THE EFFECT OF LIQUIDITY, LEVERAGE, AND PROFITABILITY ON STOCK RETURN OF PRODUCTION GOODS TRADE COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

[1*]Tasya Ramian Siagian, [2]Robinhot Gultom, [3]Winarto, [4]Mitha Christina Ginting

[1,2,3,4]Faculty of Economics, Methodist University of Indonesia, Medan
*e-mail: asyasiagian14@gmail.com

Abstract: This study investigates the partial and simultaneous effects of Liquidity (Current Ratio/CR), Leverage (Debt to Asset Ratio/DAR), and Profitability (Return on Assets/ROA) on Stock Return within the Large-Scale Production Goods Trade Subsector listed on the Indonesia Stock Exchange (IDX) for the 2022–2024 period. A quantitative causal research design employing multiple linear regression analysis via IBM SPSS Statistics version 26 was adopted. Purposive sampling yielded a final sample of 22 companies comprising 60 valid firm-year observations after outlier removal. Partial hypothesis testing reveals that Liquidity (CR) exerts a negative and insignificant effect on Stock Return; Leverage (DAR) exerts a negative and statistically significant effect; and Profitability (ROA) exerts a positive and statistically significant effect. Simultaneously, all three independent variables significantly influence Stock Return, with an Adjusted R^2 of 14.7%, indicating that 85.3% of return variation is attributable to factors outside the present model.
Keywords: Liquidity, Leverage, Profitability, Stock Return, Production Goods Trade.

Abstrak: Penelitian ini menganalisis pengaruh parsial dan simultan Likuiditas (Current Ratio/CR), Leverage (Debt to Asset Ratio/DAR), dan Profitabilitas (Return on Assets/ROA) terhadap Return Saham pada Subsektor Perdagangan Besar Barang Produksi yang terdaftar di Bursa Efek Indonesia periode 2022–2024. Pendekatan kuantitatif kausalitas dengan analisis regresi linear berganda melalui SPSS 26 digunakan. Teknik purposive sampling menghasilkan 22 perusahaan dengan 60 observasi valid setelah penghapusan outlier. Hasil parsial menunjukkan bahwa Likuiditas (CR) berpengaruh negatif dan tidak signifikan; Leverage (DAR) berpengaruh negatif dan signifikan; serta Profitabilitas (ROA) berpengaruh positif dan signifikan terhadap return saham. Secara simultan, ketiga variabel berpengaruh signifikan terhadap return saham dengan Adjusted R^2 sebesar 14,7%.
Kata Kunci: Likuiditas, Leverage, Profitabilitas, Return Saham, Perdagangan Besar Produksi.

INTRODUCTION

The Large-Scale Production Goods Trade Subsector occupies a strategically pivotal position within Indonesia's national economy. As an intermediary layer connecting upstream manufacturers with downstream industrial consumers, wholesale distributors of production goods facilitate the continuous circulation of raw materials, capital equipment, chemicals, energy commodities, and agricultural inputs across the archipelago. Their operational scale and financial exposure make them highly sensitive to fluctuations in both macroeconomic conditions and investor sentiment, rendering the analysis of their capital market performance particularly stock return a topic of significant academic and practical relevance.

Stock return is the paramount criterion through which equity investors evaluate the outcomes of their capital allocation decisions. It encompasses the proportional change in share price over a defined holding period referred to as capital gain and may also include periodic dividend receipts. According to Tandelilin (2022), return serves simultaneously as a reward for the risk assumed by the investor and as a signal of the underlying firm's financial health and growth trajectory. In the context of the Indonesia Stock Exchange (IDX), where retail and institutional investors increasingly rely on quantitative financial

metrics to guide portfolio construction, understanding the determinants of stock return in specific subsectors is essential for informed decision-making.

Among the financial variables most frequently investigated as drivers of stock return, liquidity, leverage, and profitability occupy a central position in both theoretical frameworks and empirical literature. Liquidity proxied by the Current Ratio (CR) measures the extent to which a firm can honor its near-term financial obligations using readily available current assets. Adequate liquidity is theoretically associated with reduced financial distress risk, which should enhance investor confidence and support positive stock returns. However, the empirical evidence is mixed: whereas Dewi and Suaryana (2023) report a significant positive effect of CR on stock return in Indonesian transportation companies, Nurjaya et al. (2021) and Hardiani et al. (2021) document insignificant effects in other sectoral contexts, suggesting that the relationship is sensitive to industry characteristics and macroeconomic conditions.

Leverage, measured by the Debt to Asset Ratio (DAR), captures the proportion of a firm's asset base that is financed through external debt. From the perspective of risk pricing theory, higher leverage amplifies both expected returns and default risk; when debt levels exceed prudent thresholds, the probability of financial distress increases, eroding investor confidence and depressing share prices. Yusra and Afriani (2021) document a significant negative leverage–return relationship in a broad sample of IDX-listed firms, a finding corroborated by Bagana and Novitasari (2023) for manufacturing companies in the consumer goods sector. In contrast, Widaryanti (2022) reports a positive leverage effect moderated by exchange rate movements, while Ananta and Mawardi (2020) find no significant relationship, confirming the context-dependence of this variable's impact.

Profitability, measured by Return on Assets (ROA), reflects managerial efficiency in converting the firm's total asset base into net earnings. A rising ROA signals to the market that management is deploying capital productively, increasing investor demand for the firm's shares and thereby driving price appreciation. This positive signal mechanism is well-established in the literature: Yusra and Afriani (2021), Nurjaya et al. (2021), and Novita (2023) all confirm a significant positive profitability–return relationship in Indonesian market studies, while Musah et al. (2022) extend this finding to sub-Saharan African manufacturing firms, suggesting cross-market generalizability.

The observation window of 2022–2024 is particularly analytically rich for this subsector. This period spans Indonesia's post-COVID-19 economic recovery, during which production goods trading companies navigated a confluence of challenges: renewed industrial demand, persistently elevated global commodity prices, supply chain restructuring, and tightening monetary policy. Aggregate data from the IDX reveal that the subsector experienced a significant decline in average profitability (ROA fell from 10.07% in 2022 to 7.30% in 2024), a marked improvement in leverage structure (DAR declined from 0.82 to 0.54), and considerable stock return volatility (ranging from 0.31 in 2022 to −0.06 in 2023, recovering to 0.03 in 2024). These dynamics create an analytically compelling environment that motivates the present investigation.

The persistence of inconclusive findings across time periods, samples, and sectors—commonly referred to in the literature as the research gap justifies a focused examination of these three financial variables within the specific context of Indonesian production goods traders during 2022–2024. This study addresses the gap by testing four hypotheses concerning the partial and simultaneous effects of Liquidity (CR), Leverage (DAR), and Profitability (ROA) on the stock return of IDX-listed production goods trade companies, thereby contributing sector-specific empirical evidence to the existing literature.

Research Objectives

1. To analyze the partial effect of Liquidity (Current Ratio) on the Stock Return of production goods trade companies listed on the IDX for the 2022–2024 period.
2. To analyze the partial effect of Leverage (Debt to Asset Ratio) on Stock Return.
3. To analyze the partial effect of Profitability (Return on Assets) on Stock Return.
4. To analyze the simultaneous effect of Liquidity, Leverage, and Profitability on Stock Return.

THEORETICAL FRAMEWORK

Signaling Theory

Signaling Theory, originally developed by Spence (1973) in the context of labor market economics, was subsequently extended to the domain of corporate finance by Ross (1977). The theory holds that information asymmetry between corporate insiders managers who possess superior knowledge of the firm's true financial condition and external stakeholders such as investors and creditors creates a demand for observable, credible signals. Firms that voluntarily disclose or exhibit positive financial signals can reduce their cost of capital and attract greater investor interest, while firms emitting negative signals face share price discounts reflecting perceived risk.

In the context of equity markets, key financial ratios function as readily observable signals. A high Current Ratio signals operational soundness and the firm's capacity to meet obligations without resorting to emergency financing. A low Debt to Asset Ratio signals prudent financial management and a conservative capital structure, reducing perceived bankruptcy risk. A high Return on Assets signals operational efficiency and the management team's ability to generate earnings from available resources. Boateng et al. (2022) confirm that signaling mechanisms are especially potent in emerging capital markets like Indonesia, where information disclosure quality varies and investors rely heavily on published financial data to estimate firm value.

The Signaling Theory thus provides the unified theoretical foundation for the hypothesized relationships in this study: superior financial signals high liquidity, low leverage, and high profitability are expected to increase investor demand for a firm's shares, driving up market prices and enhancing stock returns.

Stock Return

Stock return represents the total investment outcome realized over a defined holding period and encompasses two components: capital gain or loss from share price movements, and dividend yield received during the period. It constitutes the primary metric through which investors assess the profitability of equity investments and evaluate corporate performance relative to market benchmarks (Jogiyanto, 2020). For wholesale production goods companies which are characterized by high asset turnover and substantial working capital requirements stock return is particularly sensitive to short-term shifts in financial condition, including liquidity positions and debt servicing capacity. The formula applied in this study is: Stock Return = $(P_t - P_{t-1}) / P_{t-1}$, where P_t denotes the closing price at the end of period t and P_{t-1} the closing price at the end of the prior period.

Liquidity and Stock Return

Liquidity refers to a firm's ability to satisfy its short-term financial commitments as they come due, without disrupting ongoing operational activities. The Current Ratio (CR), defined as Current Assets divided by Current Liabilities, is the most widely applied measure of short-term solvency in the financial analysis literature. A CR above 1.0 indicates that the firm possesses sufficient current assets to cover all immediate liabilities, while a CR significantly above 2.0 may suggest asset accumulation beyond operational requirements (Kasmir, 2023).

From a theoretical standpoint, firms with healthy liquidity positions are better positioned to capitalize on market opportunities, negotiate favorable terms with suppliers, and avoid the reputational and financial costs of default on short-term obligations. Yazdanfar and Öhman (2020) demonstrate that liquidity is positively associated with firm survival and performance in Swedish SME contexts, findings that resonate with the Indonesian trading sector's dependence on smooth receivables and inventory cycles. Al-Homaidi et al. (2020) further show that liquidity management quality is a significant determinant of overall financial stability in listed firms across emerging markets.

However, the relationship between liquidity and stock return is complicated by the opportunity cost of holding excess liquid assets. Investors rationally prefer that firms deploy capital in high-return projects rather than maintaining excessive cash buffers or slow-moving receivables. When CR is inflated by operational inefficiencies such as uncollected trade receivables or stagnant inventories, the signal interpreted by the market may be negative rather than positive. This ambiguity explains the mixed empirical findings documented in the literature. The Current Ratio is selected as the primary liquidity proxy: **CR = (Current Assets / Current Liabilities) × 100%.**

Leverage and Stock Return

Leverage captures the extent to which a company relies on debt to finance its asset base. The Debt to Asset Ratio (DAR), calculated as Total Liabilities divided by Total Assets, quantifies the share of assets funded through borrowed capital. While some degree of financial leverage is beneficial enabling firms to amplify returns and exploit interest tax shields excessive debt creates fixed financial obligations that constrain operational flexibility and elevate default risk (Brigham & Houston, 2021).

The Trade-Off Theory of capital structure posits that firms optimize their debt levels by balancing the tax benefits of debt against the costs of financial distress. For production goods trading companies, which maintain large inventory positions and extended trade credit to customers, access to debt financing is operationally essential; however, over-reliance on debt amplifies cash flow volatility and may trigger covenant breaches or credit rating downgrades. Nguyen and Nguyen (2020) establish that capital structure significantly influences firm value and investor returns in Vietnamese listed companies—a market context broadly comparable to Indonesia's confirming that leverage management is a first-order concern for equity investors.

From an investor perspective, a rising DAR signals heightened financial risk and greater sensitivity to interest rate movements. As the cost of servicing debt obligations increases relative to operating income, the probability of earnings shortfalls grows, reducing both the dividend-paying capacity of the firm and the attractiveness of its equity. This risk premium effect depresses share prices, yielding a negative relationship between DAR and stock return. The consistency of this negative finding across Yusra and Afriani (2021) and Bagana and Novitasari (2023) supports the inclusion of this hypothesis. Formula: **DAR = (Total Liabilities / Total Assets) × 100%.**

Profitability and Stock Return

Profitability is perhaps the most universally recognized driver of equity value creation. Return on Assets (ROA), computed as Net Income divided by Total Assets and expressed as a percentage, encapsulates the efficiency with which management converts the firm's entire asset base into after-tax earnings. A rising ROA indicates that management is deploying resources optimally minimizing waste, controlling costs, and maximizing revenue per unit of capital employed a signal that reliably attracts investor attention.

The relationship between profitability and stock return is grounded in the dividend discount model and earnings-based valuation frameworks: firms with higher sustainable earnings are valued more highly by the market, resulting in higher share prices and consequently greater capital gains for existing shareholders. Musah et al. (2022) provide robust panel evidence from sub-Saharan African manufacturers showing that profitability improvements directly translate into higher stock returns, while Buvanendra et al. (2022) establish similar findings across multiple emerging market economies in Asia-Pacific. These findings suggest the robustness of the profitability–return nexus across diverse market contexts.

Within Indonesia's trading sector, companies with higher ROA demonstrate superior capability in managing inventory turnover, optimizing procurement costs, and extracting margin from distribution networks all competencies that market participants reward with premium valuations. The consistent positive findings in Indonesian studies (Yusra & Afriani, 2021; Nurjaya et al., 2021; Novita, 2023) further justify the directional hypothesis. Formula: **ROA = (Net Income / Total Assets) × 100%.**

Hypotheses

Based on the theoretical framework and prior empirical evidence, the following hypotheses are proposed:

H_1: Liquidity (CR) exerts a positive and significant partial effect on stock return of wholesale production goods companies listed on the IDX for the 2022–2024 period.

H_2: Leverage (DAR) exerts a negative and significant partial effect on stock return of wholesale production goods companies listed on the IDX for the 2022–2024 period.

H_3: Profitability (ROA) exerts a positive and significant partial effect on stock return of wholesale production goods companies listed on the IDX for the 2022–2024 period.

H_4: Liquidity, leverage, and profitability simultaneously exert a significant effect on stock return of wholesale production goods companies listed on the IDX for the 2022–2024 period.

RESEARCH METHODOLOGY

Research Design and Data Collection

This study adopts a quantitative causal research design, which is appropriate when the objective is to test directional hypotheses regarding the influence of independent variables on a dependent variable using numerical data subject to statistical inference (Sugiyono, 2020). The data are sourced from audited annual financial reports and historical stock price records, both of which are publicly available through the IDX official website (www.idx.co.id) and the Yahoo Finance database. The observation period spans fiscal years 2022, 2023, and 2024, providing a three-year longitudinal panel of cross-sectional company data.

Population and Sampling

The study population consists of all companies classified under the Large-Scale Production Goods Trade Subsector on the IDX as of December 31, 2024, totaling 52 listed entities. A purposive (judgment) sampling technique was applied to select the final sample based on the following criteria: (1) the company has been continuously listed on the IDX for the entire 2022–2024 observation period without suspension or delisting; (2) the company has published complete, audited consolidated financial statements for all three observation years; (3) the company is not classified as a financial holding company or investment vehicle; and (4) the company does not exhibit extreme data anomalies (outliers) that would violate classical regression assumptions.

Application of these criteria yielded an initial sample of 22 companies representing 66 firm-year observations. Following the identification and removal of six outlier observations detected via the Casewise Diagnostics procedure in SPSS 26 (standardized residuals exceeding ±2.5), the final analytical sample comprised 60 valid firm-year observations. The retained 22 companies represent a broad cross-section of the subsector, encompassing distributors of chemicals, agricultural commodities, heavy equipment, pharmaceutical inputs, and industrial materials.

Variable Measurement

Table 1. Operational Definition of Variables

Variable	Proxy	Formula	References
Stock Return (Y)	Capital Gain Return	$(P_t - P_{t-1}) / P_{t-1}$	Tandelilin (2022); Saragih & Wahyudi (2024)
Liquidity (X_1)	Current Ratio (CR)	Current Assets / Current Liabilities	Kasmir (2023); Yazdanfar & Öhman (2020)
Leverage (X_2)	Debt to Asset Ratio (DAR)	Total Liabilities / Total Assets	Nguyen & Nguyen (2020); Brigham & Houston (2021)
Profitability (X_3)	Return on Assets (ROA)	Net Income / Total Assets × 100%	Musah et al. (2022); Buvanendra et al. (2022)

Source: Compiled by the authors from the literature (2026)

Data Analysis Technique

Data analysis was conducted in five sequential stages. First, descriptive statistics were computed to characterize the central tendency, dispersion, and range of each variable. Second, a series of classical assumption tests was performed to verify the validity of the regression model: (a) the one-sample Kolmogorov–Smirnov test for normality of residuals; (b) the Variance Inflation Factor (VIF) test for multicollinearity, where VIF > 10 would indicate a problem; (c) the Glejser test for heteroscedasticity, where significant predictors of absolute residuals would indicate a violation; and (d) the Durbin–Watson statistic for autocorrelation, with values in the 1.5–2.5 range considered acceptable (Ghozali, 2021).

Third, the multiple linear regression model was estimated: $Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$, where Y = Stock Return, X_1 = Current Ratio, X_2 = Debt to Asset Ratio, X_3 = Return on Assets, α = constant, β_i = partial regression coefficients, and ε = stochastic error term. Fourth, partial hypothesis testing (t-test) was conducted at the 5% significance level ($\alpha = 0.05$), with the decision rule: reject H_0 if |t-value| > t-table (2.003 for df = 56) or if Sig. < 0.05. Fifth, simultaneous hypothesis testing (F-test) was performed, with Adjusted R^2 reported as the goodness-of-fit measure.

RESULTS AND DISCUSSION

Business Phenomenon

Prior to presenting statistical results, it is instructive to examine the aggregate financial trends of the sample companies over the 2022–2024 observation period. Table 2 summarizes the annual mean values of each variable.

Table 2. Mean Financial Variables of Sample Companies, 2022–2024

Year	Liquidity (CR)	Leverage (DAR)	Profitability (ROA %)	Stock Return
2022	2.29	0.82	10.07	0.31
2023	2.35	0.54	8.11	-0.06
2024	2.25	0.54	7.30	0.03

Source: Secondary data processed by the authors (2026)

Several notable trends emerge from Table 2. Liquidity (CR) remained relatively stable across the three years, oscillating between 2.25 and 2.35 well above the minimum threshold of 1.0, suggesting the subsector as a whole maintained adequate short-term solvency. Leverage (DAR) underwent a dramatic structural improvement: a decline from 0.82 in 2022 to 0.54 by 2023, stabilizing at that level through 2024. This deleveraging trend likely reflects both debt repayments following the pandemic-era credit expansion and a deliberate shift toward equity financing as companies rebuilt balance sheet strength. Profitability (ROA), however, exhibited a persistent declining trend from 10.07% to 8.11% to 7.30% suggesting that rising operational costs, intensifying competition, and margin compression in distribution channels gradually eroded asset efficiency across the subsector. Stock Return experienced pronounced volatility: a strong positive return of 0.31 in 2022 (reflecting post-pandemic market optimism), a sharp reversal to −0.06 in 2023 (as profitability deterioration became apparent to investors), and a partial recovery to 0.03 in 2024. These dynamics collectively underscore the relevance of examining how each financial ratio dimension solvency, capital structure, and earnings efficiency shapes investor return outcomes.

Descriptive Statistics

Table 3 presents the descriptive statistics for all research variables following outlier removal, based on n = 60 valid firm-year observations.

Table 3. Descriptive Statistics (n = 60)

Variable	N	Minimum	Maximum	Mean	Std. Dev.
Liquidity (CR)	60	0.1536	11.4043	2.2983	2.2915
Leverage (DAR)	60	0.0836	6.9971	0.6346	0.9337
Profitability (ROA %)	60	0.3631	34.6500	8.4950	6.5566
Stock Return	60	-0.8800	2.1696	0.0921	0.5788

Source: Secondary data processed with IBM SPSS 26 (2026)

The descriptive statistics reveal substantial heterogeneity within the sample. Liquidity (CR) ranges from a minimum of 0.15 to a maximum of 11.40, with a mean of 2.30 and a standard deviation of 2.29 indicating that while the typical company maintains a comfortable liquidity buffer, some firms operate close to or below the solvency threshold while others hold large excess current asset positions. This wide dispersion reflects the diversity of business models within the subsector, from asset-light trading intermediaries to large integrated distributors managing extensive warehouse and credit operations.

Leverage (DAR) averages 0.63, implying that approximately 63% of total assets across the sample are financed through liabilities. The DAR ranges from 0.08 to 6.99, with a high standard deviation of 0.93, suggesting that a minority of companies carry extreme debt loads relative to their asset base a factor that will be important in interpreting the regression results. Profitability (ROA) averages 8.50%, with a substantial standard deviation of 6.56% and a maximum of 34.65%, reflecting that some companies achieve exceptional asset efficiency while others struggle to generate meaningful returns. Stock Return has a mean of 0.09, a minimum of −0.88, and a maximum of 2.17, consistent with the high return volatility characteristic of IDX small-to-mid-cap stocks during the post-pandemic normalization period.

Classical Assumption Test Results

Following outlier removal, the one-sample Kolmogorov–Smirnov test yielded a test statistic of 0.080 with an Asymp. Sig. (2-tailed) value of 0.200, which substantially exceeds the 0.05 threshold, confirming that the regression residuals are normally distributed. Multicollinearity assessment via VIF produced values of 1.021 (CR), 1.019 (DAR), and 1.009 (ROA) all well below the critical threshold of 10 indicating the absence of harmful multicollinearity among predictors. The Glejser heteroscedasticity test generated significance values of 0.312 (CR), 0.218 (DAR), and 0.543 (ROA), all exceeding 0.05, confirming that the residual variance is homoscedastic across all levels of the predictors. The Durbin–Watson statistic of 2.151 falls within the acceptable range of 1.5–2.5, ruling out first-order autocorrelation in the residuals. In sum, all classical regression assumptions are satisfied, validating the reliability of the subsequent regression estimates (Ghozali, 2021).

Multiple Linear Regression Results

Table 4 presents the estimated regression coefficients, standard errors, t-values, and significance levels.

Table 4. Multiple Linear Regression Coefficients

Variable	B	Std. Error	Beta (β)	t-value	Sig.
(Constant)	0.451	0.812	—	-0.556	0.580
Liquidity (CR) – X_1	-0.038	0.027	-0.149	-1.381	0.173
Leverage (DAR) – X_2	-0.189	0.058	-0.340	-3.250	0.002
Profitability (ROA) – X_3	0.022	0.009	0.255	2.525	0.014

Source: Secondary data processed with IBM SPSS 26 (2026)

Table 5. F-Test and Coefficient of Determination

Statistic	Value	F-table (df=3,56)	Significance
F-value (F-test)	4.391	3.162	0.008
R Square (R^2)	0.190	—	—
Adjusted R Square	0.147	—	—
Std. Error of the Estimate	0.2941	—	—
Durbin–Watson	2.151	—	—

Source: Secondary data processed with IBM SPSS 26 (2026)

Based on the regression output, the estimated model is: Stock Return = 0.451 − 0.038(CR) − 0.189(DAR) + 0.022(ROA). The constant (0.451) represents the baseline stock return when all independent variables equal zero. The negative coefficient for CR (−0.038) indicates that each unit increase in the current ratio is associated with a 0.038-unit decline in stock return, ceteris paribus. The negative coefficient for DAR (−0.189) reflects that each unit increase in the debt-to-asset ratio reduces stock return by 0.189 units, holding other variables constant. The positive coefficient for ROA (0.022) indicates that each one-percentage-point increase in profitability is associated with a 0.022-unit increase in stock return, ceteris paribus.

Hypothesis Testing and Discussion

Effect of Liquidity (CR) on Stock Return

The partial t-test for Liquidity (CR) yields a t-value of −1.381 (|t| = 1.381 < t-table = 2.003) and a significance value of 0.173, which exceeds the 0.05 critical threshold. Consequently, H_1 is rejected: Liquidity (CR) does not exert a statistically significant partial effect on Stock Return in this sample. The negative directional coefficient (β = −0.149) suggests that higher liquidity is weakly associated with lower returns, though this relationship lacks statistical power.

This result is consistent with the findings of Nurjaya et al. (2021) and Hardiani et al. (2021), both of whom document an insignificant CR–stock return relationship in Indonesian listed companies, and contrasts with Dewi and Suaryana (2023), who find a significant positive effect in the transportation and logistics sector. The absence of significance in the present sample is interpretable through several mechanisms. First, the production goods trading subsector is capital-intensive in terms of working capital management; high current ratios in this context may reflect slow receivables collection or excess inventory accumulation rather than genuine financial strength. Second, investors in this subsector may discount liquidity signals relative to profitability and leverage signals when pricing shares, given the

sector's dependence on credit-extended sales and large inventory cycles. Third, the high cross-sectional dispersion in CR values (SD = 2.29) may dilute the statistical signal of this variable at the aggregate sample level.

Al-Homaidi et al. (2020) observe a similar phenomenon in emerging market banking contexts, noting that the relationship between liquidity indicators and market performance depends critically on whether liquidity reflects genuine financial prudence or operational sluggishness. Yazdanfar and Öhman (2020) further caution that the liquidity–performance relationship is non-linear and context-dependent, reinforcing the conclusion that CR alone does not reliably predict stock return in the production goods trading sector during the 2022–2024 period.

Effect of Leverage (DAR) on Stock Return

The partial t-test for Leverage (DAR) yields a t-value of −3.250 (|t| = 3.250 > t-table = 2.003) with a significance value of 0.002, which is substantially below the 0.05 threshold. H_2 is therefore accepted: Leverage (DAR) exerts a statistically significant negative partial effect on Stock Return. With a standardized beta coefficient of −0.340, DAR is the strongest predictor in the model, confirming its central role in shaping investor perceptions of firm risk within this subsector.

This finding aligns with the theoretical prediction of risk amplification under high leverage conditions. As DAR increases, fixed interest obligations consume a greater proportion of operating cash flow, reducing the firm's earnings buffer against demand fluctuations or cost shocks. For investors, rising DAR signals a higher probability of financial distress and a more volatile earnings stream, prompting share price discounting and generating negative returns. Nguyen and Nguyen (2020) document an analogous mechanism in Vietnamese listed companies, while Yusra and Afriani (2021) confirm the same negative direction in a broad Indonesian sample spanning 2015–2019.

In the specific context of the production goods trading subsector, the negative leverage effect is particularly salient during the 2022–2024 period. Companies that entered the post-pandemic recovery period with high debt loads accumulated to finance inventory expansion during the COVID-19 supply chain disruption faced compounding pressures from rising Bank Indonesia interest rates (which increased debt servicing costs) and normalization of commodity prices (which compressed trading margins). The significant decline in average DAR from 0.82 to 0.54 over the observation period suggests that the market rewarded deleveraging efforts with improved stock returns, consistent with the hypothesis. Bagana and Novitasari (2023) corroborate this interpretation in their study of Indonesian consumer goods manufacturers, finding that systematic reduction in DAR is associated with statistically significant improvements in investor returns.

Effect of Profitability (ROA) on Stock Return

The partial t-test for Profitability (ROA) produces a t-value of 2.525 (t = 2.525 > t-table = 2.003) with a significance value of 0.014, confirming that H_3 is accepted. Profitability (ROA) exerts a statistically significant positive partial effect on Stock Return. The standardized beta coefficient of 0.255 ranks ROA as the second-strongest predictor in the model, trailing only DAR.

This finding is theoretically grounded in the earnings-based valuation framework: firms generating higher after-tax returns on their asset base are more highly valued by the market, translating into share price appreciation and positive investor returns. The Signaling Theory perspective reinforces this mechanism—rising ROA transmits a credible positive signal to market participants about the quality of management and the sustainability of the firm's competitive positioning, increasing demand for the firm's equity and elevating its market price.

The result is consistent with a substantial body of Indonesian market research. Yusra and Afriani (2021) document a significant positive ROA–return relationship across multiple IDX sectors; Nurjaya et al. (2021) confirm the same direction in real estate and property companies; and Novita (2023) finds equivalent results for manufacturing firms. Internationally, Musah et al. (2022) and Buvanendra et al. (2022) provide cross-national corroboration of the profitability–stock return nexus in emerging economies, suggesting that this relationship is robust to differences in market development, regulatory environments, and sector characteristics.

Within the production goods trading subsector, the declining ROA trend (10.07% → 7.30%) documented over the observation period is consistent with the associated deterioration in stock returns

(0.31 → −0.06 → 0.03). Companies that maintained or improved their ROA relative to sector peers—through superior inventory management, cost optimization, and customer relationship management—were rewarded with premium share prices, generating positive returns for their shareholders. This finding has important implications for corporate strategy: management teams should prioritize efficiency-enhancing initiatives that maintain ROA competitiveness even in low-margin distribution environments.

Simultaneous Effect of All Variables on Stock Return

The F-test yields F = 4.391 (F-table = 3.162; df = 3, 56) with a significance value of 0.008 < 0.05, confirming that H_4 is accepted: Liquidity (CR), Leverage (DAR), and Profitability (ROA) jointly exert a statistically significant simultaneous effect on Stock Return. The Adjusted R^2 of 0.147 indicates that the three-predictor model explains 14.7% of the total variance in stock return, with the remaining 85.3% attributable to variables outside the current model.

The joint significance of the three variables underscores the multi-dimensional nature of stock return determination. Each variable captures a distinct dimension of corporate financial health: CR reflects short-term solvency and the efficiency of working capital management; DAR captures capital structure risk and the extent of financial leverage; and ROA encapsulates the overall operational efficiency and earnings power of the firm. Viewed together, these three dimensions provide investors with a comprehensive financial profile of the company. Hardiani et al. (2021), Dewi and Suaryana (2023), and R. Lestari and Cahyono (2020) all document significant F-statistics in similar three-to-four-variable financial ratio models applied to Indonesian listed companies, affirming the general validity of multi-ratio models in capturing stock return determinants.

The relatively modest Adjusted R^2 of 14.7% is consistent with the established literature on stock return predictability in emerging markets, where fundamental financial ratios typically explain only a fraction of total return variance. The residual 85.3% reflects the influence of factors not captured in this model, including macroeconomic variables (inflation, interest rates, exchange rate), market sentiment and behavioral factors, sector-specific regulatory developments, global commodity price dynamics, and idiosyncratic firm events such as management changes, mergers and acquisitions, or product launches. Boateng et al. (2022) note that the high residual variance in emerging market return regressions is partly attributable to the institutional-level information asymmetry that characterizes these markets, creating price movements driven by sentiment and speculation rather than fundamentals alone.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study examined the partial and simultaneous effects of Liquidity (Current Ratio), Leverage (Debt to Asset Ratio), and Profitability (Return on Assets) on the Stock Return of 22 large-scale production goods trade companies listed on the IDX during the 2022–2024 period, based on 60 valid firm-year observations. Four principal conclusions are drawn.

First, Liquidity (CR) exerts a negative and statistically insignificant partial effect on Stock Return (H_1 rejected, t = −1.381, Sig. = 0.173 > 0.05). This finding suggests that current ratio levels do not meaningfully differentiate investor returns within this subsector during the observation period, likely because high CR values reflect working capital inefficiencies rather than genuine financial strength in the context of wholesale distribution businesses.

Second, Leverage (DAR) exerts a significant negative partial effect on Stock Return (H_2 accepted, t = −3.250, Sig. = 0.002 < 0.05). Higher debt-to-asset ratios intensify investor risk perceptions, depress share prices, and reduce stock returns a finding consistent with the majority of prior Indonesian and international studies on the leverage–return relationship.

Third, Profitability (ROA) exerts a significant positive partial effect on Stock Return (H_3 accepted, t = 2.525, Sig. = 0.014 < 0.05). Efficient asset utilization translates directly into investor wealth creation: companies generating higher returns on their asset base attract greater investor interest, driving share price appreciation and positive capital gains.

Fourth, the three variables jointly exert a statistically significant simultaneous effect on Stock Return (H_4 accepted, F = 4.391, Sig. = 0.008 < 0.05), with an Adjusted R^2 of 14.7%. This confirms that

Liquidity, Leverage, and Profitability together constitute a meaningful but partial explanatory framework for stock return in the production goods trading sector.

Recommendations

For investors and portfolio managers, the findings suggest that profitability (ROA) and leverage (DAR) are more reliable partial predictors of stock return than liquidity (CR) within the production goods trading subsector. Investment screening frameworks should assign greater weight to ROA trajectory and DAR level when evaluating companies in this sector; a company demonstrating sustained or improving ROA alongside a deleveraging trend represents a more favorable risk–return profile. Liquidity ratios, while important for credit risk assessment, should be interpreted in conjunction with receivables turnover and inventory management indicators rather than as standalone return predictors.

For corporate managers, maintaining DAR within conservative thresholds—ideally below 0.60 based on sector norms observed in this study is critical to sustaining investor confidence and supporting positive stock return trajectories. This may require prioritizing debt repayment and equity-based financing for expansion initiatives over debt-funded growth, particularly in an elevated interest rate environment. Simultaneously, management should implement operational efficiency programs targeting ROA improvement: rationalization of low-performing distribution channels, renegotiation of procurement terms, adoption of technology-enabled inventory management systems, and investment in customer relationship platforms that enhance revenue per account.

For future researchers, several extensions of this study would enrich the literature. Expanding the observation window beyond three years would enable examination of longer-term return dynamics and reduce the influence of period-specific shocks. Broadening the sample to encompass other IDX trading subsectors retail, domestic trade, and import-export companies—would facilitate cross-subsector comparative analysis. The incorporation of macroeconomic control variables such as the Bank Indonesia benchmark interest rate (BI-Rate), Consumer Price Index (CPI), exchange rate (Rupiah/USD), and Gross Domestic Product growth would substantially improve model explanatory power. Panel data econometric techniques employing fixed effects or random effects specifications would better account for unobserved firm-level heterogeneity and potential endogeneity between financial ratios and stock returns, yielding more robust and generalizable parameter estimates.

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