The Effect of Liquidity and Profitability on Stock Returns: Evidence from IDX-Listed Automotive and Component Firms

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Submitted:
November 13, 2025

Revised:
November 21, 2025

Accepted:
January 28, 2026

Published Online:
January 31, 2026

ABSTRACT

The development of the capital market encourages investors to evaluate corporate financial performance as a basis for investment decisions, particularly in the automotive and component sectors listed on the Indonesia Stock Exchange. This study aims to examine the effect of liquidity and profitability on stock returns of automotive and component companies during the 2018–2023 period. A quantitative approach was employed by applying panel data analysis using EViews 12 software. Liquidity was measured using the current ratio, while profitability was assessed through return on assets. The research data were obtained from the companies' annual financial statements selected through purposive sampling. The findings indicate that liquidity has a positive influence on stock returns, suggesting that a firm's ability to meet short-term obligations can enhance investor confidence. Furthermore, profitability shows a positive and significant effect on stock returns, implying that higher profit levels provide favorable signals to the market. Simultaneously, liquidity and profitability contribute significantly to the improvement of stock returns. These results strengthen fundamental financial theories and offer practical implications for investors in making informed investment decisions.

Keywords*: Automotive Companies, Indonesia Stock Exchange, Liquidity, Profitability, Stock Return.*

INTRODUCTION

Financial management plays a vital role in corporate operations because it involves managing financial resources to achieve organizational objectives efficiently and effectively. Brigham and Ehrhardt (2019) argue that the main goal of financial management is to maximize firm value, which ultimately enhances shareholder welfare. For publicly listed companies, effective financial management is reflected in the ability to maintain adequate liquidity and improve profitability, as both indicators represent the firm's financial stability and performance in the capital market. In publicly traded companies, stock return is a key indicator because it represents the gains earned by investors over a certain period. Stock returns consist of dividends and capital gains, both of which are influenced by company fundamentals and capital market dynamics. According to Anantha and Jati (2025), liquidity and profitability are two crucial financial factors that significantly determine a company's stock returns, making them essential variables in investment analysis.

This research examines automotive and parts firms listed on the Indonesia Stock Exchange (IDX) because the automotive sector significantly impacts the national

JIMKES

Jurnal Ilmiah Manajemen Kesatuan
Vol. 14 No. 1, 2026
pp. 1009-1018
IBI Kesatuan
ISSN 2337 – 7860
E-ISSN 2721 – 169X
DOI: 10.37641/jimkes.v14i1.4585

economy via manufacturing supply chains and job creation. Data from IDX (2018) reveal that PT Astra International Tbk (ASII) achieved the highest yearly trading volume, surpassing 30 million shares, while PT Gajah Tunggal Tbk (GJTL) had approximately 5 million shares annually. Conversely, firms like PT Goodyear Indonesia Tbk (GDYR) and PT Multi Prima Sejahtera Tbk (LPIN) experienced trading volumes under 5 million shares per year. These disparities indicate differing liquidity levels among automotive issuers, influencing price volatility and stock returns.

Liquidity signifies a company's capacity to fulfill short-term liabilities, typically assessed through the current ratio. Profitability reflects the company's ability to create profits from its assets or equity, usually measured by Return on Assets (ROA) and Return on Equity (ROE). Pransiska and Artini (2025) state that firms with high profitability tend to attract more investors because they are perceived to have strong growth prospects, leading to higher stock prices and returns. However, Silver, Setyorini, and Pratiwi (2023) highlight that excessive liquidity may reduce operational efficiency, meaning its impact on stock returns is not always positive. Survey findings from several automotive companies indicate that firms with high liquidity and strong profitability generally experience higher stock trading volumes compared to those with weaker financial ratios. This suggests a relationship between financial performance and stock returns, emphasizing the need for deeper empirical investigation within Indonesia's publicly listed automotive and component sector.

Conditions in the Indonesian capital market reveal inconsistencies between financial performance and stock returns, especially in the automotive industry. Large issuers such as PT Astra International Tbk (ASII), despite stable financial performance, still experience sharp stock return fluctuations due to changes in macroeconomic conditions, interest rates, and investor behavior. Conversely, companies with low liquidity may experience sudden stock price increases driven by speculation and market sentiment. Cahyani and Suryantini (2025) explain that although profitability significantly influences stock returns, external factors such as inflation and interest rates can strengthen or weaken this relationship. The main issue arising from this situation is the gap between actual company performance and market response, which creates uncertainty for investors. Differences in liquidity among issuers cause some automotive stocks to be classified as inactive due to low trading activity. Pribadi (2024) notes that variations in liquidity and profitability can lead to information asymmetry, affecting investor perceptions of risk and expected returns. Additionally, high market volatility and limited financial transparency complicate the assessment of how strongly liquidity and profitability influence stock returns.

Previous empirical studies show inconsistent results. Wulandari and Putra (2022) and Harjito and Nurfadilah (2023) found that profitability significantly affects stock returns, while liquidity does not. In contrast, Dewi and Santoso (2024) reported a positive impact of liquidity on stock returns in the automotive sector. Rahmawati and Hidayat (2023), as well as Supriyadi et al. (2024) and Putri and Lestari (2025), concluded that the relationship between liquidity, profitability, and stock returns is dynamic and influenced by macroeconomic conditions. Based on signaling theory, high liquidity and profitability should provide positive signals to investors and increase stock returns. However, Susanti and Nugroho (2023) argue that macroeconomic conditions and market sentiment often obscure this relationship. Furthermore, prior studies have largely focused on the manufacturing sector as a whole and have not examined the automotive subsector in depth (Sari & Rudianto, 2024). This study aims to address the research gap by examining post-COVID-19 panel data to offer empirical and practical insights for investors and management in the automotive and parts sectors.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

The Effect of Liquidity on Stock Returns

Financial theory explains that liquidity reflects a company's ability to meet its short-term obligations without experiencing significant financial losses. This capability is

essential for ensuring the smooth operation of daily business activities and maintaining financial stability. Brigham and Houston (2019) and Blessing and Sakouvogui (2023) state that companies with high liquidity tend to be more trusted by investors because they demonstrate strong financial resilience and a relatively low risk of default. High liquidity signals that a company has sufficient current assets to cover its short-term liabilities, which reduces uncertainty regarding its financial condition.

Furthermore, Gitman and Zutter (2020) and Zhao et al. (2024) emphasize that adequate liquidity plays an important role in increasing market confidence. This is because liquidity indicates effective cash management and operational efficiency, both of which are viewed positively by investors. Companies that are able to manage their liquid assets efficiently are perceived as being better prepared to face unexpected financial pressures, thereby strengthening their credibility in the capital market.

Empirical evidence supports these theoretical arguments. Dewi and Suaryana (2021) found that liquidity has a significant positive effect on stock returns, indicating that the greater a company's ability to meet its short-term obligations, the greater the confidence investors have in it. This increased confidence is reflected in higher demand for the company's shares, thereby improving stock returns. Similarly, Nugraha and Hidayat (2022) provide supporting evidence that a strong liquidity ratio enhances a company's stock value by improving market perception. Together, these findings suggest that liquidity is a crucial financial indicator that influences investor behavior and stock market performance.

H1: Liquidity has a significant effect on stock returns.

The Effect of Profitability on Stock Returns

Profitability refers to a firm's capacity to produce profits and acts as a crucial measure of operational effectiveness and competitive power. Strong profitability indicates how efficiently a company employs its resources to achieve the best financial results. As stated by Kasmir (2021), substantial profitability showcases a firm's ability to handle its resources and activities effectively to optimize profits, which is crucial for enduring business viability. Firms that routinely produce profits are typically regarded as financially robust and able to sustain future expansion.

In addition, Harjito and Martono (2018) and Nikmah et al. (2021) explain that profitability is a major factor attracting investor interest because it signals the potential for dividend distribution and stock price appreciation. Investors tend to prefer companies with stable and high profitability, as these firms are perceived to offer better returns and lower investment risk. As a result, profitability becomes an important consideration in investment decision-making within the capital market.

Empirical studies further support the importance of profitability in influencing stock returns. Research conducted by Putri and Santoso (2020) and Aayale et al. (2022) confirms that profitability has a positive effect on stock returns, indicating that higher profit levels increase the attractiveness of a company's shares in the capital market. When companies report strong profits, investor demand for their stocks typically rises, contributing to higher stock prices and returns. Similarly, Dewi and Suaryana (2021) found that stable profitability strengthens investor confidence in a company's growth prospects. This confidence encourages long-term investment and reinforces the role of profitability as a critical determinant of stock performance.

H2: Profitability has a significant effect on stock returns.

The Effect of Liquidity and Profitability on Stock Returns

Financial performance cannot be adequately assessed using a single indicator; rather, it is more accurately understood through the combined evaluation of liquidity and profitability. These two measures work together to illustrate a company's financial resilience and long-term viability. Fahmi (2021) and Akhtar et al. (2022) argue that strong

liquidity alongside high profitability reflects a balance between a firm's capacity to fulfill short-term financial obligations and its ability to generate earnings. Such a balance plays a vital role in strengthening a company's standing in the stock market, as it conveys signals of financial stability and future growth potential to investors.

In addition, Sutrisno (2020) highlights that companies capable of maintaining consistent cash flows while achieving continuous profit growth tend to offer more appealing long-term prospects. Stable cash flows indicate sound financial management and effective operational oversight, whereas increasing profits demonstrate efficiency and competitive advantage. When combined, these factors contribute to greater investor confidence and support long-term investment decisions, particularly in highly competitive business environments.

Empirical findings reinforce this theoretical view. Nugraha and Hidayat (2022) demonstrate that liquidity and profitability jointly exert a significant influence on stock returns. This effect is particularly pronounced in capital-intensive industries, such as the automotive sector, where substantial investments and high operational costs necessitate efficient financial management. In these industries, the ability to balance liquidity and profitability becomes essential for sustaining competitiveness, enhancing firm value, and generating optimal returns for investors.

H3: Liquidity and profitability simultaneously have a significant effect on stock returns.

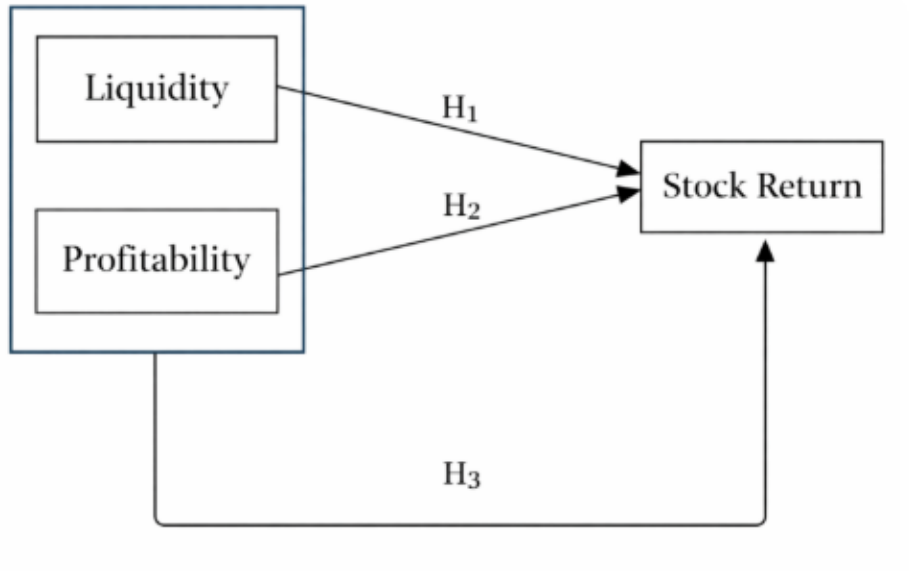

Figure 1. Research Framework

Figure 1 displays the results demonstrating the relationship between liquidity and profitability in relation to stock returns. The hypothesis (H_1) examines how liquidity influences stock returns, the next hypothesis (H_2) studies the impact of profitability on stock returns, and the last hypothesis (H_3) looks into the joint effect of liquidity and profitability on stock returns in Indonesian automotive and component companies.

RESEARCH METHODS

This research utilizes a quantitative method to analyze the influence of liquidity and profitability on the stock returns of automotive and component firms listed on the IDX. The quantitative method is applied because it allows for an objective assessment of relationships among variables through statistical analysis. In line with Sugiyono (2022), quantitative research is used to test theoretical frameworks by measuring and analyzing variable relationships using numerical data processed through systematic statistical procedures.

The research is classified as a causal associative study, aiming to identify cause-and-effect relationships between independent variables, namely liquidity and profitability, and the dependent variable, stock returns. Creswell and Creswell (2023) explain that quantitative causal research is designed to empirically verify the influence of one variable on another. This study utilizes financial statement data and stock market information from automotive and component companies listed on the IDX during the 2018–2023 period in order to capture stock performance trends in the automotive sector in the post-pandemic era.

The research population includes all automotive and component companies listed on the IDX, amounting to ten firms as per IDX records. Purposive sampling is employed to select research samples based on specific criteria to ensure relevance and representativeness of the data. Hair et al. (2021) state that purposive sampling is appropriate for financial research as it ensures that selected samples possess characteristics aligned with the requirements of statistical analysis. The sampling criteria include companies that remained actively listed during the observation period, published complete and consistent annual financial reports, and provided data relevant to the research variables. The variables examined include liquidity measured by the current ratio, profitability measured by return on assets, and stock returns as an indicator of market performance. The information utilized in this research consists of secondary data sourced from yearly financial statements found on the official IDX site and from the annual reports released by each company. Stock return data are derived from annual closing stock prices, which are used to calculate stock returns. Sekaran and Bougie (2022) emphasize that the use of secondary data enhances research validity because the data originate from verified sources and are suitable for empirical analysis.

Data collection is conducted using the documentation method by gathering financial statements and stock market data from the selected companies. The collected data are then screened and organized according to the research variables. According to Umar (2021), documentation is commonly used in quantitative research to obtain factual, historical, and measurable data. Data analysis is carried out using panel data regression with the support of EViews 12 software, as the dataset includes both cross-sectional and time-series dimensions. Gujarati and Porter (2021) explain that panel data analysis provides more efficient and informative estimates than single-dimensional data. The analytic procedure encompasses descriptive statistical evaluation, classical assumption assessments, model selection employing the Chow, Hausman, and Lagrange Multiplier tests, alongside hypothesis testing via t-tests, F-tests, and the coefficient of determination (R^2). Brooks (2022) suggests that utilizing EViews 12 enhances the precision of estimates in panel econometric analysis.

RESULTS

Utilizing established selection criteria, 10 companies were chosen as research samples, resulting in 60 observations gathered from six years of data from these firms. The gathered data were subsequently examined through a panel data regression method with the help of EViews 12 software to guarantee thorough and precise analysis.

Table 1. Descriptive Statistics of Research Variables

Variables	N	Mean	Minimum	Maximum	Std. Dev
Stock Return (RS)	60	0.084	-0.215	0.356	0.112
Liquidity (CR)	60	1.972	0.843	3.821	0.716
Profitability (ROA)	60	0.063	-0.041	0.156	0.048

Table 1 displays the descriptive statistics for the research variables, namely Stock Return (RS), liquidity as indicated by the Current Ratio (CR), and profitability assessed by Return on Assets (ROA), derived from 60 observations sourced from 10 companies across a six-year timeframe. The average stock return of 0.084 indicates that, on average, automotive and component companies generated an annual stock return of 8.4% during

the observation period. The minimum value of -0.215 reflects the fact that some firms experienced a decline in stock value of up to 21.5%, while the maximum value of 0.356 shows that certain companies achieved stock returns as high as 35.6%. The standard deviation of 0.112 suggests a relatively high level of variability in stock returns, indicating notable fluctuations across firms and time.

Regarding liquidity, the mean value of 1.972 indicates that, on average, companies had sufficient current assets to cover their short-term liabilities, as current assets were nearly twice current obligations. The minimum value of 0.843 signals that some firms faced relatively weak liquidity conditions, which could limit their ability to meet short-term commitments. In contrast, the maximum value of 3.821 indicates that several companies maintained very high liquidity levels. The standard deviation of 0.716 reflects considerable differences in liquidity across the firms sampled.

For profitability, the average value of 0.063 suggests that companies were able to generate net income of approximately 6.3% of their total assets. The minimum ROA of −0.041 indicates that certain firms incurred losses, while the maximum value of 0.156 shows strong profit-generating capability among some companies. The standard deviation of 0.048 indicates that variations in profitability were relatively moderate compared to liquidity and stock returns.

The outcomes of the multicollinearity analysis show a VIF value below 10 and a Tolerance value greater than 0.1, resulting in the determination that no multicollinearity exists among the independent variables. The Breusch Pagan approach for testing heteroscedasticity resulted in a probability value greater than 0.05, indicating that the data does not show heteroscedasticity. The autocorrelation test findings from the Durbin–Watson method indicated a value of 1.85, which falls within acceptable ranges, confirming that the panel data regression model is valid and appropriate for application.

Table 2 shows the results from the selection tests of panel data models conducted to identify the best regression technique for the study. The Chow test provides a probability value of 0.000, which is below the 5% significance threshold. This finding indicates that the Fixed Effect Model (FEM) is superior to the Pooled Least Squares model, as it confirms the existence of meaningful differences between firms. The findings from the Hausman Test offer further support for choosing the Fixed Effect Model. A probability value of 0.033, lower than 0.05, suggests that the explanatory variables are linked to firm-specific effects. As a result, the Fixed Effect Model is preferred over the Random Effect Model in this context.

Table 2. Panel Data Model Selection Test

Test Type	Statistical Results	Probability	Selected Model
Chow Test	46.271	0.000	Fixed Effect Model
Hausman Test	12.318	0.033	Fixed Effect Model
LM Test (Breusch–Pagan)	23.415	0.000	Random vs Pooled

At the same time, the Lagrange Multiplier (LM) Test using the Breusch–Pagan method shows a probability value of 0.000, indicating that the Random Effect Model outperforms the Pooled model. Nonetheless, since both the Chow test and the Hausman test consistently indicate the dominance of the Fixed Effect Model, it is ultimately selected as the best model for this analysis. Consequently, these results suggest that variations among companies are statistically significant and should be explicitly incorporated into the regression model. Consequently, the Fixed Effect Model is appropriate for examining the relationship among liquidity, profitability, and stock returns.

Table 3. Panel Data Regression Test Result (Fixed Effect Model)

Variables	Coefficient	t-statistic	Prob.	Information
Constant	0.012	0.484	0.630	-
Liquidity (CR)	0.045	2.732	0.008	Significant
Profitability (ROA)	0.526	5.981	0.000	Significant
R-squared	0.689	-	-	-

F-statistic	31.244	-	0.000	Eligible Model
N	60	-	-	-

Table 3 presents the results of the panel data regression analysis employing the FEM to assess the impact of liquidity and profitability on stock returns in automotive and component companies. The constant term records a coefficient of 0.012 with a probability value of 0.630, indicating that it is statistically insignificant. This result suggests that stock returns do not exhibit a meaningful baseline effect when liquidity and profitability are assumed to be absent, and therefore, the constant does not substantially contribute to explaining variations in stock returns.

The liquidity variable shows a positive coefficient of 0.045, accompanied by a t-statistic of 2.732 and a probability value of 0.008, which is below the 0.05 significance level. These findings demonstrate that liquidity has a positive and significant impact on stock returns. In other words, companies with stronger short-term financial positions tend to generate higher stock returns, as higher liquidity increases investor confidence. Similarly, the profitability presents a positive coefficient of 0.526, with a t-statistic of 5.981 and a probability value of 0.000, indicating a strong and statistically significant effect on stock returns. This implies that firms with higher profitability are more likely to experience increased stock returns, as strong profit performance sends favorable signals to the market.

The R-squared value of 0.689 indicates that 68.9% of the variation in stock returns can be explained by liquidity and profitability within the model, while the remaining proportion is influenced by other factors outside the analysis. Furthermore, the F-statistic of 31.244 with a probability of 0.000 confirms that the regression model is statistically valid and reliable, showing that liquidity and profitability jointly exert a significant influence on stock returns.

DISCUSSION

The results indicate that liquidity, measured by CR, has a positive and significant effect on stock returns ($p = 0.008$). This finding suggests that stronger short-term financial positions enhance investor confidence and reduce perceived risk. The result aligns with Sutrisno and Anggraini (2022), who view liquidity as a key indicator of financial health that lowers investment risk and boosts interest, as well as Rahmadani and Kurniawan (2023), who link high CR to strong cash flows and improved market perception. However, this contrasts with studies such as Wulandari and Putra (2022) and Harjito and Nurfadilah (2023), which found liquidity insignificant in broader manufacturing samples. The difference likely arises from the specific context of Indonesia's automotive sector during 2018–2023, a period marked by post-COVID supply chain challenges, economic volatility, and fluctuating interest rates and inflation (Cahyani & Suryantini, 2025). In this capital-intensive industry, firms with robust liquidity, such as PT Astra International Tbk, were better positioned to weather disruptions, thereby strengthening investor trust (Blessing & Sakouvogui, 2023). Thus, liquidity management emerges as a critical metric for investors evaluating automotive stocks on the IDX.

Similarly, profitability, proxied by ROA, exerts a positive and highly significant influence on stock returns ($p = 0.000$), with a notably larger coefficient (0.526) compared to CR (0.045). This implies that investors place greater weight on long-term profit-generating efficiency than on short-term liquidity. The finding is consistent with Putri and Lestari (2021), who emphasize profitability as a signal of effective management and future value creation, and Pratama and Santosa (2024), who associate it with operational efficiency directly impacting stock value. It also echoes Pransiska and Artini (2025) in highlighting profitability's dominance during recovery phases. Unlike some prior research by Rahmawati and Hidayat (2023), where macroeconomic factors diluted profitability's effect, the post-pandemic rebound in Indonesia, supported by rising demand and industry incentives, appears to have amplified ROA's role, as seen in higher trading activity among profitable firms like PT Gajah Tunggal Tbk. As Brigham and Ehrhardt (2019) note, strong

profitability signals resilience and potential for sustained shareholder returns in emerging markets.

The simultaneous test confirms that liquidity and profitability jointly exert a significant impact on stock returns ($F = 31.244$, $p < 0.05$). This synergy is supported by Dewi and Mulyani (2022), who argue that balanced liquidity and profitability enhance stock attractiveness, and Wijayanti and Haris (2023), who highlight how their combined strength builds investor confidence in operational and financial stability. These results reinforce Signaling Theory: robust internal financial indicators send positive signals about future prospects, particularly in volatile sectors like automotive, where external pressures can obscure individual effects but are mitigated by their interaction (Susanti & Nugroho, 2023).

These findings offer meaningful theoretical and practical implications. Theoretically, they extend signaling theory to post-crisis emerging markets, showing how liquidity and profitability function as credible signals amid uncertainty (Gitman & Zutter, 2020). Practically, automotive firm managers should prioritize balanced working capital and asset efficiency to reduce risk and attract capital, especially during recovery periods. For investors, CR and ROA serve as reliable screening tools for portfolio decisions on the IDX, favoring companies with strong combined performance to better navigate volatility. Regulators and the IDX could promote greater transparency in these ratios to reduce information asymmetry and support a more stable market. While the study provides focused insights, future work could incorporate additional factors such as leverage, firm size, or macroeconomic variables to capture a fuller picture of stock return drivers in this sector.

CONCLUSION

This study finds that liquidity and profitability have a significant impact on the stock returns of automotive and component companies listed on the Indonesia Stock Exchange from 2018 to 2023. Liquidity, measured by the CR, reflects a company's ability to meet short-term obligations and has been proven to boost investor confidence, resulting in higher stock returns. Profitability, as measured by ROA, has a notable and favorable influence, indicating that companies that effectively leverage their assets to generate profits typically attract greater investor interest. These findings support signaling theory, suggesting that strong financial performance emits positive signals to the capital market.

The findings of this study are of significance for both investors and management. For management, achieving a balance between liquidity and profitability is crucial for improving firm value and stock performance. For investors, liquidity and profitability act as significant financial metrics when assessing investment choices in the automotive industry. This study is confined to automotive and component firms listed on the IDX and concentrates solely on two financial factors, specifically liquidity and profitability, during a designated observation timeframe. Additional elements that could affect stock returns are not accounted for. It is suggested that future studies broaden their focus by including more financial or external factors, lengthening the time frame of observations, or exploring various industrial sectors to gain deeper and comparative insights.

Acknowledgement

We are grateful to the Indonesia Stock Exchange for providing data on automotive companies and components used in this research, as well as to our supervisors and colleagues for their valuable guidance and input. We also thank our families for their moral support and motivation throughout this research process.

FUNDING STATEMENT: This research did not receive any specific grant from funding agencies in the public, commercial, or not - for - profit sectors.

CONFLICTS OF INTEREST: The author declares no conflict of interest.

DECLARATION OF GENERATIVE AI STATEMENT: During the preparation of this work, the author used Turnitin, Grammarly, and ChatGPT to improve sentence structure and overall clarity. All content was then reviewed, edited, and refined by the author, who takes full responsibility for the accuracy, integrity, and originality of the final publication.

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