

Uncovering the Impact of Profitability, Liquidity, Activity, and Leverage on Share Prices

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ABSTRACT

The purpose of this study is to determine and analyze the profitability of liquidity, activity, and leverage together to affect stock prices. The method used by the authors in this study is quantitative associative method. The population obtained is as many as 16 pharmaceutical and cosmetic companies. The sample selection was carried out by purposive sampling method, samples used by 11 pharmaceutical and cosmetic companies that reported their companies' financial statements on the Indonesia Stock Exchange (IDX). The analysis tool to be used in this study is reviews 12. The data analysis techniques used in this study are, hypothesis test, partial test, determination coefficient test, moderated regression analysis test. The results showed simultaneously that profitability, liquidity, activity and leverage had a significant effect on the stock price by 83.9219%, the remaining 16.0781% was influenced by other factors not explained in this study.

Keywords: Profitability, Liquidity, Activity, Leverage, Share Price

INTRODUCTION

Conditions in Indonesia are currently facing rapid economic growth, especially in the capital market, as evidenced by the continued increase of companies listed on the Indonesia Stock Exchange (IDX). The capital market has an important role as an intermediary, which in this case proves that the capital market can unite those who need funds with those who have funds (Putri & Cahyono, 2022). Capital markets in a sense are markets for long-term securities, such as stocks and bonds. Investors utilize the capital market for their portfolio investments with the aim of collecting income. The growth of the capital market illustrates the openness among company owners in expanding for the growth and survival of the company.

The rise of fraud related to drugs and medical devices during the COVID-19 pandemic which in these conditions makes people more concerned about health, and the higher demand for drugs, supplements, vitamins, and medical devices. The Central

Statistics Agency (BPS) noted that the pharmaceutical sector was able to grow among the majority of other industries during this pandemic. This has led to many rogue individuals distributing fake drugs, supplements and vitamins. Fraud also occurs in medical device investment, the Directorate of Special Economic Crimes of the National Police Criminal Bareskrim in 2022 succeeded in dismantling a case of fraudulent investment in medical devices worth IDR 503 billion. Tirta Segara as a member of the Board of Commissioners for Education and Protection said there are several characteristics of investment that must be watched out for. One of them is that provides definite returns. The public is asked to be careful, and do not hesitate to ask directly to OJK through the contact center. High returns cannot be a benchmark in investing. Investors themselves must be logical so as not to be easily tempted by high-return stocks.

One sign of proof of capital ownership in a company is shares. The stock price itself is the stock price that occurs on the exchange at a certain time. Stock prices themselves can change up or down in a fast time relationship. This is because it depends on demand and supply between stock buyers and stock sellers. The stock price reflects the value of the company in the eyes of the public, where if the stock price of a company is high, then the value of the company is also good in the eyes of the public and vice versa, if the company's stock price is low, then the value of the company also becomes low, therefore the stock price is very important for the company. The purpose of investors in investing is to make a profit, therefore before investing, investors conduct an investigation to predict future stock prices in order to obtain profits as expected (Saputra, et, al., 2022).

Prices formed at stock prices are caused by interactions between sellers and buyers of shares based on investors' expectations of company profits. This is the basis for investors to know in advance information related to stock prices in order to make decisions to sell or buy shares. In addition, the stock price is also a reflection of the value of a company, where if the company has a good performance, then the company's shares are certainly in great demand by investors (Ulinnuha, et, al., 2022).

Analysis that is often used in looking at company performance is fundamental analysis. Fundamental analysis is an analysis of value determinants such as profits (profits) that can be generated by the company and seen from the country's economic

prospects and the company's business environment to find a fair stock price. One of them is to look at the company's financial statements. Analysis that can be done includes Profitability, Liquidity, Activity, and Leverage.

Profitability shows the company's ability to earn profits or a measure of the effectiveness of managing company management. Investors will generally look at the profitability growth that can be generated by the company to assess the company's prospects in the future. One of the profitability ratios used in analyzing company profitability is Gross Profit Margin (GPM). GPM is a percentage of gross profit compared to sales. The greater the GPM value will provide an overview of the company's better operating state, because GPM shows the cost of good sold is relatively low compared to sales, and vice versa, if the GPM value is lower, it indicates the company's operating condition is not good.

This increased GPM reflects the company's good profitability so that it can increase the company's selling value which results in an increase in the number of company shares. The increase in demand when the supply is fixed has an impact on increasing the company's stock price (Dwiyani, 2021). Liquidity is a ratio that describes the company's ability to meet short-term obligations (debt), which means that if the company is collected, the company will be able to meet these debts, especially overdue debts (Syamsuddin, et, al., 2021). Quick Ratio (QR) is one of the ratios used to calculate the liquidity of a company. The calculation of this QR is used to see the company's ability to meet short-term obligations with the company's most liquid assets. A company is said to be good when the QR value is higher, which means the company is able to meet its short-term obligations.

THEORETICAL BASIS

Profitability Ratio

Profitability ratio is a type of financial ratio used to assess the ability of a company to generate profits or profits from its operational activities (Fuada, 2022). The profitability ratio provides an overview of the efficiency and financial performance of the company in generating profits based on its revenue or assets.

The profitability ratio helps investors, financial analysts, and company management to assess how well the company is generating profits from its operations.

These ratios also help compare a company's financial performance with its competitors or with similar industries. A high profitability ratio indicates that the company has good financial performance and efficiency in generating profits, while a low ratio can indicate potential financial problems or expansion of efficiency in the Company's operations (Purba & Marlina, 2019).

Liquidity Ratio

Liquidity ratio is a type of financial ratio used to assess the ability of a company to meet its short-term obligations using its current assets (Abrar, et, al., 2019). The liquidity ratio measures how liquid or liquid a company's assets are in the face of short-term liabilities, such as accounts payable payments, short-term debt payments, and daily operating fund needs.

Liquidity ratios provide information about the adequacy of a company's liquidity and the extent to which a company can meet its short-term obligations by using its current assets. Liquidity ratios are important for creditors, suppliers, and shareholders to assess the Company's financial risk and stability (Levina & Dermawan, 2019). High liquidity ratios indicate that the company has strong financial capabilities to deal with its short-term obligations, while low ratios may indicate liquidity problems and potential difficulties in meeting short-term obligations.

Activity Ratio

Activity ratio, also known as efficiency ratio, is a type of financial ratio used to assess how efficient a company is in using its operational resources to generate sales or revenue (Soleha & Maria, 2022). The activity ratio helps measure the level of operational efficiency of the company and the extent to which the company can manage its assets and liabilities to produce optimal results.

This ratio is a benchmark for the extent of the industry's ability to manage its assets/capital. This ratio is also referred to as the ratio of sales comparison with various assets. The activity ratio helps investors, financial analysts, and company management to understand how the company manages its operational resources and the extent to which the company can maximize revenue from every dollar invested in operating assets (Hapsari & Widjaja, 2021). These ratios also help identify areas where a company can improve its operational efficiency and improve overall business performance.

Leverage or Solvency Ratio

A leverage ratio or solvency ratio is a financial ratio used to measure the extent to which companies use borrowed capital in their financial structure. The leverage ratio gives an idea of the level of debt of the company and how large a proportion of capital is financed with loans. Solvency is a ratio that provides an overview of a business in paying all its obligations, both short-term obligations and long-term obligations (Widiarini & Dillak, 2019).

The leverage ratio or solvency ratio can provide important information about the level of financial risk of the company. If the leverage ratio is high, it means that the company uses a lot of debt in its financial structure, which can increase financial risk and increase interest obligations (Nisa & Nuraini, 2022). On the other hand, a low leverage ratio indicates the company is more dependent on its own capital, which tends to be more stable and less risky. An understanding of leverage ratios can assist investors and analysts in evaluating a company's financial stability and performance.

Share Price

According to (Sofitriana & Nabila, 2022) stated that stock prices are basically influenced by demand and supply, but to assess stock prices properly, company operational data is needed such as audited financial statements, company performance in the future. Shares are a form of investment in the form of securities that show partial ownership of the company that issued them.

Stock prices are determined by market mechanisms, namely through the interaction between demand and supply of shares on the stock exchange or capital market. If there are many investors who want to buy shares of a company (high demand) and the shares are available in limited quantities (low offer), then the stock price tends to rise. Conversely, if many investors want to sell the shares and the shares are available in large quantities, then the stock price tends to fall (Nadhifah, et, al., 2022).

To properly assess stock prices, investors and financial analysts need company operational data. This includes audited financial statements, such as income statements, balance sheets, and cash flow statements. Financial statements provide an overview of a company's financial performance, including revenue, costs, profits, and overall financial condition.

METHOD

In this study, the authors used quantitative associative methods to identify the relationship and influence between independent variables (profitability, liquidity, activity, and leverage) and dependent variables (stock price). By conducting panel data analysis, researchers can investigate together how these variables contribute to stock price variations. The use of quantitative associative methods allows researchers to test hypotheses, evaluate relationships between variables, and present findings quantitatively.

In this study, the population used is pharmaceutical and cosmetic companies that have gone public. The population obtained is as many as 16 pharmaceutical and cosmetic companies. The sample selection was carried out by purposive sampling method, samples used by 11 pharmaceutical and cosmetic companies that reported their companies' financial statements on the Indonesia Stock Exchange (IDX). The analysis tool to be used in this study is Eviews 12. The data analysis techniques used in this study are, hypothesis test, partial test, determination coefficient test, moderated regression analysis test.

RESULT

The Effect of Profitability (GPM) on Stock Prices

Based on the panel data regression test, the GPM variable coefficient (Profitability) value was 69.39936 with a positive coefficient, and the probability value (p-value) was 0.0122. This probability value is less than the significance level (α) set at 0.05. Because the probability value (p-value) is less than α (0.05), the GPM variable statistically has a positive and significant effect on stock prices. In this context, we can reject the null hypothesis (H_0), which means that the GPM variable has a significant influence on stock prices and is positively related.

Thus, these results show that the GPM (Profitability) variable has a positive and significant relationship to the stock price. That is, the higher the GPM value, the stock price tends to increase. These results are important because they show that a company's profitability, as measured through GPM variables, has a significant influence on stock price movements in this study.

This shows that the ability of the company to generate profits at a certain level of sales can increase the profits of the company, which will increase investor confidence in order to invest in the company which will ultimately increase the company's stock price. GPM in this study provides a reflection of the company in generating gross profit which has an influence on changes in stock prices.

The Effect of Liquidity (QR) on Stock Prices

Based on the panel data regression test, the value of the QR variable coefficient (Liquidity) was -564.6221 with a negative coefficient, and the probability value (p-value) was 0.0064. This probability value is less than the significance level (α) set at 0.05. Since the probability value (p-value) is less than α (0.05), the QR variable statistically has a negative and significant effect on stock prices. In this context, we can reject the null hypothesis (H_0), which means that the QR variable has a significant influence on stock prices and is negatively related.

Thus, these results show that the QR (Liquidity) variable has a negative and significant relationship to the stock price. That is, the higher the QR value, the stock price tends to decrease. In this context, QR variables that measure a company's level of liquidity, such as how easily a company converts its assets into cash, had a significant influence on stock price movements in the study. This result is important because it shows that a company's liquidity can be a key factor influencing stock prices.

Effect of Activity (TATO) on Stock Prices

Based on the panel data regression test, the value of the TATO variable coefficient (Activity) was 1710.089 with a positive coefficient, and the probability value (p-value) was 0.0130. This probability value is less than the significance level (α) set at 0.05. Because the probability value (p-value) is less than α (0.05), the TATO variable statistically has a positive and significant effect on stock prices. In this context, we can reject the null hypothesis (H_0), which means that the TATO variable significantly affects the stock price.

Thus, these results show that the TATO variable has a positive and significant relationship to the stock price. That is, the higher the value of the tattoo, the stock price tends to increase. In this context, TATO variables that measure a company's level of

activity, such as how efficiently a company uses its assets to generate revenue, had a significant influence on stock price movements in this study. These results show that aspects of a company's activities play an important role in determining a stock's value and performance.

The Effect of Leverage (DAR) on Stock Prices

Based on the panel data regression test, the value of the variable coefficient DAR (Leverage) was 4058.411 with a positive coefficient, but the probability value (p-value) was 0.1282. This probability value is greater than the significance level (α) set at 0.05. Because the probability value (p-value) is greater than α (0.05), the DAR variable is not statistically significant to the stock price. In this context, we cannot reject the null hypothesis (H_0), which states that the DAR variable has no significant effect on stock prices.

Thus, although the variable coefficient of DAR (Leverage) is positive, which indicates that there is a positive relationship between leverage and stock price, i.e. the higher the DAR value, the stock price tends to increase, but the results of statistical tests show that this relationship is not statistically significant. That is, although there is a relationship that may exist between the DAR variable and stock price, the relationship cannot be considered strong or statistically important in this study. The effect of the DAR variable on stock prices cannot be ascertained as a predictor of stock prices based on the results of tests that have been conducted.

The Effects of Profitability (GPM), Liquidity (QR), Activity (TATO), and Leverage (DAR) Together on Share Prices

Based on the results of the panel data regression test conducted, it was concluded that simultaneously the independent variables namely profitability (GPM), liquidity (QR), activity (TATO), and leverage (DAR) had a significant effect on stock prices as dependent variables. An F-statistic value of 0.0000 indicates that the probability of the F-statistic value is very low or close to zero. This suggests that the results of the F test are statistically significant. When the probability value (p-value) is less than the established level of significance (usually 0.05), then we can reject the null hypothesis (H_0) and conclude that there is a simultaneous significant influence of at least one independent variable on the dependent variable (stock price in this case).

Thus, in this study, since the probability value (F-statistic) is 0.0000 which is less than the significance level of 0.05, we can conclude that profitability (GPM), liquidity (QR), activity (TATO), and leverage (DAR) together have a significant influence on stock prices. That is, the four variables together were able to explain variations in stock prices in the panel regression model used in this study. These variables become relevant predictors of stock prices and contribute significantly to changes in stock prices.

CONCLUSION

The results of the study show that the variables of profitability, liquidity, activity, and leverage have a significant influence together on stock prices. This means that changes in profitability, liquidity, activity, and leverage together contribute 83.9219% to changes in share prices.

Effect of other unexplained variables: There were 16.0781% of stock price changes that could not be explained by the four variables studied (profitability, liquidity, activity, and leverage). These factors were not included in this study and likely came from other variables that had not been considered in the analysis.

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