CHAPTER I
INTRODUCTION

1.1 Background of the Study

The dynamic development of both global and domestic economic environments requires every industrial sector to continuously adapt and demonstrate strong competitive performance. In this context, the Indonesia Stock Exchange (IDX) plays an essential role in providing an efficient, transparent, and regulated marketplace for securities trading, while simultaneously offering companies access to external financing for business expansion. Under the supervision of the Financial Services Authority (OJK), the IDX not only facilitates orderly trading activities but also monitors market movements that reflect investor sentiment. These functions collectively contribute to the strengthening and growth of Indonesia's economy (Anggusti, 2020; OJK, 2023).

One of the fundamental indicators used to evaluate industry performance is the financial condition of its companies, which is reflected through in their stock prices in the capital market. Stocks represent ownership claims over corporate assets, wherein invested capital is utilized to support operational and strategic activities, thereby positioning shareholders as partial owners of the firm (Suratna et al., 2020). A company's market value is therefore manifested in its stock price. Strong financial performance generally leads to an appreciation in stock prices, whereas poor performance may trigger substantial declines. Because stock prices are sensitive to both internal and external factors, they tend to fluctuate continuously (Rahayu et al., 2024).

According to the 2024 annual report issued by the Indonesia Stock Exchange, the Indonesian capital market exhibited dynamic growth throughout the year, with total market capitalization surpassing IDR 11,700 trillion. This development reflects strong investor confidence in publicly listed companies, despite challenges posed by global economic uncertainty. Complementing this, data published by the Financial Services Authority (OJK, 2024) indicates a continuous increase in the number of retail investors, suggesting that equity instruments remain highly attractive to the Indonesian public.

The broader industrial landscape in Indonesia has also undergone significant transformation in response to shifts in global and domestic economic conditions. One industrial subsector that has consistently demonstrated resilience and strong performance is the food and beverage industry. This subsector is considered highly promising due to its role in producing essential consumer goods with relatively stable demand, even during economic downturns, thereby positioning it as a strategic contributor to national economic stability (Ministry of Industry, 2024).

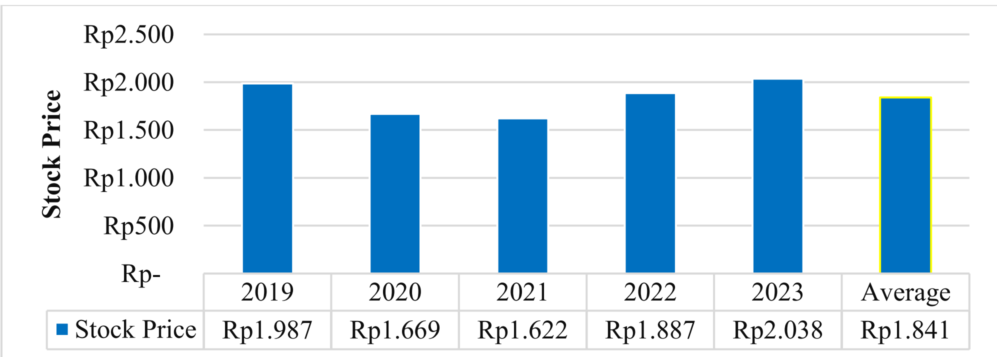
Pardede (2024) highlights that the food and beverage sector shows remarkable resilience in the face of global economic pressures. Stable domestic demand and resistance to macroeconomic volatility give the subsector a clear competitive advantage. These characteristics make food and beverage companies a relevant subject for academic inquiry, particularly in relation to financial performance and its implications for stock price behavior.

In addition, Adhito (2024) reports that the food and beverage industry maintained strong and consistent performance throughout 2024. During the third quarter, the subsector recorded a growth rate of 5.82%, surpassing national GDP growth of 4.95%. During the same period, the subsector contributed 40.17% to non-oil and gas manufacturing GDP, making it the highest contributor among all manufacturing subsectors. Further supporting this, data from the Investment Coordinating Board (BKPM) indicate that investment realization in the food and beverage industry reached IDR 22.63 trillion in the first quarter of 2025, reflecting substantial investor confidence in the sector's long-term potential.

These developments demonstrate the promising investment prospects of the food and beverage subsector. Supported by Indonesia's large population base and expanding middle class, consumer demand for food and beverage products continues to increase. This consistent growth and positive long-term outlook position the subsector as an appropriate object of study, particularly regarding the relationship between financial performance and stock price movements.

The food and beverage subsector forms part of the consumer non-cyclical industry group, which comprises products with relatively stable demand regardless of economic fluctuations. This classification aligns with previous research indicating that the subsector is relatively resistant to economic shocks while maintaining steady positive growth. Therefore, the present study focuses specifically on the food and beverage subsector rather than the broader consumer non-cyclical category. The relative homogeneity in consumption patterns, production structures, and cost characteristics within this subsector enables more precise, representative, and analytically reliable research findings.

The following presents the average stock prices of food and beverage subsector companies listed on the Indonesia Stock Exchange (IDX):



Source: www.yahoofinance.com, data processed by the author (2024)

Figure 1. 1 Average Stock Prices of Food and Beverage Sub-Sector Companies Listed on the Indonesia Stock Exchange (IDX) for the 2019–2023 Period.

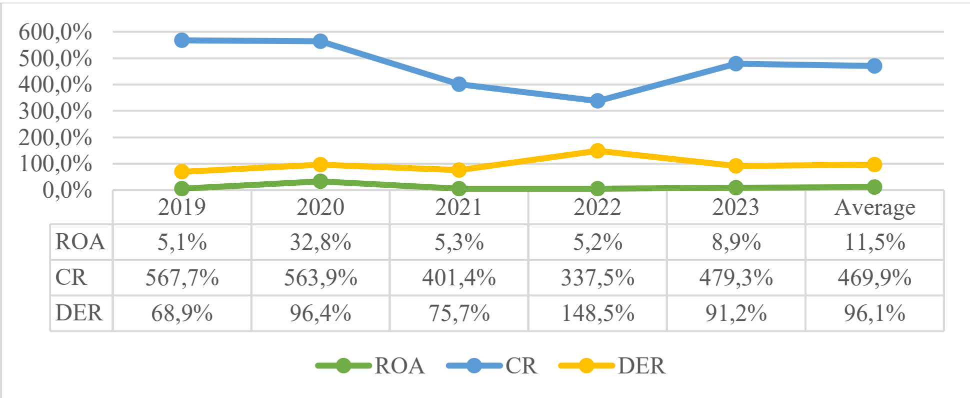
The data presented in Figure 1.1 show that average stock prices experienced significant fluctuations during the 2019–2023 period. In 2019, the average stock price stood at IDR 1,987, decreasing to IDR 1,669 in 2020 and further to its lowest point of IDR 1,622 in 2021, largely due to economic contraction caused by the COVID-19 pandemic. A recovery trend began in 2022, with the average stock price increasing to IDR 1,887 and subsequently rising to IDR 2,038 in 2023. These fluctuations reflect broader macroeconomic conditions, changes in consumer behavior, and investor sentiment toward the subsector's performance.

Financial ratios serve as essential tools for evaluating a company's financial condition in terms of liquidity, leverage, activity, and profitability. These ratios form the foundation of fundamental analysis, which assesses managerial effectiveness in creating value and guides investment decision-making (Sheriff, 2023).

This study focuses on three widely used financial ratios: Return on Assets (ROA), Current Ratio (CR), and Debt to Equity Ratio (DER). ROA measures the efficiency with which a company utilizes its assets to generate profits (Yanti, 2022). CR evaluates the company's ability to meet its short-term obligations (Kasmir, 2021). DER assesses the balance between debt and equity within the company's capital structure and provides insight into financial risk (Kasmir, 2021).

According to statistical data published by the Indonesia Stock Exchange (IDX, 2024), the average ROA of manufacturing companies ranges from 6% to 8%, the average CR ranges from 2.1 to 2.5 times, and the average DER ranges from 0.9 to 1.5 times. These indicators collectively demonstrate relatively stable financial conditions among publicly listed manufacturing companies.

The following presents the average ROA, CR, and DER values of food and beverage subsector companies listed on the IDX from 2019 to 2023:



	2019	2020	2021	2022	2023	Average
ROA	5,1%	32,8%	5,3%	5,2%	8,9%	11,5%
CR	567,7%	563,9%	401,4%	337,5%	479,3%	469,9%
DER	68,9%	96,4%	75,7%	148,5%	91,2%	96,1%

Source: www.idx.co.id, data processed by the author (2024)

Figure 1. 2 Average ROA, CR, and DER of Food and Beverage Sub-Sector Companies Listed on the Indonesia Stock Exchange (IDX) for the 2019–2023 Period.

Based on Figure 1.2, it can be observed that the Return on Assets (ROA), Current Ratio (CR), and Debt to Equity Ratio (DER) of food and beverage subsector companies listed on the Indonesia Stock Exchange during the 2019–2023 period experienced year-to-year fluctuations. These movements illustrate the dynamic financial performance of the companies as they navigated changing economic conditions throughout the study period.

The figure shows that ROA increased significantly from 5.1% in 2019 to 32.8% in 2020, indicating improved asset utilization efficiency in generating net profit amid challenging economic conditions at the onset of the pandemic. However, during 2021–2022, ROA declined from 5.3% to 5.2%, reflecting reduced profitability resulting from rising production costs and weakening consumer purchasing power. In 2023, ROA increased again to 8.9%, in line with the national economic recovery and increasing consumer demand for food and beverage products.

Meanwhile, the Current Ratio (CR) exhibits a predominantly declining trend. In 2019, CR stood at 567.7%, slightly decreased to 563.9% in 2020, and continued to decline sharply to 337.5% in 2022, before increasing again to 479.3% in 2023. The continuous decrease in CR up to 2022 suggests a declining ability of companies to meet short-term liabilities using current assets or, alternatively, reflects increasing efficiency in the utilization of current assets for operational activities. The increase in CR in 2023 indicates an improvement in liquidity conditions as revenues and operating cash flows strengthened.

The Debt to Equity Ratio (DER), on the other hand, displays a fluctuating pattern. In 2019, DER was recorded at 68.9%, rising to 96.4% in 2020, then decreasing to 75.7% in 2021, surging sharply to 148.5% in 2022, and declining again to 91.2% in 2023. The increase in DER in 2022 indicates greater reliance on debt financing to support operational expansion and post-pandemic business needs. However, the decline in 2023 suggests a rebalancing of capital structures through increased equity to reduce financial risk.

These variations indicate that the financial conditions of food and beverage subsector companies underwent significant dynamics throughout the 2019–2023 period. Increases in ROA are generally associated with rising stock prices, as investors perceive stronger profitability. Conversely, declines in CR and increases in DER in certain years may reduce investor confidence due to heightened liquidity and leverage risks.

The differing movements between ROA, CR, and DER on stock prices indicate that stock price behavior is not determined solely by company financial performance. External factors such as macroeconomic conditions, interest rate movements, and investor sentiment also play important roles. Accordingly, deeper analysis is required to assess the extent to which these financial ratios influence stock price fluctuations within the subsector.

The selection of ROA, CR, and DER as research variables is based on the existence of a research gap reflected in inconsistencies among previous empirical findings. Several studies report differing results regarding their influence on stock prices. Kanisawati (2019) and Wijaya (2024) find that ROA significantly affects stock prices, whereas Julia (2021) and Wirandi (2022) report no significant effect.

Similarly, Dandono and Nabilah (2024) conclude that CR has a significant impact on stock prices, while Mario et al. (2020) find a negative and insignificant effect. Aryani et al. (2024) also report that CR does not significantly influence stock prices. Regarding DER, Noviany (2022) finds a positive and significant effect, whereas Akbar (2021) reports a negative and insignificant influence.

Based on the phenomenon illustrated in Figure 1.2 and the inconsistencies in prior research, this study aims to examine **"The Influence of Return on Assets (ROA), Current Ratio (CR), and Debt to Equity Ratio (DER) on Stock Prices of Food and Beverage Subsector Companies Listed on the Indonesia Stock Exchange During the 2019–2023 Period."** This study offers several novelties. First, it integrates Signaling Theory with the Efficient Market Hypothesis (EMH), emphasizing that efficient markets respond rapidly and rationally to fundamental information. Second, it uses stock prices after financial statement publication rather than closing prices, ensuring that values reflect actual market reactions. Third, the study employs panel data regression to capture variations across firms and over time. Focusing on the food and beverage subsector over a five-year observation period (2019–2023) allows for a comprehensive understanding of the relationship between financial performance and stock prices in one of Indonesia's most defensive consumer sectors.

1.2 Problem Identification and Problem Formulation

1.2.1 Problem Identification

Based on the background described above, the following research problems have been identified:

1. There were fluctuations in the average stock prices of food and beverage subsector companies listed on the Indonesia Stock Exchange during the 2019–2023 period. Stock prices declined in 2020 and 2021, then increased again from 2022 to 2023. This condition indicates a level of stock price instability that may influence investor perceptions company performance.
2. Return on Assets (ROA), which reflects a company's ability to generate profits from its assets, exhibited unstable movement throughout the 2019–2023 period. In certain years, ROA declined while stock prices increased. This condition highlights a discrepancy between theoretical expectations, which suggest that an increase in ROA should be followed by an increase in stock prices, and the empirical results observed in the food and beverage subsector.
3. The Current Ratio (CR), as an indicator of company liquidity, also showed significant fluctuations during the observation period. In several years, increases in CR were not followed by increases in stock prices; in fact, in some periods, the trends even moved in opposite directions. This indicates an inconsistency between empirical conditions and the theoretical view that higher liquidity reflects a company's ability to meet short-term obligations, which should increase investor

interest.

4. The Debt to Equity Ratio (DER), which reflects a company's capital structure, experienced considerable variation throughout 2019–2023 period. Increases in DER in certain years were not always accompanied by declines in stock prices. This suggests a discrepancy between the theoretical expectation that higher leverage increases financial risk and the empirical reality observed in the food and beverage subsector.
5. There exists a research gap among prior empirical findings regarding the influence of Return on Assets (ROA), Current Ratio (CR), and Debt to Equity Ratio (DER) on stock prices. Some studies report positive and significant effects, while others report negative or insignificant results. These inconsistencies form the basis for the need for further empirical investigation using food and beverage subsector companies listed on the Indonesia Stock Exchange during the 2019–2023 period.

1.2.2 Problem Formulation

In accordance with the problem identification presented above, the research questions formulated in this study are as follows:

1. Does Return on Assets (ROA) influence the stock prices of food and beverage subsector companies listed on the Indonesia Stock Exchange during the 2019–2023 period?
2. Does the Current Ratio (CR) influence the stock prices of food and beverage subsector companies listed on the Indonesia Stock Exchange during the 2019–2023 period?
3. Does the Debt to Equity Ratio (DER) influence the stock prices of food and beverage subsector companies listed on the Indonesia Stock Exchange during the 2019–2023 period?
4. Do ROA, CR, and DER simultaneously influence the stock prices of food and beverage subsector companies listed on the Indonesia Stock Exchange during the 2019–2023 period?

1.3 Purpose and Objectives of the Study

1.3.1 Research Purpose

The purpose of this study is to analyze the relationship between Return on Assets (ROA), Current Ratio (CR), and Debt to Equity Ratio (DER) on stock prices of food and beverage subsector companies listed on the Indonesia Stock Exchange during the 2019–2023 period. Furthermore, this study aims to formulate conclusions based on the research findings and provide recommendations to address the identified issues.

1.3.2 Research Objectives

The objectives of this study are as follows:

1. To examine the effect of Return on Assets (ROA) on stock prices of food and beverage subsector companies listed on the Indonesia Stock Exchange during the

2019–2023 period.
2. To examine the effect of the Current Ratio (CR) on stock prices of food and beverage subsector companies listed on the Indonesia Stock Exchange during the 2019–2023 period.
3. To examine the effect of the Debt to Equity Ratio (DER) on stock prices of food and beverage subsector companies listed on the Indonesia Stock Exchange during the 2019–2023 period.
4. To examine the simultaneous effects of ROA, CR, and DER on stock prices of food and beverage subsector companies listed on the Indonesia Stock Exchange during the 2019–2023 period.

1.4 Significance of the Study

1.4.1 Practical Implications

This study is conducted to apply relevant knowledge, insight, and understanding while contributing to the development of financial accounting, particularly with regard the influence of Return on Assets (ROA), Current Ratio (CR), and Debt to Equity Ratio (DER) on stock prices of food and beverage subsector companies listed on the Indonesia Stock Exchange during the 2019–2023 period. The researcher also expects that the findings of this study will provide useful information for parties intending to conduct further research on related issues.

1.4.2 Academic Implications

The findings of this study contribute to the advancement of knowledge in the field of accounting, particularly within the area of Financial Accounting. This research may serve as a reference for future scholars seeking to understand the relationship between financial ratios, Return on Assets (ROA), Current Ratio (CR), and Debt to Equity Ratio (DER) on stock prices. The results enrich existing literature on the determinants of stock price movements in the food and beverage subsector and provide a foundation for subsequent studies that may expand the analytical scope within the fields of finance and investment.