Financial Performance and Profitability as Determinants of Stock Prices in Indonesia

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ABSTRACT

This study aims to examine the effect of financial performance on stock prices in manufacturing companies within the consumer goods subsector in Indonesia during the 2020–2024 period, with return on assets as a mediating variable. Financial performance is measured using the current ratio, the debt-to-equity ratio, and the total asset turnover. Secondary data were collected from annual reports, financial statements, and historical stock prices, and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results indicate that the current ratio and total asset turnover have a significant positive effect on profitability, while the debt-to-equity ratio has a significant negative effect. Profitability also has a significant positive effect on stock prices. The direct effect analysis shows that current ratio and total asset turnover significantly increase stock prices, whereas the debt-to-equity ratio is not significant. The indirect effect analysis shows that profitability partially mediates the influence of current ratio and total asset turnover on stock prices and fully mediates the negative influence of debt-to-equity ratio on stock prices. The findings highlight profitability as a crucial link between financial performance and stock price movements, offering strategic guidance for investment and financial policy decisions in dynamic economic conditions.

Keywords*: Current Ratio, Debt to Equity Ratio, Return on Assets, Stock Price, Total Asset Turnover.*

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INTRODUCTION

The capital market serves as a cornerstone of the contemporary financial ecosystem, functioning not merely as an investment vehicle but also as a vital avenue for long-term financing that enables corporations to fund expansion and sustain market competitiveness (Mérő & Bethlendi, 2022; Shafaq, 2023). Within this structural framework, equity prices operate as primary barometers that reflect investors' collective perceptions, forward-looking expectations, and valuation of a firm's intrinsic worth (Aayale et al., 2022). By establishing a marketplace mechanism that bridges capital providers with fund-seeking issuers, the capital market necessitates high-quality, transparent information regarding an enterprise's financial health and performance to guide strategic investment decision-making processes (Alizadeh & Rahmati, 2022).

A firm's financial performance stands as one of the most dominant determinants driving equity price fluctuations. Financial performance fundamentally reflects an enterprise's capability to optimally and efficiently manage its underlying assets, liabilities, and equity structures (AbdulKareem et al., 2023; Mioduchowska-Jaroszewicz, 2023). When a corporation demonstrates superior operational efficiency alongside a sustained capacity to generate profits, the capital market typically responds favorably through stock price appreciation (Cho & Lee, 2019; Hasanudin, 2024). Consequently, a substantial body of literature underscores that liquidity, leverage, activity, and profitability ratios constitute critical diagnostic metrics utilized by market participants to evaluate both the future profit prospects and inherent risks of an entity (Septiansyah & Munawar, 2018; Xie et al., 2019; Juniarti et al., 2021; Barauskaite & Streimikiene, 2021; Olayinka, 2022). Disclosed within

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standard financial statements, these financial ratios offer a comprehensive diagnostic overview of an enterprise's capability to fulfill its obligations, deploy its operational assets productively, and maximize earnings (Effendie et al., 2022; Blessing & Sakouvogui, 2023).

The development of the Indonesian capital market throughout the 2020–2024 period exhibits notable dynamics, particularly within the consumer goods manufacturing sector. This specific subsector serves as a primary pillar of the national economy, characterized by the production of essential commodities that command relatively inelastic market demand. Nevertheless, over the preceding five years, the industry has encountered substantial macroeconomic pressures, encompassing the disruptive shocks of the COVID-19 pandemic (2020–2021), subsequent global inflationary surges (2022–2023), and shifting consumer paradigms toward digital consumption patterns. These volatile conditions have exerted a direct impact on corporate capital structures, asset utilization efficiency, and overall corporate profitability, all of which manifest within standard financial ratios and ultimately dictate equity price fluctuations (Jiao, 2011; Sheng, 2025).

An intriguing empirical phenomenon emerged during the macroeconomic recovery period spanning 2022–2024. Several prominent issuers, such as ICBP and MYOR, recorded substantial growth in corporate profitability, which was systematically accompanied by an equity price appreciation of approximately 15–25%. This empirical evidence strongly reinforces the theoretical premise that profitability functions as a pivotal intervening variable linking baseline financial performance to market valuation. In other words, the capital market does not rely exclusively on liquidity, leverage, or activity ratios; instead, market participants heavily scrutinize how these operational dimensions are effectively operationalized into an enterprise's capability to generate robust returns for equity shareholders.

This prevailing condition underscores a critical opportunity for further empirical investigation to examine the precise mechanism through which baseline financial performance dictates equity prices when profitability is operationalized as a mediating variable. This inquiry gains heightened relevance during the highly volatile and uncertainty-filled period of 2020–2024, wherein both global and domestic macroeconomic dynamics profoundly influenced the operational performance of enterprises within the consumer goods manufacturing subsector. This study is poised to provide updated empirical evidence, enrich the contemporary corporate finance literature within the Indonesian context, and offer strategic insights for market investors and corporate management in formulating financial policies and optimal investment decisions.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

The Effect of Financial Performance on Return on Assets

Financial performance fundamentally reflects an enterprise's capability to optimally manage its financial resources, which is conventionally operationalized utilizing liquidity, leverage, and activity ratios, specifically the Current Ratio (CR), Debt to Equity Ratio (DER), and Total Asset Turnover (TATO) (Fatihudin, 2018; Rashid, 2021). Within manufacturing corporations, liquidity plays a foundational role in guaranteeing the continuous availability of operational working capital required to sustain core production processes. Concurrently, leverage denotes the degree to which an entity relies on external debt financing, which possesses the capacity to amplify corporate profitability when deployed efficiently, yet simultaneously elevates financial distress risks if structurally excessively. Meanwhile, activity metrics such as TATO capture the efficiency with which firms deploy their asset bases to generate revenue, thereby directly driving the underlying profit generation mechanism.

Prior empirical studies by Hongli et al. (2019) suggest that firms with strong liquidity positions tend to achieve higher profitability due to their ability to meet short-term obligations and maintain operational continuity. Similarly, efficient asset utilization consistently demonstrates a positive association with profitability, as higher turnover

indicates better resource management. Leverage, on the other hand, presents a more complex relationship, as it can either enhance or reduce profitability depending on how effectively debt is managed (Purwanti, 2020).

H1: Current ratio has a positive and significant effect on return on assets.
H2: Debt-to-equity ratio has a positive and significant effect on return on assets.
H3: Total asset turnover has a positive and significant effect on return on assets.

The Effect of Financial Performance and Return on Assets on Stock Price

Equity prices represent the aggregate market valuation of a firm, fundamentally reflecting investors' forward-looking expectations regarding future operational performance and associated risk profiles (Jiao, 2011; Mikołajek-Gocejna, 2014; Sheng, 2025). Consequently, financial performance serves as a crucial determinant of equity prices, as market participants heavily depend on disclosed financial information to evaluate corporate stability, long-term growth potential, and exposure to systematic risk. The CR indicates a firm's ability to meet its short-term obligations using current assets, the DER reflects the proportion of debt relative to shareholders' equity and the level of financial risk, while TATO measures the effectiveness of a company in utilizing its total assets to generate sales revenue. Collectively, these financial indicators shape investor perceptions, thereby influencing market sentiment and subsequent fluctuations in equity prices.

A robust body of existing literature underscores that profitability serves as a primary catalyst for equity price appreciation, given that it directly reflects an enterprise's capacity to yield returns and sustain long-term growth (Mule et al., 2015; Purwanti, 2020). Additionally, corporations characterized by robust liquidity profiles and optimal asset utilization efficiency are generally perceived more favorably by market participants, subsequently translating into elevated market valuations. Conversely, the empirical impact of financial leverage remains highly ambiguous; structurally higher debt levels can either facilitate corporate expansion and strategic value creation or, alternatively, escalate systemic financial distress risks.

H4: Return on assets has a positive and significant effect on stock price.
H5: Current ratio has a positive and significant effect on stock price.
H6: Debt-to-equity ratio has a positive and significant effect on stock price.
H7: Total asset turnover has a positive and significant effect on stock price.

The Effect of Return on Asset as a Mediating Variable

Profitability, typically operationalized through Return on Assets (ROA), plays a pivotal role in linking baseline financial performance to equity prices, as it represents an enterprise's ultimate effectiveness in generating earnings from its asset base (Mule et al., 2015; Purwanti, 2020). Standard financial performance indicators, specifically CR, DER, and TATO, fundamentally influence ROA, which subsequently shapes investor perceptions and aggregate market valuations. Market participants tend to place greater emphasis on ROA when making investment decisions, given that this metric provides a direct and reliable signal of corporate operational performance and future return potential. Consequently, profitability can be conceptualized as an intervening variable that effectively transmits the underlying structural effects of financial performance to equity prices.

Empirical evidence by Purwanti (2020) indicates that both liquidity and asset efficiency influence equity prices indirectly through the mediating pathway of corporate profitability, whereas financial leverage may exert a negative indirect effect owing to its constraining impact on net earnings. This statistical pattern demonstrates that the capital market responds more robustly to bottom-line profitability outcomes rather than to baseline financial ratios in isolation. Profitability functions as a pivotal underlying

mechanism through which internal operational and financial performance is effectively translated into aggregate market value.

H8: Return on assets mediates the effect of current ratio on stock price.
H9: Return on assets mediates the effect of debt-to-equity ratio on stock price.
H10: Return on assets mediates the effect of total asset turnover on stock price.

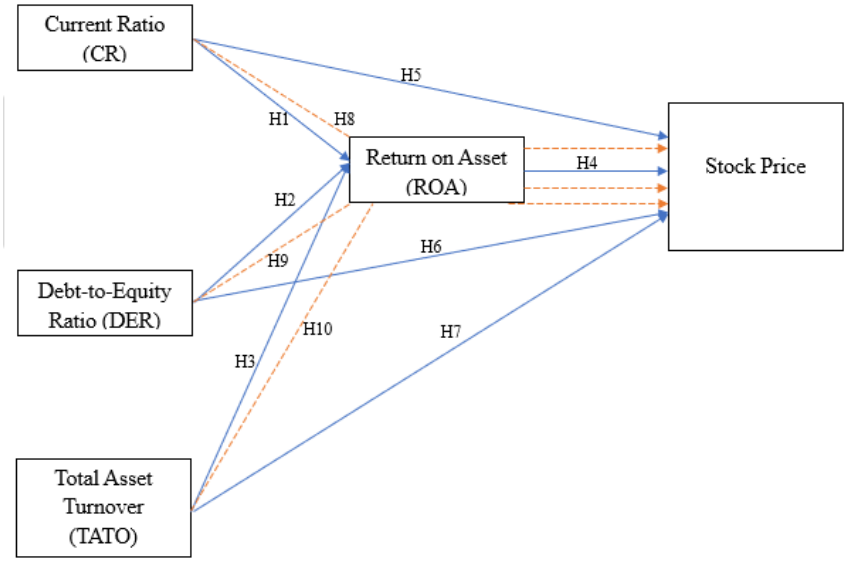

Figure 1. Conceptual Framework

Figure 1 presents the conceptual framework of the study, illustrating the direct and indirect relationships between financial performance indicators and stock price. CR, DER, and TATO are hypothesized to directly affect both ROA and stock price. Additionally, ROA serves as a mediating variable, as represented by the dashed lines, mediating the effects of CR, DER, and TATO on stock price. The framework implies that financial performance contributes to stock price movements both directly and indirectly through profitability.

RESEARCH METHODS

This study employs a quantitative approach with an explanatory research design to examine the causal relationships between financial performance and stock prices, with profitability as a mediating variable. Financial performance is proxied by the Current Ratio (CR), Debt-to-Equity Ratio (DER), and Total Asset Turnover (TATO), while profitability is measured by Return on Assets (ROA). The explanatory design enables empirical hypothesis testing through structured statistical models, allowing for a comprehensive assessment of cause-and-effect relationships among variables within the context of manufacturing firms in the consumer goods industry subsector (Grace & Irvine, 2020; Casula et al., 2021).

The study utilizes secondary data collected through a documentary research method, including annual reports, quarterly financial statements, and historical stock price data. Data sources comprise the Indonesia Stock Exchange, official company websites, and capital market platforms such as IDX, RTI, and Yahoo Finance. The observation period spans from 2020 to 2024, with the unit of analysis consisting of manufacturing firms in the consumer goods industry subsector that were consistently listed throughout the period. The sample is selected using purposive sampling based on criteria such as the availability of complete financial statements, absence of delisting, and consistency of stock price data.

Data analysis is conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS version 4.0. This method is chosen due to its ability to handle complex models, its robustness to non-normal data distributions, and its suitability for panel data involving mediating variables. The model includes CR, DER, and TATO as independent variables, ROA as the intervening variable, and stock price as the dependent variable. The analytical procedure consists of three stages. First, the measurement model is evaluated to assess validity and reliability. Convergent validity is examined through outer loadings (≥ 0.70) and Average Variance Extracted (AVE ≥ 0.50), while reliability is assessed using Composite Reliability (CR).

The structural model is evaluated to examine relationships among variables and its predictive capability, including path coefficients, coefficient of determination (R^2), and effect size (f^2) (Chinnaraju, 2025). The mediation analysis is conducted using bootstrapping with 5,000 resamples to test the significance of indirect effects of CR, DER, and TATO on stock prices through ROA. Indirect effects are compared with direct effects to determine whether mediation is full or partial.

The panel structure of the data (firm × year), the analysis is performed using pooled observations with year dummy variables as controls for macroeconomic variations. Robustness is ensured through PLS-Predict and, where necessary, multigroup analysis (PLS-MGA). Statistical significance is determined at $\alpha = 0.05$, where relationships are considered significant if p-values < 0.05 or t-statistics exceed critical values.

RESULTS

Table 1 presents the development of the liquidity ratio, measured by the current ratio, for manufacturing companies in the consumer goods industry subsector during the 2020–2024 period. The current ratio reflects a firm's ability to meet its short-term obligations and serves as an important indicator of financial stability. The table provides an overview of variations in liquidity levels across firms and over time, offering preliminary insights into their short-term financial performance.

Table 1. Development of Liquidity Ratio Value of Consumer for the 2020-2024

Issuer Code	2020	2021	2022	2023	2024
ADES	2.97	2.51	3.20	4.12	4.04
CAMP	13.27	13.31	10.67	6.43	5.05
CEKA	4.66	4.80	9.95	7.29	4.74
CLEO	1.72	1.53	1.81	1.21	1.20
DLTA	7.50	4.81	4.56	4.89	4.64
DVLA	2.52	2.57	3.00	2.86	2.69
GGRM	2.91	2.09	1.90	1.83	2.29
GOOD	1.77	1.48	1.74	1.37	1.37
HMSP	2.45	1.88	1.69	1.72	1.63
HRTA	12.76	4.66	3.76	1.73	2.05
ICBP	2.26	1.80	3.10	3.51	4.09
INDF	1.37	1.34	1.79	1.92	2.15
KLBF	4.12	4.45	3.77	4.91	4.11
MERK	2.55	2.71	3.33	5.74	6.52
MLBI	0.89	0.74	0.77	0.93	0.90
MYOR	3.69	2.33	2.62	3.67	2.65
ROTI	3.83	2.65	2.10	1.74	1.71
SCPI	1.50	3.74	3.08	2.11	2.34
SIDO	3.56	4.13	4.06	4.47	5.42
SKLT	1.54	1.79	1.63	2.11	1.77
STTP	2.41	4.16	4.85	6.95	9.51
ULTJ	2.40	3.11	3.17	6.18	5.39
UNVR	0.66	0.61	0.61	0.55	0.45
WIIM	3.66	2.93	2.84	3.08	2.44
WOOD	1.33	2.07	2.43	1.86	1.76

Table 1 presents the development of the liquidity ratio, measured by the CR for manufacturing companies in the consumer goods industry subsector during the 2020–2024 period. There is considerable variation across firms and over time. Several companies, such as CAMP, HRTA, and STTP, exhibit relatively high CR values, indicating a strong ability to meet short-term obligations. In contrast, firms such as MLBI and UNVR report CR values below 1 in certain periods, suggesting potential liquidity constraints. Additionally, a declining trend is observed in some firms after 2021, which may be associated with economic pressures during and after the pandemic period.

On the other hand, several firms demonstrate a consistent improvement in liquidity, including ICBP, SIDO, and MERK, reflecting enhanced management of current assets and short-term liabilities. However, fluctuations are evident in companies such as MYOR, ROTI, and SCPI, indicating dynamic financial management strategies. These findings suggest that liquidity conditions within the subsector are heterogeneous, providing preliminary evidence that short-term solvency may play a role in influencing financial performance and investor decision-making in the capital market.

Table 2. Trends in Solvency Ratio Values of Manufacturing Companies

Issuer Code	2020	2021	2022	2023	2024
ADES	0.37	0.34	0.23	0.21	0.19
CAMP	0.13	0.12	0.14	0.15	0.16
CEKA	0.24	0.22	0.11	0.15	0.24
CLEO	0.47	0.35	0.43	0.52	0.38
DLTA	0.20	0.30	0.31	0.29	0.32
DVLA	0.50	0.51	0.43	0.45	0.49
GGRM	0.34	0.52	0.53	0.52	0.37
GOOD	1.25	1.22	1.19	0.90	1.10
HMSP	0.64	0.82	0.94	0.85	0.91
HRTA	1.08	1.29	1.23	1.55	1.54
ICBP	1.04	1.15	1.01	0.92	0.88
INDF	1.05	1.06	0.93	0.86	0.85
KLBF	0.23	0.21	0.23	0.15	0.16
MERK	0.52	0.50	0.37	0.20	0.19
MLBI	1.03	1.56	2.14	1.45	1.61
MYOR	0.75	0.75	0.74	0.56	0.74
ROTI	0.37	0.46	0.54	0.65	0.62
SCPI	0.92	0.25	0.38	0.69	0.58
SIDO	0.19	0.17	0.16	0.15	0.13
SKLT	0.90	0.64	0.75	0.43	0.51
STTP	0.29	0.19	0.17	0.13	0.10
ULTJ	0.83	0.44	0.27	0.13	0.14
UNVR	3.16	3.41	3.58	3.93	6.47
WIIM	0.36	0.43	0.44	0.39	0.58
WOOD	0.96	0.87	0.85	0.78	0.75

Table 2 presents the trends in solvency ratios of manufacturing companies in the consumer goods industry subsector during the 2020–2024 period. There is notable variation in leverage levels across firms, reflecting differences in capital structure. Several companies, such as UNVR, MLBI, and HRTA, exhibit relatively high solvency ratios, indicating a greater reliance on debt financing. In contrast, firms such as SIDO, STTP, and KLBF show relatively low ratios, suggesting more conservative capital structures with lower debt exposure. Additionally, some companies, including ADES and MERK, demonstrate a declining trend in solvency ratios, indicating efforts to reduce leverage over the observation period.

On the other hand, certain firms display fluctuations or increasing trends in their solvency ratios, such as UNVR, which shows a significant rise through 2024, and MLBI, which maintains relatively high but volatile levels. These patterns reflect differing financing strategies adopted by firms in response to changing economic conditions. The findings indicate that solvency levels within the subsector are heterogeneous, suggesting

that capital structure and financial risk may serve as important factors influencing firm performance and investor perceptions in the capital market.

Table 3. Trends in Activity Ratio Values of Manufacturing Companies

Issuer Code	2020	2021	2022	2023	2024
ADES	0.37	0.34	0.23	0.21	0.19
CAMP	0.13	0.12	0.14	0.15	0.16
CEKA	0.24	0.22	0.11	0.15	0.24
CLEO	0.47	0.35	0.43	0.52	0.38
DLTA	0.20	0.30	0.31	0.29	0.32
DVLA	0.50	0.51	0.43	0.45	0.49
GGRM	0.34	0.52	0.53	0.52	0.37
GOOD	1.25	1.22	1.19	0.90	1.10
HMSP	0.64	0.82	0.94	0.85	0.91
HRTA	1.08	1.29	1.23	1.55	1.54
ICBP	1.04	1.15	1.01	0.92	0.88
INDF	1.05	1.06	0.93	0.86	0.85
KLBF	0.23	0.21	0.23	0.15	0.16
MERK	0.52	0.50	0.37	0.20	0.19
MLBI	1.03	1.56	2.14	1.45	1.61
MYOR	0.75	0.75	0.74	0.56	0.74
ROTI	0.37	0.46	0.54	0.65	0.62
SCPI	0.92	0.25	0.38	0.69	0.58
SIDO	0.19	0.17	0.16	0.15	0.13
SKLT	0.90	0.64	0.75	0.43	0.51
STTP	0.29	0.19	0.17	0.13	0.10
ULTJ	0.83	0.44	0.27	0.13	0.14
UNVR	3.16	3.41	3.58	3.93	6.47
WIIM	0.36	0.43	0.44	0.39	0.58
WOOD	0.96	0.87	0.85	0.78	0.75

Based on the empirical data presented in Table 3, the activity ratios of listed manufacturing companies in Indonesia exhibit highly heterogeneous trends throughout the 2020–2024 period. UNVR consistently demonstrated the highest asset utilization efficiency in the study sample, with the ratio increasing progressively from 3.16 in 2020 to a peak of 6.47 in 2024. This longitudinal growth indicates a remarkable institutional capacity to convert its operational asset base into sustainable sales revenue. On the downside, a significant decline in operational efficiency was observed at ULTJ, where the activity ratio shrank drastically from 0.83 in 2020 to 0.14 in 2024, a pattern of decline also experienced by ADES and SIDO. Meanwhile, large-cap consumer goods companies such as ICBP and INDF tend to maintain their stability ratios in the range of 0.85 to 1.15, reflecting a mature asset turnover framework capable of absorbing macroeconomic fluctuations.

These findings suggest that asset utilization efficiency within the subsector is both heterogeneous and dynamic. Firms with higher TATO values tend to demonstrate greater effectiveness in generating revenue from their assets, whereas those with lower values face challenges in operational efficiency. These variations provide preliminary evidence that activity ratios may play a significant role in determining firm performance and influencing investor perceptions in the capital market.

Table 4. Development of Profitability Ratio Values for Manufacturing Companies

Issuer Code	2020	2021	2022	2023	2024
ADES	0.14	0.20	0.22	0.19	0.20
CAMP	0.04	0.09	0.11	0.12	0.09
CEKA	0.12	0.11	0.13	0.08	0.14
CLEO	0.10	0.13	0.12	0.14	0.18
DLTA	0.10	0.14	0.18	0.17	0.13
DVLA	0.08	0.07	0.07	0.07	0.07
GGMR	0.10	0.06	0.03	0.06	0.01
GOOD	0.04	0.07	0.07	0.08	0.08

Issuer Code	2020	2021	2022	2023	2024
HMSP	0.17	0.13	0.12	0.15	0.12
HRTA	0.06	0.06	0.07	0.06	0.07
ICBP	0.07	0.07	0.05	0.07	0.07
INDF	0.05	0.06	0.05	0.06	0.06
KLBF	0.12	0.13	0.13	0.10	0.11
MERK	0.08	0.13	0.17	0.19	0.16
MLBI	0.10	0.23	0.27	0.31	0.33
MYOR	0.11	0.06	0.09	0.14	0.10
ROTI	0.04	0.07	0.10	0.08	0.10
SCPI	0.14	0.10	0.13	0.13	0.11
SIDO	0.24	0.31	0.27	0.24	0.30
SKLT	0.05	0.10	0.07	0.06	0.08
STTP	0.18	0.16	0.14	0.17	0.19
ULTJ	0.13	0.17	0.13	0.16	0.14
UNVR	0.35	0.30	0.29	0.29	0.21
WIIM	0.11	0.09	0.12	0.19	0.10
WOOD	0.05	0.08	0.03	0.01	0.02

Table 4 presents the development of profitability ratios of manufacturing companies in the consumer goods industry subsector during the 2020–2024 period. There is considerable variation in firms' ability to generate profits. Several companies, such as UNVR and SIDO, exhibit relatively high profitability levels, with UNVR ranging from 0.35 to 0.21 despite a declining trend, and SIDO remaining relatively stable between 0.24 and 0.31. In addition, MLBI demonstrates a consistent upward trend, increasing from 0.10 in 2020 to 0.33 in 2024, indicating significant improvement in profitability performance. In contrast, firms such as WOOD and GGMR show relatively low profitability levels, with WOOD declining to 0.01 in 2023 before slightly increasing to 0.02 in 2024.

On the other hand, several firms exhibit fluctuating profitability throughout the observation period. For instance, MYOR decreases from 0.11 in 2020 to 0.06 in 2021, then rises to 0.14 in 2023 before declining again to 0.10 in 2024. Similar patterns are observed in CEKA and DLTA, which experience variations in profitability levels over time. These findings indicate that profitability performance within the subsector is dynamic and heterogeneous, suggesting that firms' ability to generate profits plays a crucial role in influencing financial performance and shaping investor perceptions in the capital market.

Table 5. Stock Price Developments Manufacturing Companies

Issuer Code	2020	2021	2022	2023	2024
ADES	1.460	3.290	7.175	9.675	9.100
CAMP	302	290	306	402	256
CEKA	1.785	1.880	1.980	1.845	2.080
CLEO	500	470	555	710	787
DLTA	4.400	3.740	3.830	3.530	2.150
DVLA	2.420	2.750	2.340	1.665	1.600
GGRM	41.000	30.600	702	20.325	13.275
GOOD	1.270	525	525	430	412
HMSP	1.505	965	4.193	895	635
HRTA	244	212	202	348	354
ICBP	9.575	8.700	10.000	10.575	11.375
INDF	6.850	6.325	6.725	6.450	7.700
KLBF	1.480	1.615	2.090	1.610	1.360
MERK	3.280	3.690	4.750	4.180	3.600
MLBI	9.700	7.800	8.950	7.750	6.100
MYOR	2.710	2.040	2.500	2.490	2.780
ROTI	1.360	1.360	1.320	1.150	970
SCPI	29.000	29.000	29.000	29.000	29.000
SIDO	805	865	755	525	590
SKLT	1.565	2.420	1.950	282	199
STTP	9.500	7.550	7.650	9.375	13.625

Issuer Code	2020	2021	2022	2023	2024
ULTJ	1.600	1.570	1.475	1.600	1.585
UNVR	7.350	4.110	4.700	3.530	1.885
WIIM	540	428	97	1.775	700
WOOD	560	840	362	288	328

Table 5 indicates that the stock prices of manufacturing companies in the consumer goods industry subsector moved dynamically during the 2020–2024 period. These movements reflect not only market conditions but also investor responses to firms' financial performance and future prospects. Consistent with stock price theory, share prices fundamentally represent market expectations regarding future earnings and growth, making price fluctuations an important indicator of investor perception.

Several issuers exhibit a positive relationship between financial performance, particularly ROA, and stock price increases. Companies such as ADES, ICBP, and STTP experienced rising stock prices alongside improvements or stability in profitability. This suggests that the market responds positively to strong performance as a signal of favorable prospects, thereby increasing firm valuation. However, not all stock price movements align with underlying fundamentals. Some firms experience sharp fluctuations or declines despite relatively stable performance, such as UNVR, while GGRM shows a consistent decline in line with weakening profitability. These findings indicate that markets are not always perfectly efficient, as investor sentiment, expectations, and potential overreactions also influence stock price dynamics. Additionally, certain firms exhibit relatively stable (sideways) price movements, while others reflect anomalies driven by external factors such as regulatory changes and shifts in consumer behavior.

Table 6. Outer Model

Construct	Indicator	Loading Factor	AVE	Composite Reliability	Information
Financial performance	CR	0.812	0.635	0.843	Valid & reliable
	DER	0.745			Valid & reliable
	TATO	0.833			Valid & reliable
Profitability (ROA)	ROA	1.000	1.000	1.000	Single indicator
Stock price	Stock Price	1.000	1.000	1.000	Single indicator

Table 6 shows that the loading factor > 0.70 indicates that each indicator effectively measures its construct. For example, the loading value of TATO is 0.833, which means that TATO has a strong contribution in explaining the financial performance construct. The higher the loading value, the stronger the indicator represents the construct. The AVE value of 0.635 (> 0.50) shows that more than 63.5% of the variance of the indicators is explained by the construct. This confirms that the construct has good convergent validity, meaning the indicators consistently measure the same underlying concept. The Composite Reliability (CR) value of 0.843 (> 0.70) indicates that the indicators have high internal consistency. In other words, all indicators work reliably and consistently in explaining the financial performance variable.

Table 7. Direct and Indirect

Relationship	β	t-statistic	p-value	Test Results	Interpretation
Current Ratio → Return on Assets	0.215	2.10	0.037	Significant (+)	High liquidity → increase profitability
Debt-to-Equity Ratio → Return on Assets	-0.182	2.21	0.029	Significant (–)	High leverage → lower profitability
Total Asset Turnover → Return on Assets	0.472	4.95	0.000	Significant (+)	Asset efficiency → increased profitability
Return on Assets → Stock price	0.563	5.40	0.000	Significant (+)	High profits → stock prices rise
Current Ratio → Stock Price	0.190	2.01	0.045	Significant (+)	Liquidity influences investor perception

Relationship	β	t-statistic	p-value	Test Results	Interpretation
Debt-to-Equity Ratio → Stock Price	-0.160	1.95	0.052	Not significant	Large debts are not attractive to investors
Total Asset Turnover → Stock Price	0.240	2.34	0.021	Significant (+)	Asset efficiency increases stock value
Current Ratio → Return on Assets → Stock Price	0.121	2.05	0.041	Partial Mediation	CR influences stock prices partly through profitability
Debt-to-Equity Ratio → Return on Assets → Stock Price	-0.102	1.99	0.048	Full Mediation	The effect of DER on stock prices decreases through a decrease in profits
Total Asset Turnover → Return on Assets → Stock Price	0.265	4.10	0.000	Partial Mediation	TATO influences stock prices both directly and indirectly through ROA.

Table 7 presents the results of the direct and indirect effects between financial performance, profitability, and stock prices. The direct effects indicate that the Current Ratio (CR) has a positive and significant effect on ROA (β = 0.215; p = 0.037), suggesting that higher liquidity enhances profitability. In contrast, the Debt-to-Equity Ratio (DER) has a negative and significant effect on ROA (β = -0.182; p = 0.029), indicating that higher leverage reduces a firm's ability to generate profits. Meanwhile, Total Asset Turnover (TATO) shows the strongest positive influence on ROA (β = 0.472; p = 0.000), emphasizing the importance of asset efficiency in improving profitability. Furthermore, ROA has a positive and significant effect on stock prices (β = 0.563; p = 0.000), indicating that the market responds favorably to increased profitability. In addition, CR (β = 0.190; p = 0.045) and TATO (β = 0.240; p = 0.021) have positive and significant effects on stock prices, whereas DER does not show a significant effect (β = -0.160; p = 0.052).

Regarding indirect effects, the results confirm the mediating role of ROA. The effect of CR on stock prices is partially mediated by ROA (β = 0.121; p = 0.041), indicating that liquidity influences stock prices both directly and through profitability. Similarly, DER exhibits a full mediation effect through ROA (β = -0.102; p = 0.048), indicating that higher leverage can lower stock prices through its negative impact on profitability. Meanwhile, the effect of TATO on stock prices is partially mediated by ROA (β = 0.265; p = 0.000), indicating that asset efficiency affects stock prices both directly and indirectly through its contribution to profitability. These findings highlight that profitability serves as an important mechanism linking financial performance to stock price movements.

Table 8. R-Square Test

Endogenous Variables	R^2	Category	Meaning
ROA (Profitability)	0.63	Strong	63% of the variation in ROA is explained by CR, DER, and TATO
Stock Price	0.71	Strong	71% of stock price variation is explained by CR, DER, TATO, and ROA

Table 8 presents the R-Square value for ROA, which is 0.63, while the R^2 value for stock price is 0.71, indicating that the model successfully explains a substantial portion of the variation in the endogenous variables. For ROA, an R^2 of 0.63 shows that 63% of profitability changes are influenced by the CR, CER, and TATO. These three financial ratios significantly shape the company's ability to generate earnings, whereas the remaining 37% is driven by external factors such as cost efficiency, managerial decisions, macroeconomic conditions, and market dynamics. Meanwhile, the R^2 value of 0.71 for Stock Price indicates that 71% of stock price fluctuations can be explained by CR, DER, TATO, and ROA, reflecting a highly robust predictive model. This finding classifies R^2 values above 0.67 as indicating a strong model fit. The results reinforce the role of ROA as a mediating variable that connects internal financial performance with market value, as investors tend to assess profitability before making investment decisions. The strong R^2

values confirm that this research model possesses high reliability and predictive accuracy, making it highly relevant for explaining the relationship between financial ratios and market value in the consumer goods manufacturing subsector listed on the IDX.

Table 9. Direct, Indirect, Total Effect

Track	Direct Effect	Indirect Effect	Total Effect	Types of Mediation
Current Ratio → Stock price	0.190	0.121	0.311	Partial
Debt to Equity Ratio → Stock price	-0.160	-0.102	-0.262	Full
Total Asset Turnover → Stock price	0.240	0.265	0.505	Partial

Table 9 illustrates how each variable influences stock prices both directly and indirectly through company profitability. The path analysis results show that liquidity, as proxied by the current ratio, leverage, as proxied by the debt-to-equity ratio, and asset efficiency, as proxied by total asset turnover, influence stock prices through the profitability mechanism, as measured by Return on Assets (ROA). Current ratio and total asset turnover exhibit partial mediation, meaning both variables influence stock prices directly and through increased profitability. Meanwhile, the relationship between debt-to-equity ratio and stock prices is fully mediated by ROA, indicating that the effect of leverage on stock prices operates entirely through changes in company profitability. These findings confirm that profitability plays an important role in transmitting the influence of financial performance on a company's market value, while providing a more comprehensive picture of the value creation process for shareholders.

DISCUSSION

The results of this study indicate that liquidity, as measured by the Current Ratio (CR), exerts a positive influence on both profitability and stock prices. Firms that can fulfill their short-term obligations effectively are generally perceived as financially sound, stable, and able to sustain smooth operational activities. Such conditions provide a positive signal to investors, reflecting efficient cash management and relatively low financial risk. Consequently, strong liquidity not only enhances a firm's ability to generate profits but also increases investor confidence, which is subsequently reflected in higher stock prices. These findings are consistent with prior studies emphasizing that liquidity ratios serve as important signals for the market in assessing a firm's condition (Abdullah et al., 2023; Ahmed et al., 2025; Gami et al., 2025). Furthermore, this result aligns with the findings of Renaldi et al. (2020) and Indriaty et al. (2020), who reported a positive relationship between CR and profitability. In the context of the consumer goods subsector, liquidity becomes even more critical due to the industry's reliance on rapid cash turnover, making it a key determinant of both operational efficiency and investor perception.

In contrast, capital structure, as proxied by the Debt-to-Equity Ratio (DER), demonstrates a negative effect on profitability but does not show a direct significant impact on stock prices. This suggests that excessive reliance on debt increases interest expenses and financial risk, thereby reducing a firm's ability to generate profits. However, investors do not necessarily respond negatively to high leverage as long as the firm's growth prospects remain favorable (Kurniadi, 2021; Wahyuni & Gani, 2022). These findings are consistent with previous studies by Bandanuji and Khoiruddin (2020) and Hoang et al. (2023), indicating that debt utilization contributes positively to firm value only up to an optimal threshold, beyond which it becomes detrimental to performance. In practice, firms within the consumer goods subsector often employ debt to support expansion and increase production capacity. Nevertheless, when such investments have not yet reached optimal efficiency, short-term profitability may be adversely affected (Putra et al., 2023; Juwono & Santoso, 2025).

Furthermore, asset utilization efficiency, as measured by TATO, is found to have a positive influence on both profitability and stock prices. Firms that manage their assets more efficiently are better positioned to generate higher sales and profits, thereby enhancing their attractiveness to investors. Operational efficiency is particularly crucial in

the consumer goods industry, which is characterized by relatively low profit margins and intense competition. These findings are in line with prior studies by Muñoz-Villamizar et al. (2022), Linuhung and Mediawati (2023), Oyeyipo et al. (2023), and Rizka and Ulfida (2024), highlighting that the optimization of asset utilization is a key driver of improved financial performance. Therefore, a higher asset turnover ratio reflects better managerial efficiency in utilizing resources to create value for shareholders.

Profitability, as proxied by Return on Assets (ROA), is also found to have a positive effect on stock prices. This indicates that a firm's ability to generate profits is a primary factor considered by investors in evaluating firm value. High profitability provides a strong positive signal that the company is managed efficiently and possesses favorable growth prospects, thereby increasing investor interest. This finding by Hasangapon et al. (2021), Noor et al. (2022), and Arhinful et al. (2025) is consistent with previous studies, which assert that profitability is a key determinant of firm value and investor confidence.

The results reveal that ROA mediates the relationship between financial performance and stock prices. Liquidity indirectly enhances stock prices through profitability, implying that effective liquidity management drives profit generation and investor interest, as supported by Gursida (2019), Fransisca and Herijawati (2022), and Chikwira and Mohammed (2023). Similarly, capital structure influences stock prices through profitability; higher debt increases interest burdens, reducing profitability and stock attractiveness, aligning with Yenni et al. (2021) and Hertina et al. (2021). Furthermore, asset efficiency impacts stock prices indirectly through profitability, indicating the market prioritizes profitability generated from efficient asset utilization rather than efficiency itself, consistent with Widya (2023) and Haviza (2025). Ultimately, these findings underscore that profitability serves as a crucial link between internal financial performance and market valuation, making it a central consideration for investors in making investment decisions.

CONCLUSION

This study concludes that financial performance plays a pivotal role in shaping both profitability and stock prices in manufacturing firms within the consumer goods subsector. Liquidity and asset efficiency are found to enhance profitability and strengthen market valuation, while excessive leverage tends to undermine profitability without exerting a direct influence on stock prices. Profitability emerges as a central mechanism linking internal financial performance to market responses, as investors place greater emphasis on a firm's ability to generate returns rather than solely on its liquidity position or capital structure. These findings imply that firms should prioritize efficient asset utilization and maintain optimal liquidity to sustain profitability and investor confidence, while managing debt cautiously to avoid financial strain. From an investment perspective, the results underscore the importance of profitability indicators as a primary basis for evaluating firm value and making informed investment decisions.

Nevertheless, this study is subject to several limitations. It is confined to manufacturing firms in the consumer goods subsector and a specific observation period, which may restrict the generalizability of the findings across sectors and time horizons. Additionally, the analysis is limited to selected financial ratios and does not incorporate external determinants such as macroeconomic conditions, market sentiment, or corporate governance factors. Future research is therefore encouraged to broaden the scope by including diverse industries, extended time periods, and additional explanatory variables. Moreover, the use of alternative analytical approaches or cross-country comparisons may provide more comprehensive insights. These directions are expected to enhance the robustness and generalizability of future studies in explaining the linkage between financial performance and market valuation.

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