Jurnal Ekonomi dan Bisnis, Vol. 14 No. 1 Maret 2025
P - ISSN : 2503-4413
E - ISSN : 2654-5837, Hal 165 – 175

The Influence Of Profitability, Liquidity, And Solvency On The Share Prices Of Kompas 100: Evidence From Non-Financial Companies

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ARTICLE INFO

Article history :

Received:
08 November 2024
Revised:
20 January 2025
Accepted:
26 february 2025

ABSTRACT

This study examines and analyzes the impact of profitability, liquidity, and solvency on the share price. Non-financial companies, becoming the KOMPAS 100 index constituents between 2019 and 2022, perform as the population. Furthermore, this study uses purposive sampling to take them as the samples. Mentioning the criteria, 58 associated firms are obtainable. Hence, 232 observations exist. After that, this study analyzes the data based on multiple linear regression and its classical assumption tests. After removing outliers, the total observations become 188. Based on the statistical analysis of 188 observations, this study reveals that the stock price is positively influenced by profitability and solvency but negatively affected by liquidity.

Keywords: Liquidity; Profitability; Solvency; Stock Price

INTRODUCTION

The capital market supports economic growth (Ndudi et al., 2020). This situation happens because the primary market becomes a place for the companies needing funds and public investors with the funds meet (Sunariyah, 2011). Furthermore, the funds are invested in labor-intensive projects that can reduce unemployment (Akujinma & Kenechukwu, 2023).

After being traded in the primary market, the stocks are transacted in the secondary market (Sunariyah, 2011). In this market, their price is determined by the power of supply and demand among investors (Hartono, 2017). For them, the increase in stock price is the expected condition because capital gain leads to prosperity (Hanafi, 2016).

When analyzing the stock price, investors can perform it technically and fundamentally (Jensen & Jones, 2019). According to Jensen and Jones (2019), the technical analysis uses chart patterns of the historical price to predict its future movements, such as support and resistance, head and shoulder, double tops and bottoms, triangle, wedge, and flag. By mentioning Schwab (2023), they can choose the technical indicators, like a stochastic oscillator, moving average, on-balance volume, and relative strength index.

Fundamentally, public investors can use financial ratios to predict the market price (Zarefar & Armadani, 2024). Additionally, these ratios employed by scholars for their investigation are profitability (Akartwipart & Cheewakiatyingyong, 2022; Al Umar et al., 2020; Bayrakdaroglu et al., 2017; Budiharjo & Rujito, 2023; Dadrasmoghadam & Akbari, 2015; Kosim & Safira, 2020; Muaz et al., 2020; Wijaya & Sedana, 2020; Wulandari & Nurhadi, 2023; Zarefar & Armadani, 2024), liquidity (Budiharjo & Rujito, 2023; Dadrasmoghadam & Akbari, 2015; Kosim & Safira, 2020; Wijaya & Sedana, 2020; Wulandari & Nurhadi, 2023; Zarefar & Armadani, 2024), and debt policy (Akartwipart & Cheewakiatyingyong, 2022; Al Umar et al., 2020; Dadrasmoghadam & Akbari, 2015; Dawar, 2013; Kosim & Safira, 2020; Zarefar & Armadani, 2024).

In their study, they use some profitability proxies, such as return on assets (Al Umar et al., 2020; Budiharjo & Rujito, 2023; Dadrasmoghadam & Akbari, 2015; Muaz et al., 2020; Wijaya & Sedana, 2020; Zarefar & Armadani, 2024), return on equity (Al Umar et al., 2020; Bayrakdaroglu et al., 2017; Dadrasmoghadam & Akbari, 2015), net profit margin (Al Umar et al., 2020; Bayrakdaroglu et al., 2017), gross profit margin

(Bayrakdaroglu et al., 2017), operating profit margin (Bayrakdaroglu et al., 2017), and earnings per share (EPS) (Akartwipart & Cheewakiatyingyong, 2022; Al Umar et al., 2020; Kosim & Safira, 2020; Muaz et al., 2020).

Besides, they utilize liquidity with some proxies, such as quick ratio (Wijaya & Sedana, 2020), cash ratio (Zarefar & Armadani, 2024), and current ratio (Budiharjo & Rujito, 2023; Dadrasmoghadam & Akbari, 2015; Kosim & Safira, 2020; Wulandari & Nurhadi, 2023).

Also, they use solvency with some measurements, like the debt-to-total asset ratio (Al Umar et al., 2020; Dadrasmoghadam & Akbari, 2015; Kosim & Safira, 2020), debt-to-equity ratio (Akartwipart & Cheewakiatyingyong, 2022; Zarefar & Armadani, 2024), and total debt (Dawar, 2013).

Based on the earlier studies, this research attempts to prove the influence of profitability, liquidity, and solvency on the share price in one model by employing the Kompas 100 Index constituents as the object. According to Hartono (2017), this index was established on August 10, 2017, under cooperation between the daily newspaper of Kompas and the Jakarta Stock Exchange, containing 100 stocks with respectable liquidity, high market capitalization, strong fundamentals, and upright company performance.

THEORETICAL FRAMEWORK AND EMPIRICAL STUDIES

1) Stakeholder theory

Stakeholder theory declares that every party has identical rights in obtaining information about company activities for making decisions. Investors expect the companies listed on the capital market to thoroughly inform investors about their activities (Deegan, 2019).

2) Stock price

When shares are transacted in the secondary capital market, the prices are recognized as opening, closing, highest, and lowest (Tantianty & Uzliawati, 2022):

a. The opening is the stock price when stock trading starts.
b. The closing is the stock price when stock trading ends.
c. The highest is the maximum stock price during one trading day
d. The lowest is the minimum stock price during one trading day.

3) The relationship between profitability and stock price

Profitability demonstrates the ability of the company to yield profits (Hanafi, 2016). Akartwipart and Cheewakiatyingyong (2022) confirm a positive effect of profitability, measured by EPS, on share price change. Al Umar et al. (2020) confirm their positive tendency toward share price by utilizing ROE and EPS to quantify profitability.

Also, this positive propensity is proven by Bayrakdaroglu et al. (2017) after utilizing NPM. Muaz et al. (2020) found a positive relationship between EPS and stock price based on the data from 2004 to 2007. From 2011 to 2014, the positive influence of EPS and ROA on share price exists. Similarly, Wijaya and Sedana (2020), Budiharto and Rujito (2023), and Zarefar and Armadani (2024) affirm the positive influence of ROA on the share price.

After using EPS, Kosim and Safira (2020) locate a positive association between profitability and stock price. Moreover, Wulandari and Nurhadi (2023) affirm the same positive tendency when utilizing ROE. Based on these results, the first hypothesis is as follows.

H1: Profitability positively affects the share price.

4) The relationship between liquidity and share price

According to the trade-off theory of working capital management, the portion of current assets increases when the firm is liquid. This situation will decrease the portion of fixed assets, cutting profits (Gitman & Zutter, 2015). The lower the profits, the lower the stock price (Akartwipart & Cheewakiatyingyong, 2022; Al Umar et al., 2020; Bayrakdaroglu et al., 2017; Muaz et al., 2020; Wijaya & Sedana, 2020). In their research, Budiharjo and Rujito (2023), Wulandari and Nurhadi (2023), as well as Zarefar and Armadani (2024) confirm the trade-off theory of working capital management by declaring a negative relationship between liquidity and stock price. Based on these results, the second hypothesis is as follows.

H_2: Liquidity negatively affects the share price.

5) The relationship between solvency and stock price

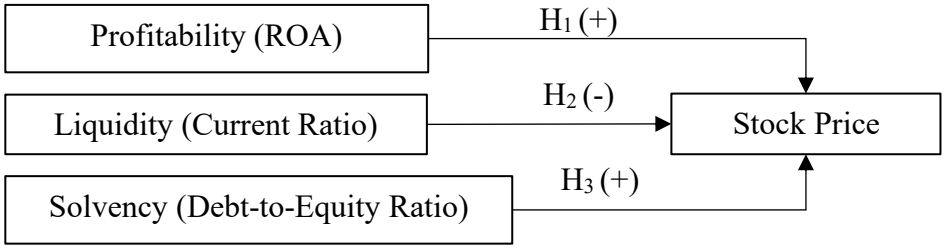
Solvency is an indicator that assesses the portion of debt utilized to finance assets (Kosim & Safira, 2020). The static trade-off theory explains that debt utilization can save taxes paid to the government. If this situation exists, the market will positively respond; therefore, the stock price will increase, too (Brealey et al., 2020). In their study, Kosim and Safira (2020) and Zarefar and Armadani (2024) confirm this static trade-off theory by

declaring a negative association between solvability and stock price. Based on this information, the third hypothesis is as follows.

H_3: Solvency positively affects the share price.

6) Research Models

The research model is available in Figure 1 based on the formulated hypotheses in previous sub-sections.



RESEARCH METHODS

This research applies a quantitative approach. Sugiyono (2022) states that this approach is based on positivism, involving theory confirmation. Furthermore, to support this situation, the causal explanatory is employed to explain cause and effect. Additionally, this study uses archival data. According to Hartono (2014), these data are based on secondary sources. In this context, they come from (1) annual financial reports between 2019 and 2022 from the official company website and (2) the previously published manuscripts in international and national journals.

As the dependent variable, this study uses stock prices at the end of the year. Moreover, this study utilizes the return on assets (ROA), current ratio (CR), and debt-to-equity ratio (DER) at the end of the year to quantify profitability, liquidity, and solvency, respectively.

The population comes from non-financial companies of the Kompas 100 index from 2019 to 2022. Furthermore, this study uses purposive sampling by setting some criteria to get the samples, as Hartono (2014) explains. The criteria intended are as follows: (1) the firms must exist consistently in this period, (2) the firm must publish a financial report based on the Indonesian Rupiah, and (3) their financial reports must be available. Based on them, this study obtained 58 companies.

Additionally, to validate the hypothesis, the collected data are analyzed using multiple linear regression based on ordinary least squares as the estimation method. Before that, the classical assumptions must be examined to ensure the best linear and unbiased parameters. Ideally, the regression model must have residual normality, homoskedasticity of variance, non-multicollinearity, and non-autocorrelation (Ghozali, 2021).

RESULTS AND DISCUSSIONS

1) Result

This study employs 58 non-financial companies for four years. Therefore, 232 observations occur, and the descriptive statistics of each variable, consisting of the lowest, highest, mean, and standard deviation, are in Table 1. Based on Table 1, ROA has a mean of 7.7417 with a standard deviation of 7.95447, the smallest and largest values of 0.5830 and 32.5427. Meanwhile, CR has a mean of 2.3219 with a standard deviation of 1.85424, the smallest and largest values of 0.3753 and 9.2437. For DER, it has a mean of 1.3254 with a standard deviation of 1.41888, the smallest and largest values of 0.1512 and 6.3422. Furthermore, the stock price (SP) has a mean of 3392.47, with 6,197.72 as the standard deviation. Its smallest and largest values are 168.00 and 35,625.00.

Table 1

Descriptive Statistics

Variable	ROA	CR	DER	SP
Min	0.5830	0.3753	0.1512	168.00
Max	32.5427	9.2437	6.3422	35,625.00
Mean	7.7417	2.3219	1.3254	3392.47
SD	7.95477	1.85424	1.41888	6,197.72

The result of the first classical assumption test presented is normality. Based on the first-step normality detection of Kolmogorov-Smirnov, the residuals are abnormal. This issue is due to outliers. After removing them, this study retested normality, and the result shows the residuals follow normality distribution because of asymptotic significance (2-tailed) above the 5% level: 0.056 (see Table 2).

Table 2

Normality Testing Result based on Kolmogorov-Smirnov

Description		Unstandardized Residual
N		188
Normal Parameters	Mean	0E-7
	Standard Deviation	937.1437278
Kolmogorov-Smirnov Z		0.064
Asymptotic Significance		0.056

Table 3 presents the multicollinearity test by variance inflation factor (VIF). In this table, the VIF for ROA, CR, and DER is 1.103, 1.140, 1.356, and 1.306. Because these values are lower than ten, as the cut-off point required by Ghozali (2021), the multicollinearity does not exist.

Table 3

VIF for ROA, CR, and DER

Independent Variable	VIF
ROA	1.103
CR	1.356
DER	1.306

Table 4 describes the Glesjer heteroskedasticity test result with the probability of t-statistic of ROA, CR, and DER of 0.081, 0.201, and 0.614. Because these values are higher than a 5% significance level, ROA, CR, and DER do not affect the absolute residuals; hence, heteroskedasticity does not appear.

Table 4

Glesjer Heteroskedasticity Test Result: ABS =f (ROA, CR, DER)

Independent Variable	t-statistic	Sig.
ROA	1.756	0.081
CR	-1.28	0.201
DER	0.505	0.614

Table 5 depicts the Durbin-Watson (DW) autocorrelation test result of 1.98. Because this value is between dU of 1.810 and 4-dU of 2.190, as Ghozali (2021) requires, autocorrelation does not happen. Besides the autocorrelation detection output, Table 5 presents the result of the regression model estimation with an R-square of 0.402 and an Adjusted R-square of 0.389. Also, the probability of t-statistic for ROA, CR, and DER is 0.000, 0.000, and 0.037. The first, second, and third hypotheses are acceptable because

these values are lower than a 5% significance level, and the related coefficients align with the hypothesis signs.

Table 5. The estimation result of the regression model: The influence of ROA, CR, and DER on stock price

Independent Variable	Coefficient	t-statistic	Sig.
C	1033.232	5.393	0.000
ROA	88.686	9.945	0.000
CR	-154.774	-3.839	0.000
DER	112.77	2.100	0.037
DW-statistic		1.980	
R-square		0.402	
Adjusted R-square		0.389	

2) Discussion

This study accepts the first hypothesis, which states that profitability positively affects the share price. It indicates that profitability is attractive for investors buying the stocks. By having this positive tendency, this study aligns with Bayrakdaroglu et al. (2017), Al Umar et al. (2020), Kosim and Safira (2020), Muaz et al. (2020), Wijaya and Sedana (2020), Budiharto and Rujito (2023), Zarefar and Armadani (2024), and Wulandari and Nurhadi (2023).

This study accepts the second hypothesis, which states that liquidity negatively affects the share price. It confirms the trade-off theory of working capital management and several scholars, such as Budiharjo and Rujito (2023), Wulandari and Nurhadi (2023), as well as Zarefar and Armadani (2024).

This study accepts the third hypothesis, which states that solvency positively affects the share price. It confirms the trade-off theory of capital structure, explaining the tax benefits of utilizing debt or issuing bonds. Also, this evidence aligns with Kosim and Safira (2020) and Zarefar and Armadani (2024), demonstrating the positive tendency of debt toward stock price.

CONCLUSION, SUGGESTION, AND LIMITATION

This study aims to prove and analyze the impact of profitability, liquidity, and solvency on the stock price of Kompas 100 index non-financial constituents from 2019 to 2022. Based on the statistical analysis, this study concludes that profitability and solvency positively affect the stock price, but liquidity negatively influences this price. As a practical implication, investors should pay attention to the movement of return on assets

(ROA), debt-to-equity ratio (DER), and current ratio (CR) for capital gain from stock transactions of the KOMPAS 100 index in the capital market. The positive return will be obtainable if ROA and DR increase and CR reduce. As the theoretical limitations, this study only employs three determinants of stock price: profitability, liquidity, and solvency. Based on this condition, the succeeding scholar can add other factors, such as dividend policy, activity ratio, market size, inflation, and economic growth, to their research model. Additionally, this study only covers four years, which becomes another limitation. Based on this circumstance, the subsequent scholars can add a more extended period, for example, five or ten years, to capture a better result.

ACKNOWLEDGMENT

The authors thank Maranatha Christian University for funding this manuscript publication fee.

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