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THE IMPACT OF RETURN ON ASSETS AND RETURN ON EQUITY ON EARNING PER SHARE AND PRICE-TO-BOOK VALUE OF LISTED COMPANIES ON THE STOCK EXCHANGE OF THAILAND

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ABSTRACT

This study investigates the effects of financial performance on firm value among firms listed on the Stock Exchange of Thailand (SET) and the Market for Alternative Investment (MAI). Specifically, the study examines the mediating role of Earnings per Share (EPS) and the moderating role of market segmentation in the relationships between Return on Assets (ROA), Return on Equity (ROE), and Price-to-Book Value (PBV). Grounded in signaling theory, the study proposes that profitability indicators function as financial signals that influence investor interpretation and market valuation across different market conditions. Secondary panel data from 781 non-financial firms listed on the Thai stock market during 2018–2025 were analyzed using regression-based conditional process analysis with PROCESS Macro. Bootstrapping with 5,000 resamples was employed to test mediation effects, while moderation effects were examined through interaction term analysis. The results indicate that both ROA and ROE positively influence EPS and PBV, with ROE exhibiting stronger effects than ROA. EPS was found to significantly mediate the relationships between financial performance and firm value. In addition, market segmentation significantly moderated the relationships among profitability, earnings performance, and firm value, with stronger effects observed among SET firms compared to MAI firms. The findings suggest that investors interpret financial signals differently across market segments. This study contributes to the corporate finance literature by integrating mediation and moderation mechanisms into a unified framework and by providing context-specific evidence from an emerging market setting. The findings further extend signaling theory by demonstrating that the effectiveness of profitability signals depends substantially on market conditions and institutional contexts.

KEYWORDS: Return on Assets, Return on Equity, Earnings per Share, Price-to-Book Value, Firm Value, Market Segmentation, Signaling Theory, Thailand Stock Market.

1. INTRODUCTION

Firm value maximization remains one of the primary objectives in corporate finance, particularly in emerging markets where information asymmetry and capital market inefficiencies continue to influence investor decision-making and market valuation. In Thailand, a substantial number of listed firms continue to exhibit relatively low Price-to-Book Value (PBV) ratios, indicating that market prices may not fully reflect firms' underlying financial fundamentals. This issue is particularly important because persistent firm undervaluation may weaken market confidence and limit firms' ability to raise capital for future growth.

Market valuation remains a major concern in the Thai stock market. In December 2025, more than half of SET50-listed companies reported price-to-book value (PBV) ratios below one, indicating that the market valued many firms below their book value (Share2Trade, 2025). This situation suggests that investors may interpret financial information differently across firms and market segments, thereby raising important questions regarding the determinants of firm valuation in the Thai capital market.

Financial performance indicators play a critical role in influencing firm valuation. Among these indicators, Return on Assets (ROA) and Return on Equity (ROE) are widely recognized as key measures of profitability and managerial efficiency. According to signaling theory (Spence, 1973), profitability indicators serve as important financial signals that communicate firm quality, operational capability, and future growth prospects to external stakeholders. In emerging markets, investors rely heavily on profitability information to evaluate firms (Alodat et al., 2023; Bui et al., 2022).

In addition to profitability indicators, Earnings per Share (EPS) is considered one of the most important earnings-based measures used by investors in evaluating firm performance and stock attractiveness. Prior studies suggest that earnings information significantly affects market valuation because it provides a clearer representation of firms' financial outcomes from the shareholder perspective (Dang et al., 2023; Tran & Vo, 2023). Higher profitability generally leads to stronger earnings performance and improved market valuation.

Despite extensive research on financial performance and firm value, several important gaps remain in the literature. First, most prior studies have primarily focused on direct relationships between profitability indicators and firm value, while relatively limited attention has been devoted to

understanding the underlying mechanism through which financial performance is translated into market valuation. In particular, insufficient empirical evidence exists regarding whether Earnings per Share (EPS) functions as an intermediate transmission mechanism linking profitability to firm value in emerging market contexts.

Second, prior studies have largely overlooked the role of market segmentation in shaping investor interpretation of financial signals. In Thailand, firms listed on the Stock Exchange of Thailand (SET) and those listed on the Market for Alternative Investment (MAI) differ substantially in terms of firm size, business maturity, growth characteristics, and regulatory requirements. SET primarily consists of larger and more established firms with longer operating histories and stronger profitability requirements, whereas MAI mainly accommodates small- and medium-sized firms with higher growth potential and less stringent listing requirements (Stock Exchange of Thailand [SET], 2024). These structural differences may influence how investors interpret profitability and earnings information across market segments (Khan et al., 2022; Vo & Nguyen, 2023). Nevertheless, empirical evidence examining whether the effects of financial performance and earnings performance on firm value vary between SET and MAI firms remains limited.

Previous studies have often examined mediation and moderation separately, limiting comprehensive explanations of firm valuation processes (Hayes, 2022). Consequently, limited research has integrated both mechanisms into a unified framework in emerging markets.

This study proposes that financial performance influences firm value directly and indirectly through EPS, while market type moderates these relationships. Specifically, Earnings per Share (EPS) is proposed as a mediating variable linking profitability indicators to firm value, whereas market type (SET versus MAI) is proposed as a moderating variable affecting the strength of these relationships.

Therefore, this study examines the relationships among Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), and Price-to-Book Value (PBV) among firms listed on the Stock Exchange of Thailand. Specifically, the study investigates the mediating role of EPS and the moderating role of market segmentation (SET versus MAI). By integrating mediation and moderation mechanisms into a unified framework, this study contributes to the corporate finance literature by providing a mechanism-based and context-sensitive

explanation of firm valuation in an emerging market context.

2. LITERATURE REVIEW

2.1. Theoretical Foundation: Signaling Theory

This study is grounded in signaling theory (Spence, 1973), which explains how firms reduce information asymmetry by communicating observable financial information to investors. In capital markets, profitability indicators such as Return on Assets (ROA) and Return on Equity (ROE) serve as important signals of financial strength, operational capability, and future growth potential. In emerging markets, investors rely heavily on publicly available financial information when evaluating firm value (Nguyen et al., 2022; Dang et al., 2023).

2.2. Financial Performance and Earnings per Share

Earnings per Share (EPS) represents shareholder-oriented earnings performance and reflects the amount of profit attributable to each outstanding share. Investors commonly use EPS to evaluate a company's profitability, growth potential, and future return prospects. Stronger financial performance generally improves EPS.

Financial performance indicators such as ROA and ROE are closely associated with earnings generation capability. ROA reflects the efficiency with which firms utilize assets to generate profits, whereas ROE captures the returns generated from shareholders' investments. Higher profitability is generally associated with improved earnings performance.

Prior studies generally report positive relationships between profitability indicators and EPS, although findings remain inconsistent across different institutional contexts (Halimah & Komariah, 2017; Michael & Ruslim, 2019; Malina et al., 2020). These inconsistencies justify further investigation within the Thai capital market.

Therefore, the following hypotheses are proposed:

H1: ROA has a positive effect on EPS.

H2: ROE has a positive effect on EPS.

2.3. Financial Performance and Firm Value

Firm value reflects investors' overall assessment of a company's financial strength, future prospects, and growth potential. In this study, firm value is measured using Price-to-Book Value (PBV), which compares a company's market price per share with

its book value per share. A higher PBV generally indicates stronger market valuation relative to the company's accounting value.

From the perspective of signaling theory, firms with stronger profitability provide positive signals to investors regarding managerial efficiency, operational effectiveness, and future earning potential. As a result, firms demonstrating superior financial performance are more likely to receive favorable market valuations. Profitability significantly influences firm valuation.

Prior studies generally support positive relationships between profitability and firm value, although some findings remain inconsistent across market contexts (Halimah & Komariah, 2017; Michael & Ruslim, 2019; Dang et al., 2023).

Nevertheless, empirical findings remain mixed. Oktrim (2015) reported that ROA does not significantly affect PBV, while some prior studies reported inconsistent relationships between profitability and firm value across different market contexts. Furthermore, Leni (2021) revealed that ROE does not significantly influence firm value in certain contexts. These inconsistent findings suggest that the profitability–firm value relationship may vary across market contexts.

Accordingly, the following hypotheses are proposed:

H3: ROA has a positive effect on PBV.

H4: ROE has a positive effect on PBV.

2.4. The Mediating Role of Earnings per Share

Earnings per Share (EPS) plays a crucial role in linking financial performance to firm value because it transforms profitability into shareholder-oriented earnings information used by investors to evaluate firm value. Malina et al. (2020) suggested that EPS plays an important mediating role in linking profitability and firm value. Therefore, EPS may mediate the relationship between profitability and firm value.

Prior studies generally suggest that EPS positively influences firm value and serves as an important informational signal for investors, although inconsistent findings remain across different market settings (Septiani & Wijaya, 2018).

However, previous findings are not entirely consistent. Pioh, Tommy, and Sepang (2018) found that EPS does not significantly affect firm value, while Malina et al. (2020) reported that EPS negatively influences PBV. These inconsistent findings imply that the mediating role of EPS may vary across different market and institutional contexts. Consequently, further investigation is

necessary to clarify whether EPS functions as a transmission mechanism linking financial performance and firm value in the Thai stock market.

Therefore, the following hypotheses are proposed:

H5: EPS has a positive effect on PBV.

H6: EPS mediates the relationship between financial performance and PBV.

2.5. The Moderating Role of Market Segmentation

Market segmentation may influence how investors interpret financial signals. In Thailand, firms listed on the Stock Exchange of Thailand (SET) and those listed on the Market for Alternative Investment (MAI) differ substantially in terms of firm size, market maturity, growth characteristics, and regulatory requirements, which may influence the interpretation of profitability and earnings information across market segments (Khan et al., 2022; Vo & Nguyen, 2023; Stock Exchange of Thailand [SET], 2024).

However, empirical findings regarding the moderating role of firm size and market characteristics remain inconclusive. Kakani et al. (2011) reported that firm size significantly affects firm value, whereas Husna and Satria (2019) found no significant relationship. Similarly, Leni (2021) revealed that firm size does not moderate the relationship between profitability and firm value, while Ogundajo et al. (2019) found that firm size significantly influences profitability.

From the perspective of signaling theory, the effectiveness of financial signals depends on how investors interpret disclosed information. In Thailand, SET firms are generally larger and more established, whereas MAI firms mainly consist of small- and medium-sized enterprises. Differences in firm size and financial management practices may

influence investor evaluation of profitability and earnings information. Therefore, market segmentation may affect investor responses to financial signals.

Given these inconsistent findings, this study proposes that market segmentation may condition the strength of the relationships between financial performance, earnings performance, and firm value.

Therefore, the following hypotheses are proposed:

H7: Market type moderates the relationship between ROA and EPS.

H8: Market type moderates the relationship between ROE and EPS.

H9: Market type moderates the relationship between EPS and PBV.

H10: Market type moderates the relationship between ROA and PBV.

H11: Market type moderates the relationship between ROE and PBV.

2.6. Conceptual Framework

Based on signaling theory and the hypotheses developed above, this study proposes a moderated mediation framework in which ROA and ROE serve as indicators of financial performance, EPS functions as a mediating variable, PBV represents firm value, and market type (SET versus MAI) acts as a moderating variable.

The proposed framework suggests that financial performance influences firm value both directly and indirectly through EPS, while the strength of these relationships depends on market segmentation. This integrated framework provides a mechanism-based and context-sensitive explanation of how profitability signals are translated into market valuation in the Thai capital market.

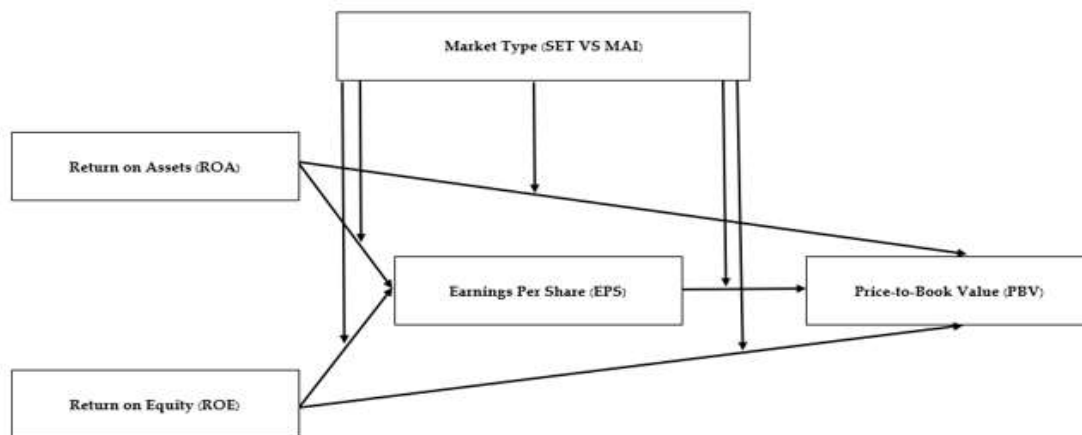


Figure 1: Conceptual Framework. Adapted from Malina et al. (2020).

3. METHODOLOGY

3.1. Sample and Data Collection

This study employed secondary data collected from firms listed on the Stock Exchange of Thailand (SET) and the Market for Alternative Investment (MAI). The initial population consisted of 921 listed firms. After excluding financial institutions, real estate funds, and firms with incomplete financial information, a final sample of 781 non-financial firms was obtained (SET = 571; MAI = 210).

The dataset was structured as balanced panel data covering an eight-year period from 2018 to 2025 (Baltagi, 2021). All financial data were retrieved from the SET SMART database and firms' annual reports (Form 56-1).

3.2. Variables and Measurement

This study included four principal variables: Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), and Price-to-Book Value (PBV). ROA was measured as net income divided by total assets, while ROE was calculated as net income divided by shareholders' equity, following commonly accepted financial ratio measurements in corporate finance studies (Brigham & Houston, 2019).

EPS was measured as net income divided by the number of shares outstanding. Firm value was measured using Price-to-Book Value (PBV), calculated as market price per share divided by book value per share. PBV is widely used as an indicator of market valuation because it reflects investors' assessment of a company's market worth relative to its accounting value (Damodaran, 2012).

Market type was incorporated as a moderating variable and operationalized as a dummy variable, where firms listed on the SET were coded as 1 and firms listed on the MAI were coded as 0.

3.3. Analytical Approach

This study employed regression-based conditional process analysis using the PROCESS macro developed by Hayes (2022) to examine the direct, mediating, and moderating relationships among financial performance, earnings performance, firm value, and market segmentation. The PROCESS macro was considered appropriate for examining the proposed mediation and moderation mechanisms.

Bootstrapping with 5,000 resamples was conducted to estimate indirect effects and construct bias-corrected confidence intervals, as recommended for mediation analysis and indirect effect estimation (Preacher & Hayes, 2008). Moderating effects were

examined through interaction term analysis involving market type and financial performance indicators.

3.4. Mediation Analysis

The mediation analysis examined whether Earnings per Share (EPS) functioned as a transmission mechanism linking financial performance to firm value, following mediation principles proposed by Baron and Kenny (1986). Mediation effects were examined using bootstrapping procedures recommended by Hayes (2022). The indirect effect was considered statistically significant when the 95% confidence interval did not include zero. This approach provides a robust assessment of mediation effects (Preacher & Hayes, 2008).

3.5. Moderation Analysis

The moderating role of market segmentation was examined by including interaction terms between financial performance variables and market type (ROA \times M, ROE \times M, and EPS \times M), following the conditional process framework proposed by Hayes (2022). In addition, interaction effects between profitability indicators and market type on firm value were assessed to determine whether market segmentation conditions the direct effects of financial performance on PBV.

A significant interaction effect indicates the presence of a moderation effect, suggesting that the strength of the relationships differs across SET and MAI firms (Aiken & West, 1991). This approach enables the evaluation of whether market characteristics influence how investors interpret financial signals.

3.6. Model Specification

The empirical models were specified to examine the direct, mediating, and moderating relationships among financial performance, earnings performance, market segmentation, and firm value. The model specifications were developed based on the conditional process framework proposed by Hayes (2022).

The empirical models were specified as follows: The first equation examines the effects of financial performance and market segmentation on earnings performance, while the second equation evaluates the direct, mediating, and moderating effects on firm value.

3.7. Statistical Assumptions

Prior to the analysis, standard regression

assumptions were evaluated, including normality, multicollinearity, homoscedasticity, and independence of errors. Variance Inflation Factor (VIF) values were examined to assess multicollinearity following the recommendations of Hair et al. (2019). All VIF values were below the recommended threshold value of 5.0, indicating the absence of severe multicollinearity problems.

In addition, residual diagnostics suggested that the data were suitable for regression-based conditional process analysis. These diagnostic procedures help improve the reliability and

robustness of regression estimation and hypothesis testing in empirical corporate finance research.

4. RESULTS

4.1. Descriptive Statistics

Table 1: Descriptive Statistics.

| Variable | Mean | SD | Min | Max |
|----------|-------|-------|-------|-------|
| ROA | 0.082 | 0.034 | 0.010 | 0.185 |
| ROE | 0.148 | 0.047 | 0.050 | 0.305 |
| EPS | 3.180 | 1.250 | 0.450 | 6.950 |
| PBV | 1.680 | 0.820 | 0.380 | 4.300 |

4.2. Direct Effects

Table 2: Direct Effects.

| Path | Coefficient (β) | t-value | p-value |
|-----------|-------------------------|---------|---------|
| ROA → EPS | 0.298 | 4.760 | < 0.001 |
| ROE → EPS | 0.451 | 6.210 | < 0.001 |
| ROA → PBV | 0.261 | 3.720 | < 0.001 |
| ROE → PBV | 0.347 | 5.040 | < 0.001 |
| EPS → PBV | 0.402 | 5.660 | < 0.001 |

Table 2 indicates that ROA and ROE positively affected both EPS and PBV. ROA significantly influenced EPS ($\beta = 0.298, p < 0.001$) and PBV ($\beta = 0.261, p < 0.001$), suggesting that firms with more efficient asset utilization tend to generate stronger earnings performance and higher market valuation. ROE exhibited stronger effects on EPS ($\beta = 0.451, p < 0.001$) and PBV ($\beta = 0.347, p < 0.001$) compared to ROA, indicating that equity-based profitability plays a more important role in explaining earnings

performance and firm valuation. This finding implies that investors place greater emphasis on returns generated from shareholders' equity than on asset utilization efficiency when evaluating firm performance and market value. In addition, EPS significantly influenced PBV ($\beta = 0.402, p < 0.001$), indicating that earnings performance serves as an important mechanism through which profitability is translated into market valuation. All hypothesized direct relationships were supported.

Table 3: Coefficient of Determination (R^2 Values).

| Endogenous Variable | R^2 |
|---------------------|-------|
| EPS | 0.417 |
| PBV | 0.536 |

The models explained 41.7% of the variance in EPS and 53.6% of the variance in PBV, indicating moderate to substantial explanatory power.

4.3. Mediation Analysis

Table 4: Indirect Effects (Bootstrapping 5,000 resamples).

| Path | Indirect Effect | Bootstrapped SE | 95% CI Lower | 95% CI Upper |
|-----------------|-----------------|-----------------|--------------|--------------|
| ROA → EPS → PBV | 0.120 | 0.032 | 0.061 | 0.189 |
| ROE → EPS → PBV | 0.181 | 0.041 | 0.103 | 0.262 |

Table 4 presents the indirect effects obtained from bootstrapping analysis with 5,000 resamples. ROA exerted a significant indirect effect on PBV through EPS ($\beta = 0.120, \text{Boot SE} = 0.032, 95\% \text{ CI} [0.061, 0.189]$), indicating that stronger asset utilization efficiency contributes to higher firm value through improved earnings performance. Similarly, ROE demonstrated

a significant indirect effect on PBV through EPS ($\beta = 0.181, \text{Boot SE} = 0.041, 95\% \text{ CI} [0.103, 0.262]$), suggesting that shareholder-oriented profitability enhances firm valuation through earnings generation capability. Because all confidence intervals excluded zero, the mediating role of EPS was statistically supported. These findings confirm that EPS

functions as an important transmission mechanism linking financial performance and firm value.

4.4. Moderation Analysis

Table 5: Moderation Effects.

| Interaction | Coefficient (β) | t-value | p-value |
|---------------------------------------|-------------------------|---------|---------|
| ROA \times Market \rightarrow EPS | 0.122 | 2.45 | 0.014 |
| ROE \times Market \rightarrow EPS | 0.135 | 2.88 | 0.004 |
| EPS \times Market \rightarrow PBV | 0.141 | 3.02 | 0.003 |
| ROA \times Market \rightarrow PBV | 0.118 | 2.21 | 0.027 |
| ROE \times Market \rightarrow PBV | 0.129 | 2.64 | 0.008 |

Table 5 demonstrates that market type significantly moderated the relationships among financial performance, EPS, and PBV. The interaction effect between ROA and market type significantly influenced EPS ($\beta = 0.122$, $p = 0.014$), indicating that the impact of asset utilization efficiency on earnings performance differed across SET and MAI firms. Similarly, the interaction effect between ROE and market type significantly affected EPS ($\beta = 0.135$, $p = 0.004$), suggesting that the influence of shareholder-oriented profitability on earnings performance varied by market segment. In addition, market type significantly moderated the relationship between EPS and PBV ($\beta = 0.141$, $p = 0.003$), as well as the direct effects of ROA ($\beta = 0.118$, $p = 0.027$) and ROE ($\beta = 0.129$, $p = 0.008$) on PBV. These findings support the proposed moderating role of market segmentation in shaping how financial signals are translated into firm value.

4.5. Conditional Effects

Table 6: Conditional Effects by Market Type.

| Interaction | SET (β) | MAI (β) |
|-----------------------|-----------------|-----------------|
| ROA \rightarrow EPS | 0.342 | 0.221 |
| ROE \rightarrow EPS | 0.498 | 0.356 |
| EPS \rightarrow PBV | 0.452 | 0.311 |
| ROA \rightarrow PBV | 0.318 | 0.201 |
| ROE \rightarrow PBV | 0.401 | 0.274 |

Table 6 shows that the relationships among financial performance, EPS, and PBV were consistently stronger among SET firms compared to MAI firms. Specifically, the effect of ROA on EPS was higher among SET firms ($\beta = 0.342$) than MAI firms ($\beta = 0.221$), suggesting that asset utilization efficiency contributed more strongly to earnings performance among larger and more established firms. Similarly, the effect of ROE on EPS was stronger among SET firms ($\beta = 0.498$) compared to MAI firms ($\beta = 0.356$),

indicating that shareholder-oriented profitability exerted greater influence on earnings generation capability in the SET market. Furthermore, the effect of EPS on PBV was stronger among SET firms ($\beta = 0.452$) than MAI firms ($\beta = 0.311$), suggesting that earnings performance played a more important role in determining firm value among SET firms. The direct effects of ROA on PBV were also higher among SET firms ($\beta = 0.318$) compared to MAI firms ($\beta = 0.201$), while the effects of ROE on PBV were stronger among SET firms ($\beta = 0.401$) than MAI firms ($\beta = 0.274$). These findings indicate that profitability signals exerted stronger influences on market valuation in the SET market. Overall, the findings provide additional support for the moderating role of market segmentation.

The empirical findings supported all proposed hypotheses. Specifically, ROA and ROE positively affected EPS and PBV (H1-H4), while EPS significantly influenced PBV (H5). The mediation analysis confirmed the mediating role of EPS in linking financial performance and firm value (H6). Furthermore, market type significantly moderated the relationships among financial performance, EPS, and PBV, providing support for H7-H11.

5. DISCUSSION

The findings provide strong support for the proposed theoretical framework and offer insights into how financial performance influences firm value in an emerging market context.

First, the results demonstrate that both Return on Assets (ROA) and Return on Equity (ROE) significantly influence Earnings per Share (EPS) and Price-to-Book Value (PBV). These findings support prior studies reporting that stronger financial performance positively affects earnings generation capability and firm valuation (Halimah & Komariah, 2017; Michael & Ruslim, 2019).

Notably, ROE exhibited stronger effects than ROA on both EPS and PBV, suggesting that investors place greater emphasis on shareholder-oriented profitability than asset utilization efficiency. This finding supports recent studies indicating that equity-based performance measures are more strongly associated with firm valuation in capital markets (Dang et al., 2023). This finding is consistent with evidence from emerging markets, where profitability indicators have been shown to enhance firm value and market valuation (Dang et al., 2023; Bui et al., 2022).

Second, the findings confirm the mediating role of EPS, highlighting its function as a critical transmission mechanism linking financial

performance to firm value. This result supports prior research suggesting that earnings performance serves as an important informational channel through which investors interpret firm fundamentals and future prospects (Septiani & Wijaya, 2018; Bui et al., 2022). From a theoretical perspective, this finding extends signaling theory by demonstrating that financial performance influences firm value not only directly but also indirectly through shareholder-oriented earnings information.

Third, the findings reveal that market segmentation significantly moderates the relationships among financial performance, earnings performance, and firm value. Specifically, the effects of ROA and ROE on EPS, as well as the effect of EPS on PBV, were stronger among SET firms than MAI firms. In addition, market type also moderated the direct relationships between profitability indicators and firm value, indicating that the effects of ROA and ROE on PBV varied across market segments.

The stronger effects observed among SET firms suggest that investors respond more strongly to financial signals from larger and more established firms. These findings are consistent with prior literature emphasizing the role of market characteristics and firm size (Khan et al., 2022; Vo &

Nguyen, 2023). This evidence suggests that the effectiveness of financial signals depends on market characteristics and institutional conditions. These findings further support the signaling theory perspective that investor reactions to financial information may vary across market segments, leading to differences in the valuation effects of profitability and earnings signals (Vo & Nguyen, 2023).

Overall, the findings suggest that firm value in emerging markets is influenced by both financial performance and market context.

6. CONTRIBUTIONS

This study contributes to the corporate finance literature by providing a mechanism-based explanation of firm valuation in emerging markets. The findings demonstrate that EPS functions as a transmission mechanism linking profitability and firm value, while market segmentation conditions the strength of these relationships. The study also extends signaling theory by showing that the effectiveness of financial signals depends on market conditions.

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