth, operating expenses, and revenue (Gultom & Tania 2023). Therefore, a higher level of net profit indicates better firm performance and can potentially increase firm value in the market. This is further supported by Nofriansyah et al. (2024), who find that net profit has a significant effect on firm value.

On the other hand, net cash flow provides a complementary perspective in evaluating a company's financial condition. Net cash flow reflects the firm's ability to generate and manage cash from operating, investing, and financing activities. According to Sitompul and Nasution (2020), cash flow represents the residual of a company's activities after fulfilling all operational and investment obligations. Cash flow information is essential for assessing a firm's liquidity and operational sustainability. Furthermore, Koeswardhana (2020) states that net profit plays an important role in predicting future cash flows, indicating a strong relationship between profitability and liquidity. This is supported by Zulkarnain (2020), who explains that net profit is influenced by factors such as total assets and income, which ultimately affect the company's overall financial condition.

From a capital market perspective, positive net cash flow can enhance investor confidence, as it indicates efficient financial management. A study by Awaluzi and Maharani (2022) shows that net cash flow has a significant effect on market capitalization. This is reinforced by Syamsuddin (2023), who states that cash flow management is a key component of operational strategy that affects firm value. Similarly, Amani et al. (2022) find that cash flow has a significant influence on market capitalization.

In addition, operating cash flow reported in financial statements serves as an important indicator of financial performance (Triani & Abbas, 2023). However, stock price movements are not always aligned with changes in a company's financial structure, although an increase in cash can provide a positive signal to investors regarding future performance prospects (Wahab & Handayani, 2023). Net cash flow also reflects a company's overall financial condition, where higher cash flow is generally associated with more optimal performance (Yuliana, 2020). Moreover, cash flow represents funds available to capital providers after the firm has met all operational and investment requirements, and it serves as an important indicator of firm value (Yulianti & Sundari, 2023). Additionally, Pasaribu et al. (2023) argue that companies with larger asset bases are perceived as more capable of generating investment returns, thereby reducing uncertainty for investors.

However, previous empirical findings regarding the effects of net profit and net cash flow on market capitalization remain inconsistent. Some studies find that net profit significantly affects firm value, while others report that cash flow has a varying or even insignificant impact. These inconsistencies indicate the presence of a research gap that warrants further investigation, particularly in the context of the Indonesian capital market, which has unique characteristics compared to other markets.

Based on the above discussion, this study aims to examine the effect of net profit and net cash flow on market capitalization in companies listed on the Indonesia Stock Exchange during the 2019–2023 period. This research is expected to contribute theoretically by enriching the literature on the determinants of firm value and practically by providing insights for management and investors in making more effective financial decisions.

Research Method

This study employs a quantitative approach using secondary data obtained from the official website of the Indonesia Stock Exchange as well as the official websites of the respective companies. The research period covers annual financial reports of listed companies from 2019 to 2023. The data collected include information on net income, net cash flow, and market capitalization. All data were recorded and organized using Microsoft Excel to ensure accuracy prior to further analysis, and subsequently processed using Stata.

This study aims to examine the effect of net income and net cash flow on market capitalization. Therefore, net income and net cash flow are treated as independent variables, while market capitalization is designated as the dependent variable. Data analysis is conducted using multiple linear regression to identify the relationships among these variables.

Market capitalization in this study is measured as the total value of outstanding shares multiplied by the prevailing market price per share. According to (Suhardjo et al., 2024), market capitalization represents the aggregate value of a company's outstanding shares and serves as a key indicator of firm size and market performance. In addition, (Venessa & Yulfiswandi, 2022) state that stock market value is an important measure of how a company is valued by investors, as it is influenced by internal factors such as profitability and external factors such as economic conditions. Therefore, market capitalization is highly dependent on stock price movements.

Net income is defined as the residual income after all costs, expenses, and taxes have been deducted from total revenue. It is a primary indicator of a company's financial performance and plays a significant role in predicting future cash flows (Koeswardhana, 2020). Furthermore, (Karina & Agustina, 2021) emphasize that profit is an essential component of financial statements used in economic decision-making.

Net cash flow reflects the difference between cash inflows and cash outflows within a given period. According to (Itan & Riana, 2021), a financially healthy company is characterized by stable cash flow, where cash inflows and outflows are balanced. Meanwhile, (Sitompul & Nasution, 2020) define cash flow as the residual from a company's activities after fulfilling all operational and investment obligations, which can then be allocated to creditors and further investment. Therefore, cash flow serves as an important indicator in assessing a company's liquidity and its ability to sustain ongoing operations.

Results and Discussion

Descriptive Statistical Analysis

The MC variable (market capitalization) shows that the average value for the sampled companies is 10,576.164, with a standard deviation of 41,222.586, indicating a relatively high dispersion. The minimum value is 0.109, representing companies with very small market capitalization, while the maximum value reaches 1,189,618.394, indicating that some companies have substantially higher market values.

For the NP (net profit) variable, the average value is 139,768.971, with a high standard deviation of 721,122.845, suggesting considerable variation in profitability among companies. The minimum value of -9,287,793.198 indicates that some companies experienced significant losses, while the maximum value of 1,094,732.923 shows that the most profitable companies generated earnings exceeding one million.

For the NCF (net cash flow) variable, the average value is 19,606,818, with a standard deviation of 640,898.217, indicating substantial variability in cash flow across companies. The minimum value is -1.036e+07 (approximately -10,360,000),

suggesting that some companies experienced large negative cash flows, while the maximum value of 119,847,479 indicates that certain companies generated very high levels of net cash flow.

Table 1. Descriptive Statistical Test

	N	Mean	Standard Deviation	Minimum	Maximum
MC	1965	10,576.164	41,222.586	0.109	1189618.394
NP	1965	139,768.971	721,122.845	-9,287,793.198	1,094,732.923
NCF	1965	19,606,818	640,898.217	-1.036e+07	119,847,479

Source: Processed data, 2025

Correlation Analysis

The significant value for the correlation between MC and NP is 0.008 and the correlation coefficient is 0.060, indicating that MC has a significant positive correlation with NP and has a fairly weak correlation because the correlation value is small.

The significant value for the correlation between MC and NCF is 0.494 and the correlation coefficient is 0.015, indicating that MC has no correlation with NCF and the value is also very small.

The significance value between NP and NCF is 0.119, indicating a significant and fairly strong positive relationship between NP and NCF; the higher the NP of a company, the greater its cash inflows tend to be.

Table 2. Correlation Analysis

	MC	NP	NCF
MC	1.00		
NP	0.060*** (0.008)	1.000	
NCF	0.015 (0.494)	0.119*** (0.000)	1.000

p-values in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Source: Processed data, 2025

Regression Analysis

The R-squared value of 0.015 indicates that the regression model is able to describe approximately 1.5% of the changes in the dependent variable (market capitalization) based on the variations found in the independent variables used in the analysis.

Table 3. Regression Analysis

	(1) MC
NP	0.004*** (4.84)
NCF	0.001 (0.60)
_cons	7917.775*** (3.45)
Industry	Yes
FE	

Year FE	Yes
F	7,913
r ² _a	0.015
N	1965

t statistics in parentheses
p* < 0.1, ** *p* < 0.05, * *p* < 0.01
Source: Processed data, 2025

F Test

The results of the F-test show a significance value of 0.0008, which is below the 0.05 level. This indicates that the regression model is statistically significant. In other words, net profit (NP) and net cash flow (NCF) simultaneously have a significant effect on market capitalization (MC). Therefore, the independent variables collectively influence the dependent variable, although their individual effects may differ.

In addition, the coefficient of determination (R-squared) value of 0.015 indicates that the independent variables in this model are only able to explain about 1.5% of the variation in market capitalization, suggesting that there are other factors outside the model that have a greater influence.

Table 4. F-test Results

Variable Dependent	Sig.	Conclusion
Market Capitalization	0.0008	Significant

Source: Stata Output, 2025

The F-test produced a significance value of 0.0008, which is below the 0.05 threshold, confirming that the regression model is appropriate for further analysis. This means that the independent variables jointly have a significant effect on the dependent variable, namely market capitalization (MC).

T Test

Table 5. T-test Results

Variable	Coefficient	Std.Error	t-statistic	Prob.	Conclusion
NP	0.003335	0.0007408	4.50	0.000	Positive and Significant
NCF	0.0004277	0.0009091	0.47	0.638	Positive but Not Significant

Source: Stata Output, 2025

Based on the t-test results presented in Table 5, it can be observed that the net profit (NP) variable has a coefficient value of 0.003335 with a significance level of 0.000 (< 0.05). This indicates that net profit has a positive and statistically significant effect on market capitalization. An increase in net profit reflects a higher ability of the company to generate earnings, which in turn increases investor confidence and contributes to higher market capitalization. This finding is consistent with Nofriansyah et al. (2024), who found that net profit significantly influences firm value, particularly in the retail sector. In addition, Azriana and Keristin (2022) also stated that net profit is a key indicator in assessing company performance and operational efficiency.

Meanwhile, the net cash flow (NCF) variable has a coefficient value of 0.0004277 with a significance level of 0.638 (> 0.05). This result shows that net cash flow has a

positive but not statistically significant effect on market capitalization. The lack of statistical significance suggests that investors do not primarily rely on net cash flow when evaluating market capitalization, but instead tend to focus more on profitability indicators such as net income.

Conclusion and Recommendations

This study examines the effect of net income and net cash flow on market capitalization of companies listed on the Indonesia Stock Exchange. The findings show that net income has a positive and significant effect on market capitalization, indicating that profitability is an important factor considered by investors in assessing firm value. Higher net income reflects better financial performance and can increase investor confidence, which ultimately contributes to higher market capitalization. On the other hand, net cash flow has a positive but not significant effect, suggesting that cash flow is not the main consideration for investors in determining firm value during the period of observation.

Overall, the results indicate that profitability plays a more dominant role than cash flow in influencing market capitalization, although firm value is also affected by other factors beyond the variables examined in this study. Therefore, companies are expected to focus on improving their profitability while maintaining good cash flow management to support financial stability. For investors, it is important to consider not only profitability but also other relevant factors in making investment decisions. Future research is recommended to include additional variables and broader approaches in order to provide a more comprehensive understanding of the determinants of market capitalization.

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