



The Effect of Profitability, Liquidity, and Financial Leverage on Stock Prices in Property and Real Estate Companies Listed on the Indonesia Stock Exchange

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Abstract. The objectives of this study is to analyze the effect of profitability, liquidity, and financial leverage on the stock prices of property and real estate companies listed on the Indonesia Stock Exchange (IDX). The property and real estate industry growth of a country can be an indicator of its economic growth. This is due to the ability of property and real estate sectors to absorb many workers, and it has a large multiplier effect on other sectors. We used financial and annual reports from 48 property and real estate companies listed on the Indonesia Stock Exchange from 2019 to 2021. This study focused on 15 chosen companies based on the purposive sampling method. The method used was a quantitative description with Multiple Regression Analysis. The results show that all variables simultaneously affect stock prices, nevertheless the profitability or liquidity variables affect stock prices partially.

Keywords: Return on Asset · Current Ratio · Debt to Equity Ratio · Stock prices

1 Introduction

The company's stock price is one of the reasons investors make investment decisions in the company. The progress of stock prices is influenced by supply and demand, which are formed from the interaction of sellers and buyers of shares against their expectations of company profits; thus, investors need the information in making decisions to sell or buy.

The stock price also represents the company's valuation. Factors such as company performance, risk, dividends, interest rates, supply, demand, inflation, government policies and economic conditions all affect price fluctuations in the stock market. Stock prices will fluctuate as a result of changes in the reasons listed above. Investors will be in great demand for the company's shares if it performs well. The financial statements demonstrate the company's strong performance.

Various research inconsistently shows that stock prices are influenced by the profitability, liquidity, and financial leverage variables, as shown in Table 1.

Table 1. Research Gap

Variable Independent	Researcher	Result
Profitability	Oktaviani [1]	Positive effect
	Mukhtasyam, et al. [2]	Positive effect
	Lomboan et al. [3]	Not Influenced
Liquidity	Abimantrana and Wijayanto [4]	Positive effect
	Suryasari & Artini [5]	Negative effect
Leverage	Endraswati and Novianti [6]	Positive effect
	Dewi & Adiwibowo [7]	Negative effect

Table 1 clearly shows that several studies show an effect of Profitability, Liquidity, and Financial Leverage on Stock Prices, but other studies also reveal no effect and negative effect. These results show the inconsistency, so it needs to be re-examined.

This objectives of this study is to examine the overall or partial effect of profitability, liquidity, and financial leverage variables on stock prices in the property industry that listed on the Indonesia Stock Exchange from 2019 to 2021.

1.1 Agency Theory

Management is an agent of the shareholders, as the company's owner. Shareholders expect agents to act in their interests and thus delegate authority to agents. To perform its functions properly, the management gives rewards and supervision. Supervision can be done through binding agents, auditing financial statements, and limiting the decisions that can be taken by management. Supervision activities require costs called agency costs. Agency theory can explain the gap between management as an agent and shareholders as principals or delegates [8]. Agency theory posits the assumption that the interests of the principle and the agent are not always aligned. This situation is often described by a special term, namely the principal agent problem.

1.2 Signaling Theory

The idea behind signaling theory is that there is asymmetry of information obtained by management and investors. The theory of asymmetric information implies a difference in the information obtained between the company's management and other parties interested in the information. Signaling theory, according to Brigham and Houston [9], describes how corporate management's activities give investors signals about how management regards the company's prospects.

According to Jogiyanto [10], investors get a signal from the information published as an announcement in making investment decisions. This information is crucial among investors and entrepreneurs because it actually gives information, notes, or descriptions for the firm's existence in the past, present, and future, as well as how it will affect the company.

1.3 Stock Price

Stock price, according to Brigham and Houston [9], determines shareholder wealth. Maximizing shareholder wealth manifests to maximizing the stock price of the company. The stock price will be set by the cash flows that the ordinary investor can expect to get in the future if he or she purchases the stock. The stock price is the price generated in the stock purchase market based on demand and supply, and it is usually stated at the closing price. Market players who are trading their shares influence the stock price.

1.4 Profitability

Profitability, according to Kasmir [11], is a ratio used to evaluate a company's ability to make a profit. The argument is that this ratio is used to demonstrate a company's efficiency. Meanwhile, profitability, according to Gitman [12], is the interaction between revenue and costs generated by utilising the company's current and fixed assets in operating operations. The profitability ratio reflects a company's ability to increase earnings using all available resources and skills. It is known to measure the company's level of business efficiency and profits. To measure the company's ability to earn profits, it can use the profitability ratios depending on the information taken from the financial statements. Generally, profitability ratios are measured through ROA (Return on Assets).

1.5 Liquidity

Liquidity, according to Munawir [13], indicates a company's ability to satisfy current financial commitments as well as its capacity to achieve financial obligations when billed. As a result, liquidity can be defined as a company's capacity to satisfy short-term financial obligations that has to be satisfied right away. Meanwhile, according to Kasmir [11], liquidity is a ratio that describes a company's ability to meet short-term obligations (debt).

1.6 Financial Leverage

Leverage is a financial measure that determines how much of a company's assets are financed through debt [11]. Financial ratios could be used to assess a company's financial state and performance; the results of these ratios will reveal the company's health. The company obtains funding from two sources, creditors and shareholders. The leverage ratio shows how much creditors and shareholders fund the company. The debt ratio, also known as the leverage ratio, describes the connection between a company's debt and its assets. This ratio compares the company's ability to be financed by debt or external parties to the company's ability to be financed by capital (equity). According to Harahap [14], the leverage ratio is measured through the Debt to Asset Ratio (DER).

1.7 Conceptual Framework

The conceptual framework explains the thinking flow in research [15]. The framework is prepared as a guide in researching so that research has a corridor to guide researchers in finding answers according to the formulation of research problems. The conceptual framework in this research is shown in Fig. 1.

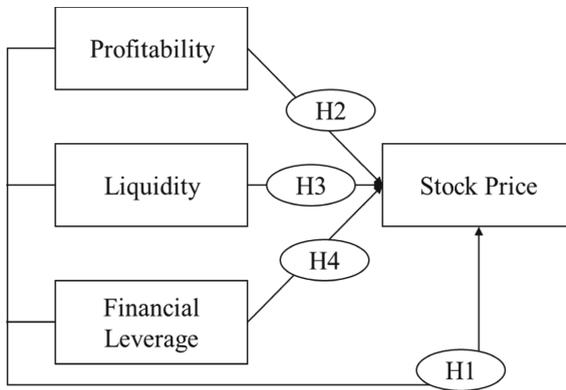


Fig. 1. Research Model

1.8 Hypothesis

Based on the Conceptual Framework as described in Fig. 1, the hypothesis research is:

H1.: Profitability, Liquidity, and Financial Leverage have simultaneously increase Stock Price.

H2.: Profitability has partially increase Stock Price.

H3.: Liquidity has partially increase Stock Price.

H4.: Financial Leverage has partially increase Stock Price.

2 Research Method

The design used in this research is correlational analysis, which is a type of research carried out to detect the extent to which variations in a variable are correlated with one or more other variables based on the correlation coefficient [15]. Hypothesis testing was done by multiple regression analysis.

The target population in this study are property companies listed on the IDX (Indonesia stock exchange) in 2019–2021. There are 48 industries listed, but only 15 fulfilled the criteria.

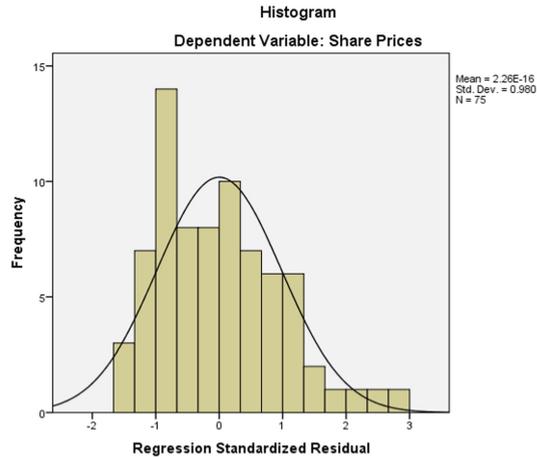
3 Results and Discussion

3.1 Descriptive Statistics

The following describes descriptive statistics from the study results, which explain the description of data from all variables included in the research model. The variables in this study consisted of the dependent variable: stock price (Y) and the independent variables: profitability (X1), liquidity (X2), and leverage (X3). The results of the statistical description can be seen in Table 2.

Table 2. Descriptive Statistic

	Min	Max	Med	STDV
SP	5,231,009	19,740,021	12,485,515	2,789
ROA	-4.04	11.11	4.102	3.347
CR	0.74	2.22	1.418	0.419
DER	0.08	1.5	0.760	0.425

**Fig. 2.** Histogram

3.2 Assumption Multiple Regression Testing

3.2.1 Normality Assumption

Normality assumption testing in this research was carried out by the Histogram, as seen in Fig. 2.

Figure 2 show that the data is normally distributed by forming an inverted parabolic curve.

3.2.2 Multicollinearity Assumption

Multicollinearity testing in this research was carried out by a score of Variance Inflation Factor (VIF), as seen in Table 3.

Based on Table 3, it is obtained that all scores of the VIF variable < 10 , so there is no multicollinearity issue in this research.

3.2.3 Autocorrelation Assumption

Autocorrelation testing in this research was carried out by Durbin Watson score as Table 4.

Table 3. Multicollinearity Testing

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	X1 (ROA)	.859	1.12
	X2 (CR)	.765	1.27
	X3 (DER)	.921	1.30

^a Dependent variable: stock price

Table 4. Durbin Watson Score

Model Summary ^b		
Model	Std. Err. of the Estimate	Durbin-Watson
1	2.59804	2.062

^a Pred.: (Constant), (CR), (DER), (ROA)

^b Dep. Variable: Stock Price

Durbin Watson criteria as below:

- $dW < dL$, autocorrelating is detected
- $dW > dU$, autocorrelating is not detected
- $dL < dW < dU$, cannot be determined

Based on Table 4, the coefficient of dW is 2.062, meanwhile, dL is 1.571 and dU 1.680, thus $dW > dU$, thus there is no indication of autocorrelation.

3.3 Hypothesis Testing

3.3.1 Simultaneous Testing

Table 5 shows the results of the simultaneous test.

The results of Table 5 illustrate that simultaneously profitability, liquidity, and financial leverage affect stock prices (p value $0.023 < 0.05$).

3.3.2 Partial Testing

Meanwhile, the results for partial testing can be seen in Table 6.

Table 6 shows that:

1. Profitability partially influences stock price with a significant score of $0.024 < 0.050$.
2. Liquidity partially influences stock price with a significant score of $0.015 < 0.050$.

Table 5. Simultaneous Testing

Model	Sum of Square	df	Mean Square	F	Sig
Regression	3.475	3	1.158	3.388	.023 ^b
Residual	24.275	71	.342		
Total	27.750	74			

^a Dependent Variable: Share Prices

^b Predictors: (Constant), DER, ROA, CR

Table 6. Partial Testing

Model	Unstd. Coeff.		Std. Coeff. Beta	t	Sig
	B	Std. Error			
(Constant)	-2.728	1.201		-2.271	.026
CR	3.743	1.502	2.564	2.491	.015
ROA	-.288	0.125	-1.575	-2.312	.024
DER	-1.757	0.918	-1.219	-1.913	.060

^a Dependent Variable: Share Prices

3. Financial leverage partially does not influence the stock price with a significant score of $0.060 > 0.050$.

3.3.3 Discussion

The main results of the study indicate that simultaneously profitability, liquidity, and financial leverage influence stock prices as a whole. This shows that investors need to see all variables in determining stock prices. However, this research shows that only profitability or liquidity can determine the stock prices as indicators when investors see them partially.

4 Conclusion

This research has shown that profitability, liquidity, and financial leverage simultaneously influence stock prices. While profitability or liquidity partially influences stock price.

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