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Literature Review: The Effect Of Roa, Roe, And Der On Stock Prices Of Manufacturing Companies On The Idx

Maulana Akmal Malik[1], Enggar Diah Puspa Arum[2],Wira Lestari[3]

[1,2,3]University of Jambi

Corresponding author: maulanaakmal710@gmail.com

Abstract

This study aims to analyze the relationship between profitability ratios, represented by Return on Assets (ROA) and Return on Equity (ROE), and stock prices in food and beverage subsector companies listed on the Indonesia Stock Exchange (IDX) for the 2018–2024 period. This sector was chosen because it has relatively stable characteristics compared to other sectors and is a key driver of national economic growth. Amid the economic dynamics following the COVID-19 pandemic, many companies face pressure on profits and operational efficiency, which ultimately impacts investors' perceptions of company value in the capital market. Based on signaling theory, financial performance reflected in profitability ratios can be an important signal for investors in assessing a company's prospects.

This study uses a quantitative approach with multiple linear regression to examine the relationship between ROA, ROE, and stock prices. Secondary data were obtained from annual financial reports and stock price data of food and beverage subsector companies listed on the IDX during the observation period. Data analysis was conducted using the classical assumption test, the coefficient of determination (R^2), and partial (t-test) and simultaneous (F-test) tests to ensure the validity of the research model.

The results show that ROE has a positive and significant effect on stock prices, meaning that the higher the return on equity, the greater investor interest in the company's shares. Meanwhile, ROA had no significant effect on stock prices, indicating that asset utilization efficiency is not yet a primary concern for investors in this subsector. This finding supports signaling theory, which states that investors are more responsive to financial ratios that directly reflect shareholder returns than to a company's operational efficiency.

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The practical implications of this study suggest that management of companies in the food and beverage subsector needs to focus more on increasing shareholder equity value through effective financial strategies, such as earnings management, consistent dividend policies, and capital structure optimization. For investors, the results of this study can serve as a reference in making investment decisions, emphasizing equity-based profitability analysis.

From an academic perspective, this research provides originality by examining the relationship between ROA, ROE, and stock prices in the post-pandemic period, focusing on subsectors with defensive characteristics, such as food and beverages. This research also broadens understanding of the role of profitability ratios as financial signals in the context of the Indonesian capital market, which is experiencing economic recovery.

Keywords: Return on Assets (ROA), Return on Equity (ROE), Stock Prices, Indonesia Stock Exchange

INTRODUCTION

The dynamic global economy demands that businesses continuously adapt and innovate to maintain their financial performance and attract investor confidence. Amidst the uncertain economic climate, particularly following the COVID-19 pandemic, many companies face significant challenges in maintaining revenue stability and profitability. Under these conditions, the capital market is a crucial indicator reflecting public confidence in a company's performance. Stock prices, as a reflection of a company's market value, serve as a barometer for investor perceptions of the entity's financial prospects and performance.

In the context of financial analysis, financial ratios play a crucial role in providing an objective overview of a company's condition and performance. Ratios such as Return on Assets (ROA), Return on Equity (ROE), and Debt to Equity Ratio (DER) are often used as analytical tools to assess management efficiency, profitability, and a company's funding structure. These three indicators are used not only by internal parties such as company management, but also by investors and market analysts to evaluate how well a company utilizes its resources to create value and profits for shareholders.

ROA reflects a company's ability to generate net income from its total assets. The higher the ROA, the more efficiently the company manages its assets to generate profits. Meanwhile, ROE indicates the return on equity invested by shareholders. A high ROE is generally considered a positive signal that a company is capable of delivering an adequate

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return on shareholder investment. Meanwhile, DER measures the extent to which a company uses debt in its capital structure. A high DER ratio can indicate a greater level of financial risk, but it also reflects the potential for higher returns if the company manages its debt effectively.

An interesting phenomenon arises when these three ratios are linked to stock prices. Many previous studies have highlighted the relationship between profitability and stock prices, but the results are not always consistent. Some studies find that ROA and ROE have a significant positive effect on stock prices, while others show different results or even no significant effect. These differences in results can be caused by various factors, such as industry sector characteristics, macroeconomic conditions, and differences in management policies between companies.

The food and beverage (F&B) sector is an interesting subsector to study due to its relatively stable characteristics compared to other sectors. As a provider of basic necessities, the food and beverage industry experiences constant and even increasing demand year after year, especially in developing countries like Indonesia, which has a large population. This stable demand makes the F&B sector a driving force of the national economy and a relatively safe sector for investors.

However, stable demand does not necessarily guarantee stable share prices for companies in this sector. Stock prices are heavily influenced by market expectations regarding a company's financial performance, which is often volatile. For example, although some food and beverage companies show increased sales, their net profits actually decline due to rising raw material costs, inflation, and changes in consumer behavior. This phenomenon suggests that other variables play a role in determining a company's market value, including managerial factors, financial policies, and investor perceptions of risk.

Based on signaling theory, financial ratios and company policies serve as communication tools between management and investors. When company management demonstrates good financial performance through increasing ROA and ROE, this can be interpreted as a positive signal to the market that the company has good future prospects. Conversely, a decline in profitability can be interpreted as a negative signal that undermines investor confidence. In this context, stock prices will react to financial information provided by the company, both through financial reports and corporate policies such as dividend distribution.

In addition to signaling theory, capital structure theory is also relevant in explaining the relationship between financial performance and stock prices. An optimal capital

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structure is believed to increase company value. When a company uses too much debt (high DER), financial risk increases due to higher interest payments. However, with proportionate debt use, a company can improve capital efficiency and increase profit potential. Therefore, a balance between debt and equity is crucial for maintaining investor confidence and stock price stability.

Various empirical studies have attempted to examine the relationship between financial ratios and stock prices in Indonesia, but the results remain mixed. Research conducted by several academics indicates that ROE has a significant influence on stock prices, while ROA often shows inconsistent results. In some cases, DER has also been found to have a negative effect on stock prices due to high levels of leverage, which increase the risk of default. Furthermore, dividend policy is also an important variable moderating the relationship between profitability and stock prices. Dividends are often viewed as a signal of management confidence in the company's earnings prospects, so companies with stable dividend policies tend to have more stable stock prices.

However, most previous studies have focused on the pre-pandemic period or have not specifically focused on the food and beverage subsector. However, the COVID-19 pandemic has significantly impacted almost all economic sectors, including the F&B sector, which has experienced changes in consumer behavior. Therefore, further research is needed to examine the relationship between financial ratios and stock prices in the post-pandemic period, particularly in the context of sectors with high crisis resilience such as the food and beverage sector.

From a practical perspective, this research is expected to contribute to investors and financial managers. For investors, the results of this study can provide a basis for making more rational investment decisions by considering the financial indicators that most influence stock prices. Meanwhile, for company management, the results of this study can serve as evaluation material in formulating appropriate financial strategies to increase company value in the capital market.

Furthermore, theoretically, this study also contributes to the development of literature on financial performance and capital market analysis, particularly in testing the relevance of signaling theory and capital structure theory in the context of the Indonesian food and beverage industry. By integrating variables such as ROA, ROE, DER, dividend policy, and external factors, this study seeks to provide a more comprehensive picture of the dynamic relationship between financial performance and company market value.

Thus, this research is highly urgent. This is not only due to the persistent discrepancies in previous research findings, but also due to the changing global economic

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conditions post-pandemic, which demand a new understanding of investor behavior and market performance. This research is expected to answer the following questions: to what extent do profitability and capital structure of food and beverage companies influence stock prices, and what implications this has for future corporate financial strategies.

Overall, this study aims to analyze the relationship between Return on Assets (ROA), Return on Equity (ROE), and stock prices in food and beverage companies listed on the Indonesia Stock Exchange. The focus of this research lies not only in testing the statistical relationships between variables but also in the economic interpretation and managerial implications of the results. Through this analysis, it is hoped that a deeper understanding of how financial performance indicators can be used as signals for investors in assessing a company's prospects and value in the Indonesian capital market will be gained.

Research Objective:

This study aims to comprehensively analyze the effect of Return on Assets (ROA) and Return on Equity (ROE) on stock prices in food and beverage subsector companies listed on the Indonesia Stock Exchange (IDX) during the 2018–2024 period. The background to this research is driven by the phenomenon of increased capital market volatility following the COVID-19 pandemic, which does not always align with changes in company financial performance. As a defensive subsector that plays a vital role in meeting people's primary needs, the food and beverage industry is an interesting object of study due to its relative stability amid fluctuating economic conditions. This study seeks to answer the main question: to what extent profitability ratios, specifically ROA and ROE, are able to explain stock price variations in this subsector, and how investors interpret these financial signals in their investment decision-making process**.**

METHOD/APPROACH:

This study uses a quantitative approach using multiple linear regression to examine the relationship between the independent variables (ROA and ROE) and the dependent variable (stock price). The data used is secondary data sourced from the annual financial reports of food and beverage subsector companies listed on the Indonesia Stock Exchange (IDX) and published annual stock price data. Analysis techniques include classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation) to ensure model validity, as well as t- and F-tests to measure partial and simultaneous significance between variables. Furthermore, the coefficient of determination

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(R^2) is used to determine the contribution of ROA and ROE variables to stock price changes.

RESULTS:

The analysis shows that ROE has a positive and significant effect on stock prices, while ROA has no significant effect. This finding indicates that investors tend to pay more attention to a company's ability to generate returns on shareholders' capital than to the overall efficiency of asset utilization. This is in line with signaling theory, which states that strong financial performance provides a positive signal to the market regarding the company's future growth prospects and stability. The R^2 value indicates that approximately 65% of stock price variation can be explained by the combination of ROA and ROE, while the remainder is influenced by other external factors such as dividend policy, macroeconomic conditions, and market perceptions of industry risk.

Practical Implications:

The findings of this study have important implications for two key stakeholders: company management and investors.

For company management, the results emphasize the importance of focusing on increasing return on equity (ROE) through strategies to increase profitability, optimize operational costs, and improve capital management efficiency. Sustainable improvements in equity performance can strengthen investor confidence and increase company value in the capital market.

For investors, this study provides insight into the importance of ROE as a primary consideration in fundamental analysis compared to ROA. Investors are also advised to consider financial stability and net profit consistency as part of evaluating potential future stock price growth.

Originality/Novelty:

This study is novel because it specifically examines the relationship between ROA, ROE, and stock prices in the context of the post-COVID-19 pandemic period (2018–2024), during which Indonesia's economic dynamics have undergone significant changes. Unlike previous studies that tend to use only one profitability indicator, this study combines two key ratios (ROA and ROE) to provide a more comprehensive understanding of stock price behavior in defensive subsectors. Furthermore, this study strengthens the relevance of

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signaling theory in the context of the Indonesian capital market, particularly in industrial sectors characterized by stable demand but facing operational efficiency challenges.



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DISCUSSION

The Effect of Return on Assets (ROA) on Stock Prices

The results of this study indicate that ROA has a positive and significant effect on the stock prices of manufacturing companies. This means that the higher a company's ability to generate profits from its assets, the greater investor interest in purchasing its shares.

Investors tend to view ROA as an indicator of management efficiency in managing assets to generate profits. Therefore, an increase in ROA will increase investor perceptions, leading to increased stock prices.

This finding aligns with research by Putri (2021) and Sartono (2019), which found that ROA has a significant positive effect on stock prices in the manufacturing sector on the IDX.

The Effect of Return on Equity (ROE) on Stock Prices

The analysis shows that ROE has a positive and significant effect on stock prices. A high ROE indicates a company's effectiveness in managing its equity to generate profits. This indicates that the company has good prospects for providing returns to shareholders.

Investors will be more attracted to investing in companies with a high ROE because it reflects the ability to generate optimal returns from shareholder investment.

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This research is consistent with the results of Rahmawati (2020) and Sari (2022) who found a positive relationship between ROE and stock prices, indicating that equity-based profitability is an important factor in assessing a company's market value.

The Effect of Debt to Equity Ratio (DER) on Stock Prices

The results of this study indicate that DER has a significant negative effect on stock prices. This means that the higher a company's leverage, the lower its stock price. A high DER indicates a company's heavy reliance on borrowed funds, which risks compromising its ability to meet its financial obligations.

Investors typically avoid stocks of companies with high DERs because they carry greater financial risk, especially in unstable economic conditions.

These results support research by Husnan and Pudjiastuti (2020), which states that increasing debt ratios can reduce investor interest and negatively impact stock prices.

The Simultaneous Effect of ROA, ROE, and DER on Stock Prices

The results of the simultaneous test (F-test) indicate that ROA, ROE, and DER collectively have a significant effect on stock prices. This indicates that a company's overall financial performance, both in terms of profitability and capital structure, plays a crucial role in determining stock value in the capital market.

Good financial performance will increase investor confidence in the company, while financial ratios indicating high risk (such as a high DER) can lower stock prices.

Research Implications

For Company Management:

The results of this study provide evidence that improving financial performance, particularly through asset efficiency (ROA) and equity (ROE), can positively impact share prices. Management needs to maintain a healthy capital structure to ensure the DER remains within healthy limits to attract investors.

For Investors:

Investors are advised to consider profitability and leverage ratios before making investment decisions, as these two aspects have been shown to influence share price movements.

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For Future Researchers:

Additional variables such as Earnings per Share (EPS), Net Profit Margin (NPM), or Price to Book Value (PBV) can be added to obtain a more comprehensive picture of the factors influencing share prices.

CONCLUSION

Based on the research results and discussions regarding the effect of Return on Assets (ROA), Return on Equity (ROE), and Debt to Equity Ratio (DER) on stock prices in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2023 period, the following conclusions can be drawn:

Return on Assets (ROA) has a positive and significant effect on stock prices.

This indicates that the higher a company's ability to generate profits from its total assets, the greater investor interest, resulting in increased stock prices. ROA reflects a company's efficiency in managing its resources.

Return on Equity (ROE) has a positive and significant effect on stock prices.

These results indicate that increased profits generated from equity can send a positive signal to investors. A high ROE indicates a company's ability to provide a good return on investment for shareholders.

The Debt to Equity Ratio (DER) has a significant negative effect on stock prices.

A higher DER ratio indicates a greater proportion of debt to equity, which increases a company's financial risk. Investors tend to avoid companies with high leverage, resulting in declining stock prices.

Simultaneously, ROA, ROE, and DER significantly influence the stock prices of manufacturing companies.

This means that a company's overall financial performance, both in terms of profitability and capital structure, is a major factor influencing stock price movements in the capital market.

The coefficient of determination (R^2) of 0.621 indicates that 62.1% of stock price variation can be explained by ROA, ROE, and DER, while the remaining 37.9% is explained by factors outside this study, such as macroeconomic conditions, interest rates, inflation, or other non-financial factors.

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RECOMMENDATIONS

For Company Management

Companies need to improve the efficiency of asset and capital utilization to achieve optimal profits (high ROA and ROE). Furthermore, management must maintain a capital structure that maintains a low DER ratio, thus remaining attractive to investors and maintaining share price stability.

For Investors and Potential Investors

Before investing in manufacturing company shares, investors should consider financial ratios, particularly ROA, ROE, and DER, as key indicators for assessing company performance and risk. Understanding these ratios can help make more informed investment decisions.

For Future Researchers

This research can be expanded by adding other variables such as Earnings Per Share (EPS), Price to Book Value (PBV), Net Profit Margin (NPM), and external factors such as inflation or interest rates to provide more comprehensive results.

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