Liquidity and Profitability: Impact on Stock Prices in LQ45 Companies Listed on the Indonesia Stock Exchange (IDX)

Sami Widaningsih[1], Ikaputera Waspada[2] and Maya Sari[3]

Universitas Pendidikan Indonesia, Bandung, Indonesia
saniwidaningsih@upi.edu

Abstract. The decline in the stock price of LQ45 companies is the background of this study. This study aims to describe liquidity, profitability, and stock prices, and to examine the effect of liquidity and profitability on stock prices in LQ45 companies listed on the Indonesia Stock Exchange (IDX) for the period 2015–2024. The research method used is descriptive and verification. The data used is secondary data sourced from financial reports published on www.idx.co.id. The population comprised all 45 LQ45 companies; 29 companies were selected by purposive sampling. The analysis technique applied classical assumption tests, panel data regression (Panel EGLS, Period Random Effects), and hypothesis testing using the F-test and t-test at $\alpha = 5\%$. Liquidity was measured using the Current Ratio (CR) and profitability using Return on Equity (ROE). Results confirm that liquidity (CR) has no significant effect on stock prices ($t = -1.931$, $p = 0.054$), while profitability (ROE) has a significant positive effect on stock prices ($t = 3.872$, $p < 0.001$). These findings indicate that profitability is the dominant fundamental factor in stock price formation among LQ45 companies.

Keywords: Liquidity, Current Ratio, Profitability, Return on Equity, Stock Price.

1 Introduction

The capital market plays an important role in the Indonesian economy, serving both as a means of investment and a source of funding for companies. One of the main indicators that investors pay attention to is the stock price, which reflects market expectations of a company's performance. Amid the dynamics of the global and national economy from 2015 to 2024, stock price fluctuations in the LQ45 Index are increasingly important to study. The stability and attractiveness of investment in the Indonesian capital market are often measured through the LQ45 index, which consists of the 45 most liquid and large-cap stocks on the IDX. This index serves as the main barometer for institutional and individual investors assessing investment prospects in the Indonesian stock market [1].

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One of the fundamental factors believed to influence stock prices is a company's ability to manage liquidity and profitability. Liquidity reflects the company's ability to meet short-term obligations, thus providing a signal of financial stability to investors. Meanwhile, profitability is the primary indicator of a company's ability to generate profits consistently, which ultimately increases company value in the eyes of shareholders [1]. Previous studies have highlighted the important role of these two factors: [2] found that Current Ratio (CR) and Return on Equity (ROE) have a significant effect on stock prices. However, [3] show that their effect is not always consistent across all sectors, underscoring the need for further research on leading company groups such as LQ45.

From a theoretical perspective, signaling theory [4] explains that information asymmetry exists between company management and external investors. Good liquidity signals investors that the company can meet its short-term obligations, while high profitability reflects the company's ability to generate sustainable profits and future growth prospects. The relationship between CR and stock price is theoretically positive: a high current ratio provides investors with confidence that the company can meet its short-term obligations [5]. Similarly, ROE has a positive relationship with stock prices; a higher ROE indicates greater expected returns for investors [6,7]. However, previous studies show inconsistent empirical results, particularly across different sectors and time periods.

Based on this gap, this study analyzes the effects of CR and ROE on the stock prices of LQ45 companies during 2015–2024. The hypotheses formulated are:

H_1: Liquidity (Current Ratio) has a significant effect on stock prices of LQ45 companies.

H_2: Profitability (Return on Equity) has a significant positive effect on stock prices of LQ45 companies.

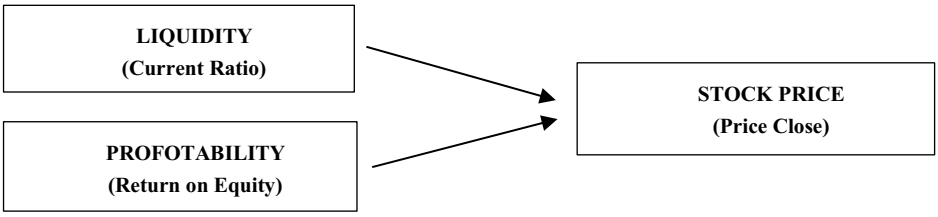

Fig. 1. Research Paradigm

2 Research Methods

2.1 Research Design

This study adopts a descriptive-verification research design. The descriptive component aims to provide a systematic picture of the liquidity, profitability, and stock price of LQ45 companies over the period 2015–2024. The verification component tests the hypothesized causal relationships between independent variables (CR and ROE) and the dependent variable (stock price) using inferential statistical methods.

2.2 Data Collection and Sample

This study uses secondary data obtained from the Indonesia Stock Exchange official website (www.idx.co.id), specifically annual financial reports of LQ45 companies for 2015–2024. The population comprises all companies consistently listed in the LQ45 index during 2015–2024 (45 companies). Using purposive sampling, 29 companies met the criteria of consistent LQ45 membership and complete audited annual reports for all 10 years, yielding 290 panel observations.

2.3 Variable Operationalization

Stock price (dependent variable) is the closing price at fiscal year-end in logarithmic form (ln) to normalize distribution and reduce heteroscedasticity. Liquidity (independent variable) is measured by the Current Ratio (CR) = total current assets / total current liabilities [6]. Profitability (independent variable) is measured by Return on Equity (ROE) = net income after tax / total shareholders' equity [6].

2.4 Analysis Techniques

Panel data regression was employed using EViews 13. Model selection via Chow Test, Hausman Test, and Lagrange Multiplier Test indicated that Panel EGLS (Period Random Effects) with Swamy and Arora estimator was the most appropriate specification. Classical assumption tests included normality (Jarque-Bera), multicollinearity (VIF), heteroscedasticity (Glejser), and autocorrelation (Breusch-Godfrey LM Test). The panel regression model is:

$$\text{Stock Price}_{it} = \alpha + \beta_1 CR_{it} + \beta_2 ROE_{it} + \varepsilon_{it}$$

Hypothesis testing used the F-test (simultaneous) and t-test (partial) at α = 5%.

3 Result and Discussion

3.1 Descriptive Analysis

The descriptive statistics of the research variables are presented in Table 1.

Table 1. Descriptive Statistics

Variable	Min	Max	Mean	Std. Dev.
Stock Price	13.08	39,025.00	4,246.82	6,001.43
CR	0.18	9.28	1.97	1.499455
ROE	-0.22	1.96	0.25	0.314706

Source: EViews 13 Output, processed by authors

The descriptive statistics indicate that stock prices of LQ45 companies show high variability during the 2015–2024 period, as reflected by a wide range and a large standard deviation. Liquidity (CR) has a mean of 1.97 with moderate dispersion (Std. Dev. =

1.50), suggesting that firms generally maintain adequate short-term solvency. Meanwhile, profitability (ROE) has a mean of 0.25 with a standard deviation of 0.31, indicating variation in firms' ability to generate returns, including some negative values. Overall, these results suggest sufficient variation in the data to support further regression analysis.

3.2 Model Estimation Results

Gf Based on the data analysis using Panel EGLS with the Random Effect Model (REM) approach, the regression equation is formulated as follows:

$$\text{Stock Price}_{it} = 7.646 - 0.085\, CR_{it} + 0.814\, ROE_{it} + \varepsilon_{it}$$

The model is estimated using the Swamy and Arora estimator, with a total of 290 balanced panel observations consisting of 29 companies over the period 2015–2024.

3.3 Panel Regression Results (Random Effect Model)

Table 2 presents the estimation results of the Random Effect Model, showing the relationship between liquidity, profitability, and stock prices.

Table 2. Estimation Results of Random Effect Model (REM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant (C)	7.646033	0.123847	61.73794	0.0000
Liquidity (CR)	-0.085209	0.044116	-1.931475	0.0544
Profitability (ROE)	0.813825	0.210196	3.871742	0.0001

Source: EViews 13 Output, processed by authors

3.4 Model Goodness of Fit

The overall performance of the model can be evaluated using the goodness of fit statistics presented in Table 3.

Table 3. Model Summary Statistics

Indicator	Value
R-squared	0.645828
Adjusted R-squared	0.640857
F-statistic	129.9232
Prob (F-statistic)	0.000000
Durbin-Watson stat	1.994844
Observations	290

Source: EViews 13 Output, processed by authors

Based on the regression results, the R-squared value of 0.645828 indicates that 64.58% of the variation in the dependent variable can be explained by the independent variables

in the model, while the remaining 35.42% is explained by other factors outside the model. The Adjusted R-squared value of 0.640857 suggests that the model maintains strong explanatory power after adjusting for the number of variables included. Furthermore, the F-statistic of 129.9232 with a probability (Prob (F-statistic)) of 0.000000 indicates that the model is statistically significant as a whole, meaning that the independent variables jointly influence the dependent variable. The Durbin-Watson statistic of 1.994844, which is close to 2, implies that there is no autocorrelation issue in the regression model. Additionally, the total number of observations of 290 reflects a sufficiently large sample size, supporting the reliability of the estimation results.

3.5 Simultaneous Test (F-Test)

The simultaneous test confirms the overall significance of the regression model. As shown in Table 3, the F-statistic value of 129.9232 with a probability of 0.000000 (< 0.05) indicates that liquidity (CR) and profitability (ROE) jointly have a statistically significant effect on stock prices. This finding reinforces that the model is appropriate for explaining the relationship between the independent variables and the dependent variable.

3.6 Partial Test (t-Test)

After examining the simultaneous effect, the partial effect of each independent variable is analysed using the t-test.

Effect of Liquidity (CR) on Stock Prices

Based on Table 2, liquidity (CR) has a coefficient of -0.085209, with a t-statistic of -1.931475 and a probability value of 0.0544 (> 0.05). This indicates that liquidity does not have a significant effect on stock prices, and therefore, H_1 is rejected, consistent with [3,8,9]. LQ45 companies are large-cap companies with strong market positions; investors may already take financial stability for granted, rendering the liquidity signal redundant in the context of signaling theory [4]. Moreover, a high current ratio may signal that management is not optimally deploying short-term assets, which sophisticated institutional investors may perceive negatively. Stock prices in this index are more responsive to macroeconomic signals and profitability metrics than to short-term liquidity conditions [3].

Effect of Profitability (ROE) on Stock Prices

The results show that profitability (ROE) has a coefficient of 0.813825, with a t-statistic of 3.871742 and a probability value of 0.0001 (< 0.05). This indicates that profitability has a positive and significant effect on stock prices, and therefore, H_2 is accepted, consistent with [1,10-12]. In the context of signaling theory [4], a high ROE demonstrates that management efficiently utilizes shareholders' capital, increasing investor confidence and willingness to pay a premium. The coefficient of 0.814 implies that a one-unit increase in ROE is associated with an approximately 0.814-unit increase in log

stock price, underscoring the primacy of profitability in investment decision-making within the LQ45 universe. From a valuation perspective, high ROE is typically associated with higher price-to-book ratios, consistent with [7]

These findings have important practical implications. Company management should prioritize profitability-enhancing strategies such as operational efficiency improvements and optimization of equity utilization. For investors, ROE remains one of the most reliable fundamental indicators for LQ45 stocks. For regulators, mandatory disclosure of profitability metrics plays a critical role in the efficiency of price formation in the Indonesian capital market.

4 Conclusion

This study concludes that one of the most important factors in increasing stock prices in LQ45 companies listed on the Indonesia Stock Exchange is profitability, as measured by Return on Equity (ROE). The results of the study indicate that profitability (ROE) has a significant effect on stock prices, so that the higher the company's ability to generate profits on equity, the greater the attractiveness of the company's shares in the eyes of investors. The results of this study are in line with [1,10,13,14]. Conversely, liquidity as measured by the Current Ratio (CR) does not have a significant effect on stock prices, these results support previous research conducted [3,15-17]. This indicates that investors consider the profitability aspect more than liquidity in making investment decisions in LQ45 companies. Therefore, this study recommends that companies focus more on efforts to increase profitability, such as operational efficiency and optimization of equity use, in order to increase company value and attract investor interest.

Disclosure of Interests. The authors have no competing interests to declare that are relevant to the content of this article.

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