

CHAPTER II

LITERATURE REVIEW

2.1 Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (EMH) posits that market prices fully reflect all available information. The theory classifies market efficiency into three forms: weak, semi-strong, and strong. In the weak form, stock prices incorporate only historical information, such as past price movements and trading volume. The semi-strong form asserts that stock prices reflect all publicly available information, including financial statements and economic news. Meanwhile, the strong form posits that stock prices incorporate not only public information but also private or insider information. Fama further emphasizes that in an efficient market, investors cannot consistently earn returns above the market average (abnormal returns), as all information is already fully embedded in security prices (Fama, 1970).

The EMH concept states that all available information, both firm-specific and market-wide, has been fully incorporated into stock prices. Under strong-form efficiency, stock prices move randomly and cannot be predicted because new information is absorbed immediately by the market. Therefore, in empirical studies examining the relationship between financial performance and stock prices, it is essential that stock price data be measured after the release of financial information in order to align with the assumptions of market efficiency (Indrayono, 2022).

The relationship between EMH and Return on Assets (ROA) suggests that in a semi-strong efficient market, publicly available information, such as firm profitability reflected through ROA, is immediately incorporated into stock prices. Higher ROA signals greater operational efficiency and stronger profit-generating capability, which enhances investor confidence and increases demand for the company's shares. Recent studies also indicate that in increasingly digitalized market environments, investor reactions to financial information such as ROA occur more rapidly and accurately (Vachhani, 2017).

Similarly, the relationship between EMH and the Current Ratio (CR) indicates that information regarding a company's short-term liquidity position is considered fundamental information to which the market responds quickly. A healthy CR reflects strong short-term financial stability and lower default risk, thereby increasing investor confidence. Within the semi-strong form of EMH, such information is expected to be reflected in stock prices immediately upon public disclosure (Clare et al., 2024).

The relationship between EMH and the Debt to Equity Ratio (DER) highlights that information related to a company's capital structure is rapidly processed by the market. A high DER is generally interpreted as an indicator of higher financial risk, and in an efficient market, stock prices will adjust quickly to reflect this increased risk. Consequently, companies with lower DER, which indicates a healthier capital structure, are generally perceived more positively by investors due to their lower level

of financial risk (Investopedia, 2024).

The principles of the Efficient Market Hypothesis, particularly the semi-strong form, provide a fundamental basis for determining the appropriate timing for measuring stock price data. The semi-strong form posits that stock prices incorporate all publicly available information, including audited annual financial statements. Therefore, to minimize methodological bias, the stock prices used in this study are not year-end prices but rather the average closing prices for January ($t+1$), February ($t+1$), and March ($t+1$). The formula used is as follows:

$$\text{Stock Price} = \frac{(\text{Closing Price Jan}_{t+1} + \text{Closing Price Feb}_{t+1} + \text{Closing Price Mar}_{t+1})}{3}$$

The selection of these months is intended to capture market expectations in January, historical price patterns in February, and actual market reactions to financial information, which is generally published between late February and March. By using post-disclosure stock prices, the data in this study reflect information that is already available to the market, thereby aligning with EMH principles. This approach is consistent with the methodological recommendations of Indrayono (2022), who highlights the limitations of using year-end stock prices, as financial statements are typically not yet available to investors at that time. Furthermore, averaging stock prices across these three months reduces short-term volatility and provides a more stable and representative measure of stock price levels.

2.2 Signaling Theory

Signaling Theory explains that in markets characterized by information asymmetry, parties possessing superior information, such as companies can transmit signals to less-informed parties, namely investors, in order to reveal their true characteristics. Within the capital market context, companies may employ signals in the form of dividend announcements, investment decisions, or capital structure policies to convey their quality to investors. Investors, in turn, interpret these signals and use them to form expectations about the firm's future prospects. For a signal to be effective, the cost of signaling must be lower for firms with genuinely strong performance than for firms with weaker performance, ensuring that only high-quality firms can send credible signals (Spence, 1973).

Caesaria and Suhartono (2023) further explain that signaling theory illustrates how management communicates information, such as profitability indicators or audited financial statements, as positive signals to investors. The purpose of such disclosures is to reduce information asymmetry and enhance firm value by strengthening market confidence in the company's future performance.

In the field of accounting, signaling theory plays a crucial role in ensuring that relevant information is conveyed to external stakeholders. Although signals can strengthen investor confidence, the theory also highlights the risk of misinformation, as weak or manipulative signals may mislead investors. Therefore, strict oversight of financial reporting practices is necessary to ensure the credibility of the information provided (Nur et al., 2024).

The relationship between signaling theory and Return on Assets (ROA) suggests that high profitability serves as a positive signal sent by management to the market. A high ROA indicates that the company is able to utilize its assets efficiently to generate profits, which strengthens investor confidence and leads to an increase in stock prices. Conversely, a low ROA may function as a negative signal, reducing investor expectations regarding the company's future performance. Thus, management has strong incentives to disclose favorable financial information in order to reduce information asymmetry and attract investors (Spence, 1973; Brigham & Houston, 2022).

The relationship between signaling theory and the Current Ratio (CR) indicates that a strong liquidity position can function as a signal of short-term financial stability. An adequate CR demonstrates the company's ability to meet its short-term obligations, which provides a positive signal to investors that the company is financially sound. However, excessively high liquidity may also be interpreted as inefficient use of current assets. Therefore, within the signaling framework, firms are expected to maintain an optimal CR that reflects both efficiency and stability (Ross, 1977; Tandelilin, 2010).

The relationship between signaling theory and the Debt to Equity Ratio (DER) highlights that a company's capital structure serves as an important signal for investors in assessing financial risk and managerial strategy. A low DER may signal prudence in debt utilization and strong financial stability, which is generally viewed positively by the market. However, in certain contexts, a high DER may also signal managerial confidence in the firm's future prospects and its ability to meet debt obligations. Therefore, the effect of DER on stock prices depends on how investors interpret the signal within the broader economic and industry environment (Brigham & Houston, 2022).

2.3 Profitability

Profitability ratios are used to evaluate a company's ability to generate earnings by considering its total assets, sales, and shareholders' equity. Because profit plays a critical role in supporting the company's operations, these ratios are often regarded as a primary indicator for assessing corporate performance. Investors must carefully consider these aspects before making investment decisions, as the fundamental objective of the firm is to maximize profits. A high profitability ratio indicates a strong financial position, whereas a low ratio suggests that the company is unable to generate adequate earnings (Jaya et al., 2023).

According to Darmawan (2020), profitability ratios are designed to assess a company's capacity to generate profit within a specific period and to demonstrate the effectiveness of management in carrying out its operational activities. These ratios also serve as a crucial factor in ensuring a company's long-term sustainability, as high profitability reflects better future prospects. Consequently, firms will continuously strive to improve their profitability to maintain long-term business continuity.

Seto et al. (2023) describe profitability ratios as a measurement tool used to assess a firm's ability to generate profits. These ratios reflect the effectiveness of corporate management in creating earnings and serve as a key reference for investors in making investment decisions.

A company's level of profitability can be assessed through Return on Assets (ROA). A high ROA indicates the company's ability to generate substantial profits relative to its total assets. ROA depends on how effectively the firm utilizes its assets in investment activities. Conversely, the total asset value is also influenced by numerous factors, including the extent to which assets are allocated to meet financial obligations (Hamzah et al., 2024).

Febriana et al. (2020) outline several objectives of applying profitability ratios, which include:

1. Calculating the profit earned by the company during an accounting period.
2. Comparing the profits generated in the current period with those of previous periods.
3. Assessing the company's ability to manage and develop its capital, whether sourced from loans or its own equity.
4. Calculating net profit after tax based on the company's available capital.
5. Comparing the company's current profit position with the results of previous accounting periods.

The application of profitability ratios also provides various benefits, including:

1. Understanding the company's profit for a particular accounting period.
2. Observing the company's profit trends over time.
3. Comparing the firm's current profit position with that of prior periods.
4. Determining the amount of net profit earned after tax deductions.
5. Analyzing the company's productivity in managing capital to generate profit.

Based on the definitions presented above, profitability can be concluded as a critical aspect in evaluating a company's performance, particularly its ability to generate earnings. Profitability reflects the effectiveness of management in conducting operational activities and optimizing the utilization of available resources. A high level of profitability indicates a healthy financial condition and promising business prospects in the future. In addition to functioning as a primary indicator of business sustainability, profitability plays an important role in attracting investor interest due to its association with potential dividend distribution. In general, profitability ratios consist of five types: gross profit margin, net profit margin, return on investment, return on assets, and return on equity. However, this study focuses solely on Return on Assets (ROA) as the profitability ratio used to evaluate the company's ability to generate earnings.

2.3.1 Return on Assets (ROA)

Return on Assets (ROA) is a profitability ratio that measures the extent to which

a company is able to generate net income in relation to its total assets. This ratio reflects the degree of efficiency with which a firm utilizes its assets to generate profit within a specific period.

ROA serves as an indicator of how effectively a company manages its assets to produce earnings. A higher ROA value signifies greater efficiency in asset utilization, while a lower ROA indicates weaker performance in converting assets into profit (Astuti et al., 2021).

According to Febriana et al. (2020), Return on Assets is a ratio used to assess the extent to which a company is capable of generating net income after tax. The formula for calculating ROA is as follows:

$$\text{Return on Assets (ROA)} = \frac{\text{Net Income}}{\text{Total Assets}} \times 100\%$$

Fitriana (2024) states that ROA represents the rate of return on the total assets employed within a firm. ROA evaluates managerial effectiveness in managing investments and reflects the productivity of all corporate funds, whether sourced from debt or shareholders' equity, in generating profit.

Based on the theoretical explanations above, it can be concluded that Return on Assets (ROA) is a crucial ratio in evaluating a company's ability to utilize its assets to generate profit. A high ROA indicates strong managerial efficiency in producing net income from total assets, whereas a low ROA reflects suboptimal asset utilization and weaker profitability. Additionally, ROA functions as an indicator of management's effectiveness in managing investments and represents the productivity of corporate funds, both internally and externally sourced. Thus, ROA serves as one of the primary measures used to assess the rate of return on the assets employed by a company.

2.3.2 Factors Influencing Return on Assets

Given the importance of Return on Assets (ROA) as an indicator of asset efficiency and productivity, understanding the factors that influence ROA becomes essential. These factors reflect how a company's operational activities contribute to the achievement of profitability. According to Febriana et al. (2020), the key factors influencing ROA include the following:

a. Cash Turnover

Cash turnover reflects the efficiency with which a company manages its cash resources. This ratio plays a crucial role in assessing whether a firm's working capital is sufficient to meet its obligations and support sales activities. A higher cash turnover indicates greater efficiency in the utilization of cash to generate revenue, thereby contributing positively to overall profitability.

b. Receivable Turnover

Receivable turnover is used to evaluate the effectiveness of a company's credit sales policies. Sawir explains that receivable turnover is an indicator that measures the duration required for collecting accounts receivable within a single period or the frequency with which funds invested in receivables circulate in one year. This turnover

rate is influenced by the amount of capital tied to receivables; the faster the turnover, the quicker the recovery of invested capital, ultimately enhancing profitability.

c. Inventory Turnover

Inventory represents an essential component of current assets and plays an active role in operational activities. Inventory is procured continuously, processed, and ultimately sold to customers. Efficient management of inventory turnover is vital for accelerating cash inflows through sales. A higher inventory turnover indicates that the company can convert inventory into sales more rapidly, which directly contributes to improved operating performance and supports higher ROA.

2.4 Liquidity

Liquidity reflects a company's ability to maintain financial stability, particularly in meeting its short-term obligations. This ratio is essential for assessing whether a firm possesses a sufficient amount of current assets to settle its liabilities in a timely manner. According to Jaya et al. (2023), liquidity ratios describe a company's capacity to fulfill its short-term obligations as they fall due. A higher liquidity ratio indicates stronger financial performance, as it demonstrates that the firm has adequate assets to cover all of its current liabilities. In other words, high liquidity signifies sound financial conditions and operational stability.

Liquidity also reflects a company's capability to meet immediate financial commitments, especially those categorized as short-term. This ratio not only provides insight into the security position of short-term creditors but also ensures that operational activities continue without disruption. To evaluate liquidity, three primary indicators are commonly used: the Current Ratio, the Quick Ratio (Acid-Test Ratio), and the Cash Ratio (Sulindawati et al., 2019).

According to Fitriana (2024), liquidity ratios offer a variety of benefits for corporate stakeholders. These ratios play an important role in assessing a company's financial condition and serve several key purposes, including:

1. Assessing the company's ability to meet obligations that are immediately due, ensuring that liabilities can be settled on time in accordance with predetermined schedules.
2. Measuring the extent to which the company can repay its short-term obligations using its total current assets.
3. Determining the company's capacity to satisfy short-term liabilities with highly liquid current assets, excluding inventories or receivables.
4. Comparing available inventory with working capital to evaluate financial balance.
5. Measuring the amount of cash available to settle corporate debts.
6. Serving as a financial planning tool, particularly in cash and debt management for future periods.
7. Monitoring liquidity conditions over time through inter-period comparisons.
8. Identifying potential weaknesses within the company by examining the

components of current assets and current liabilities in greater detail.

9. Acting as a performance evaluation indicator for management, while also providing useful information to external parties such as investors or creditors in assessing the company's financial health.

Based on the preceding theoretical perspectives, liquidity ratios can be concluded as indicators that reflect a company's ability to meet its short-term obligations in a timely manner, thus serving as markers of financial health and operational stability. A higher liquidity ratio indicates a stronger financial position, as it demonstrates that the company has sufficient assets to cover all of its current liabilities. In addition to providing insight into the safety of short-term creditors, liquidity ratios also function as tools for financial planning and performance evaluation, enabling companies to manage cash, liabilities, and potential weaknesses within current asset and liability components. To measure liquidity, the three most commonly used indicators are the Current Ratio, Quick Ratio (Acid-Test Ratio), and Cash Ratio. However, this study employs the Current Ratio as the primary indicator for assessing the company's ability to meet short-term obligations.

2.4.1 Current Ratio (CR)

The Current Ratio serves as one of the primary measurement tools in assessing a company's short-term liquidity. This ratio indicates how effectively current assets can be utilized to settle obligations that are immediately due. According to Jirwanto et al. (2024), the Current Ratio is a metric used to evaluate the extent to which a company is capable of fulfilling its short-term liabilities that mature within the period by employing its available current assets. Current assets consist of various components such as cash, marketable securities, accounts receivable, and inventories, while current liabilities include tax payables, interest payables, notes payables, salary payables, and other short-term obligations.

Formula:

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \times 100\%$$

According to Darmawan (2020), the Current Ratio compares current assets with current liabilities and serves as a key indicator in assessing a company's ability to meet its short-term obligations. This ratio shows the extent to which current assets can cover these liabilities. A higher Current Ratio reflects a greater ability to settle short-term obligations. However, a Current Ratio that is too low may indicate liquidity problems, whereas an excessively high ratio may also be undesirable, as it suggests the presence of idle funds that could reduce potential returns for the company.

Sulindawati et al. (2019) further explain that the Current Ratio is commonly used to analyze a company's working capital position by comparing current assets with current liabilities. This ratio reflects the company's liquidity level and its ability to meet short-term obligations. Nevertheless, although a high Current Ratio is often

considered a sign of safety for short-term creditors, it does not necessarily guarantee the company's ability to pay maturing debts. An unbalanced composition of current assets, such as excessive inventory or difficult-to-collect receivables, may impede asset turnover and create liquidity risks. Therefore, the ideal Current Ratio cannot be universally determined, as it depends on the financial conditions and operational characteristics unique to each company.

Based on the preceding viewpoints, it can be concluded that the Current Ratio is an important indicator for assessing a company's ability to meet its short-term obligations using its current assets. The ratio is computed by comparing current assets to current liabilities, where a higher ratio indicates a stronger capacity to settle short-term obligations. However, an excessively low ratio may reflect liquidity difficulties, while an excessively high ratio may not necessarily be advantageous, as it could imply inefficient use of assets due to idle funds. Moreover, an unbalanced composition of current assets, such as excessive inventories or uncollectible receivables, may hinder asset turnover and increase liquidity risk. Consequently, there is no universally ideal Current Ratio, as each company's financial condition varies and is influenced by a range of internal and external factors.

2.4.2 Factors Influencing Current Ratio

The Current Ratio reflects a company's ability to fulfill its short-term obligations by utilizing its available current assets. A higher ratio indicates stronger liquidity and a greater capacity to settle immediate liabilities. However, various factors can influence the level of the Current Ratio, all of which require careful consideration in corporate financial analysis. According to Sulindawati et al. (2019), several factors must be evaluated before analysts draw conclusions from a Current Ratio assessment:

1. The distribution or composition of current assets must be examined to understand the structure of assets held by the company.
2. Credit policies applied by creditors, as well as the company's own credit terms in selling goods, may influence liquidity conditions.
3. The true realizable value of current assets should be considered, since large receivable balances may not reflect their full collectible value.
4. Changes in the value of current assets, particularly during deflationary conditions, may reduce inventory value and affect liquidity.
5. Inventory fluctuations in relation to sales volume must be analyzed to avoid the risk of overinvestment in inventory.
6. Future working capital requirements should be taken into account, as higher working capital needs require maintaining a higher liquidity ratio.
7. The type of business, whether manufacturing, trading, or services, also influences the interpretation of the Current Ratio and the firm's working capital management strategies.

Understanding the factors that affect the Current Ratio enables companies to manage liquidity and working capital more prudently. Effective attention to these factors helps ensure that the company maintains an optimal ability to fulfill short-term obligations, thereby strengthening the confidence of creditors and business partners. Furthermore, more efficient management of current assets contributes to overall financial stability, which ultimately supports long-term growth and business sustainability.

2.5 Leverage

Leverage ratios constitute an essential component of financial analysis, as they reflect an entity's ability to meet all of its financial obligations. This information is highly valuable for external stakeholders in assessing the level of financial risk and the long-term viability of a company. Consequently, a comprehensive understanding of leverage ratios becomes crucial in supporting informed economic decision-making.

According to Kasmir (2019), leverage ratios measure the extent to which a company's assets are financed by debt, representing the comparison between total liabilities and total assets. These ratios are also used to evaluate a company's ability to settle all short-term and long-term obligations in the event of liquidation. Common types of leverage ratios include the Debt to Assets Ratio (debt ratio), Debt to Equity Ratio, Long-Term Debt to Equity Ratio, Times Interest Earned, and Fixed Charge Coverage.

Jirwanto et al. (2024) further explain that leverage ratios illustrate a company's capacity to fulfill its financial obligations, both short-term and long-term, particularly under liquidation conditions. Although creditors and long-term shareholders observe short-term financial positions, their primary concern lies in long-term financial stability, as strong short-term performance does not always guarantee sustainability in the future. Therefore, leverage ratio analysis plays a critical role in financial evaluation.

Astuti et al. (2021) emphasize that leverage ratios play an essential role in credit analysis and financial risk assessment, similar to liquidity ratios. These ratios provide insights into a firm's financing policies, particularly decisions related to debt versus equity financing and their implications for operational and financial risk. To maintain long-term viability and optimize the benefits of both financing sources, management must be able to formulate and implement an effective capital structure strategy. Based on Kasmir (2015), as cited in Astuti et al. (2021), the objectives of employing leverage ratios include:

1. Assessing the firm's ability to meet its financial liabilities.
2. Indicating the firm's capacity to satisfy fixed financial obligations.
3. Maintaining an optimal balance between fixed assets and equity for accurate valuation.
4. Determining the proportion of total assets financed by debt.
5. Evaluating the impact of debt on asset management efficiency.

6. Ensuring long-term liabilities are adequately supported by shareholders' equity.
7. Assessing the magnitude and maturity profile of outstanding debt.

The application of Leverage ratios also provides several important benefits:

1. Assisting creditors in evaluating the firm's debt-servicing capacity.
2. Enabling management to assess the firm's ability to meet fixed financial commitments.
3. Supporting balanced analysis between fixed assets and equity in capital structure decisions.
4. Identifying the proportion of asset financing derived from debt.
5. Assessing how leverage influences overall asset management performance.
6. Ensuring long-term liabilities are supported by adequate levels of equity.
7. Evaluating the volume of debt approaching maturity.

Based on the foregoing views, it can be concluded that leverage ratios reflect the firm's ability to satisfy its short-term and long-term obligations, particularly under liquidation scenarios. These ratios also help assess the degree to which the firm relies on debt financing and the resulting effects on financial stability and capital structure risk. In this study, the Debt to Equity Ratio (DER) is employed as the primary leverage indicator to measure the capital structure and leverage position of firms in the food and beverage subsector.

2.5.1 Debt to Equity Ratio (DER)

The Debt to Equity Ratio (DER) is a key financial metric used to evaluate a firm's capital structure. This ratio measures the proportion of total debt relative to shareholders' equity and reflects the degree of financial risk borne by the firm. DER serves as an important indicator for assessing the company's long-term leverage and its capacity to meet financial obligations. According to Jaya et al. (2022), the Debt to Equity Ratio illustrates the relationship between total liabilities and shareholders' equity within a firm's financial structure.

Formula:

$$\text{Debt to Equity Ratio (DER)} = \frac{\text{Total Liabilities}}{\text{Equity}} \times 100\%$$

Kasmir (2019) explains that the Debt to Equity Ratio represents the comparison between total liabilities, including both current and long-term obligations, and the company's equity. This ratio indicates the extent to which a firm relies on creditor financing relative to owner financing. In essence, DER shows how many units of debt are supported by each unit of equity, thereby illustrating the degree of leverage used by the company.

Siswanto (2021) states that DER reflects the proportion of shareholders' equity employed to support the company's total debt. This ratio also indicates the level of financial risk the company faces; a high DER suggests greater leverage and an increased likelihood of financial distress or bankruptcy, whereas a lower DER signifies a more conservative and stable capital structure.

Similarly, Jaya et al. (2023) note that DER is used to evaluate the balance between total debt and shareholders' equity, demonstrating the firm's ability to fulfill its financial commitments based on the capital available. Financially sound firms typically maintain a higher proportion of equity relative to debt, which reduces financial risk and promotes long-term sustainability.

Based on the foregoing perspectives, the Debt to Equity Ratio (DER) can be concluded as a financial indicator that measures the proportion between total liabilities and shareholders' equity. A higher DER indicates greater dependence on creditor financing and a higher level of financial risk, while a lower DER suggests lower leverage and a better ability to fulfill long-term obligations. As such, DER is a crucial metric for evaluating a company's financial stability, capital structure strategy, and overall risk profile.

2.5.2 Factors Influencing Debt to Equity Ratio

The Debt to Equity Ratio (DER) represents the proportion between total liabilities and shareholders' equity in a company's capital structure. This ratio indicates the extent to which a firm relies on creditor financing relative to owner financing. A higher DER reflects greater financial risk, including a heightened likelihood of difficulty in meeting long-term obligations. Conversely, a lower DER suggests a stronger ability to manage debt and maintain financial stability. However, several factors influence the level of DER, all of which must be considered when assessing a company's financial health and risk profile.

According to Darmawan (2020), the key factors that affect the Debt to Equity Ratio include:

1. Business environment stability and predictability: Firms operating in volatile or unpredictable environments tend to maintain a lower debt-to-equity ratio to minimize excessive financial risk.
2. Availability of assets as collateral: Companies that possess stable long-term assets, such as buildings or heavy equipment, are better positioned to maintain higher debt levels, as such assets provide stronger security for creditors. In contrast, firms with predominantly short-term or subjective assets, such as inventories or intangible assets, have a reduced capacity to sustain high leverage.
3. Interest coverage (Interest Coverage Ratio): A healthy interest coverage ratio enables a company to obtain additional borrowing without assuming disproportionate financial risk.
4. Regulatory and contractual constraints: Legal obligations and contractual covenants must be carefully evaluated before a firm increases its level of debt financing.

Understanding the factors that influence the Debt to Equity Ratio (DER) enables firms to manage their debt and equity more effectively. Business environment stability, asset structure, interest coverage, and regulatory constraints all play critical roles in

shaping the appropriate level of leverage. Proper management of DER helps minimize financial risk and supports long-term financial stability and corporate sustainability.

2.6 Stock

2.6.1 Definition of Stock

Stock is one of the fundamental instruments in the capital market, representing ownership held by an individual or entity in a company. The value of a stock inherently fluctuates and is influenced by both market conditions and corporate performance. According to Yanti (2022), stock is a document that serves as evidence of ownership held by an individual or institution in a company or limited liability corporation. It is typically represented in the form of a certificate indicating that the holder possesses a proportional ownership interest in the issuing firm.

Stock also represents the ownership portion contributed by an individual or business entity to a company. In the secondary market, where stocks are actively traded, stock prices tend to fluctuate, experiencing both increases and decreases based on investor sentiment and market dynamics (OJK, 2023).

Santoso et al. (2023) explain that stock is a security that signifies ownership in a company, whether held by individuals or institutions, whereby a larger shareholding corresponds to greater control over the company. The return derived from stock ownership is referred to as dividends, which are distributed based on decisions taken during the General Meeting of Shareholders (GMS). When all of a company's capital is sourced from stock issuance, it is classified as equity capital.

Based on the aforementioned definitions, stock can be concluded as a financial instrument representing ownership held by an individual or business entity in a company. Shareholders are entitled to dividends, voting rights in the General Meeting of Shareholders (GMS), and potential gains or losses arising from changes in stock prices. Stock prices in the secondary market are highly volatile and are determined by various internal and external factors. Furthermore, the greater the proportion of stock ownership, the greater the degree of control held over the company. When all corporate capital is funded through stock, it is categorized as equity capital.

2.6.2 Types of Stocks

Understanding the various types of stocks is essential for investors, as it enables them to select investment instruments that are aligned with their financial goals and strategies. Basic knowledge of common stock and preferred stock provides important insights into ownership rights, risk levels, and expected returns. The following section explains these two categories of stocks:

1. Common Stock

Common stock represents a form of equity ownership in a company and is typically issued in the form of a certificate or electronic record that signifies an investor's rights and responsibilities as a shareholder. Holders of common stock are

entitled to dividends, which are generally distributed at the end of the financial year, provided that the company generates profits (Santoso et al., 2023). Common stockholders also possess voting rights in corporate governance, including decisions made at the General Meeting of Shareholders (GMS).

Several categories of common stock commonly encountered in financial markets include:

a. Blue Chip Stock

Blue chip stocks refer to shares of well-established companies with strong reputations, consistent profitability, stable business growth, and reliable management. These stocks typically dominate major market indices such as the LQ45 due to their high performance and long-term stability.

b. Growth Stock

Growth stocks are issued by companies with earnings potential that is significantly higher than that of the average firms listed on the stock exchange. These stocks are generally attractive for long-term investment because of their potential for capital appreciation.

c. Defensive Stock

Defensive stocks represent companies whose performance remains stable even during periods of economic recession or uncertainty. These stocks are considered relatively safe because their business operations are less sensitive to economic cycles.

d. Cyclical Stock

Cyclical stocks are highly influenced by macroeconomic conditions. Their prices tend to increase during periods of economic expansion and decline during economic downturns. These stocks are linked to industries that experience pronounced business cycles.

e. Seasonal Stock

Seasonal stocks are actively traded only during specific periods of the year, typically influenced by seasonal demand, major holidays, or peak consumption cycles.

f. Speculative Stock

Speculative stocks are issued by companies with high growth uncertainty but possess the potential for substantial returns. Investors who purchase these stocks are generally willing to bear higher risk in exchange for the possibility of high profits.

2. Preferred Stock

Preferred stock is a type of equity security that provides shareholders with fixed income in the form of predetermined dividends. In many cases, preferred stockholders receive priority rights over common stockholders with respect to dividend distribution and claims on company assets. This priority includes cumulative dividends, whereby unpaid dividends from prior periods must be paid before any distribution is made to holders of common stock.

Preferred stockholders are considered essential contributors to a company's capital structure, particularly during periods of financial instability, which grants them

preferential rights. Key characteristics of preferred stock include:

- a. **Priority in Dividend Distribution:** Preferred shareholders receive dividend payments before common shareholders, including dividends accumulated from previous periods that were not distributed due to company losses.
- b. **Priority Claim on Corporate Assets during Liquidation:** In the event of corporate liquidation, preferred shareholders have superior claims on the company's assets compared to common shareholders.
- c. **Convertible Features:** Certain types of preferred stock may be converted into common stock or other investment instruments, depending on the company's policies or predetermined terms.

2.6.3 Definition of Stock Price

Stock prices reflect the value and performance of a company in the capital market. When a company demonstrates strong and stable performance, investor interest tends to increase, which in turn can drive stock prices upward. Conversely, weak performance may reduce investor confidence, resulting in declining stock prices.

According to Rahayu et al. (2024), stock prices serve as indicators of a company's market value when its shares are traded on the Indonesia Stock Exchange. Positive market perceptions typically lead to an increase in stock prices, while negative assessments may cause stock prices to fall, potentially even below their initial offering price. Stock prices are inherently volatile and offer the potential for capital gains when prices rise; however, they may also result in capital losses when prices decline. In addition to market value, stocks also possess intrinsic value, which is influenced by earnings, assets, dividends, business prospects, and managerial performance, elements that may change over time.

Kurniawan et al. (2023) state that stock prices represent the market value at a particular point in time, determined by market participants. Stock price movements are driven by the forces of supply and demand, causing prices to fluctuate in line with market conditions. Thus, stock prices reflect a company's financial health based on the dynamics of price formation in the capital market.

Indrayono (2022) critiques the improper use of stock price data in empirical studies. Many researchers rely on closing prices recorded on the date of financial statements, even though such reports have not yet been published and are therefore unknown to investors at that time. Additionally, using absolute stock prices without considering market index movements weakens the validity of conclusions regarding the influence of financial performance on stock prices. He recommends that future studies employ stock prices recorded after the publication of financial statements, consistent with the Efficient Market Hypothesis (EMH), which posits that stock prices incorporate all available information.

Commonly used types of stock prices include:

1. **Daily Stock Prices:** These include opening, closing, highest, and lowest prices on

each trading day. The daily closing price is frequently used as the primary data point in empirical studies.

2. Periodic Stock Prices: These are stock prices recorded at the end of weekly, monthly, quarterly, or yearly periods. Annual stock prices are often used by policymakers and market participants as performance indicators.
3. Average Stock Prices: These are calculated by averaging stock prices over a specific period, such as the average daily price for a month, quarter, or full year. Annual average prices are commonly computed by summing the closing prices from January to December and dividing by twelve.

Based on the above discussion, it can be concluded that stock prices reflect a company's value in the capital market and are influenced by market perception, supply and demand mechanisms, and the firm's fundamental conditions. Stock prices are volatile and incorporate both intrinsic information and market-driven factors. In empirical research, the selection of stock price data must consider the timing of financial statement publication to align with the Efficient Market Hypothesis. Commonly used stock price measures include daily prices, periodic prices, and average prices to produce more accurate and representative analytical results.

2.7 Previous Studies and Conceptual Framework

2.7.1 Previous Studies

Research examining the influence of Return on Assets, Current Ratio, and Debt to Equity Ratio on Stock Prices has been conducted by various scholars, producing diverse empirical findings. These differences arise due to variations in research periods, sample selection, industrial characteristics, and analytical methods. A clearer summary of the relevant prior studies is presented in Table 2.1:

Table 2. 1 Previous Research Findings

No.	Researcher, Year, and Title	Variables Examined	Indicators	Analytical Method	Research Findings
1	Laras Fitri Paramita (2019) <i>Pengaruh CR, ROA, ITO, dan DER terhadap Harga Saham</i>	Independent: CR, ROA, ITO, and DER Dependent: Stock Price	CR: Current Assets and Current Liabilities. ROA: Net Income and Total Assets. ITO: Cost of Goods Sold and Inventory. DER: Total Liabilities and Equity. Stock Price: Average closing price	Classical Assumption Tests Multiple Linear Regression Analysis Hypothesis Testing	Current Ratio has a negative and insignificant effect on stock prices. Return on Assets has a negative and insignificant effect on stock prices. Inventory Turnover has a positive and significant effect on stock prices. Debt to Equity Ratio has a positive and significant effect on stock prices.

No.	Researcher, Year, and Title	Variables Examined	Indicators	Analytical Method	Research Findings
2	Hendri Wijaya (2019) <i>Pengaruh Return on Equity (ROE), Debt to Equity (DER), dan Earning Per Share (EPS) Terhadap Harga Saham pada Perusahaan Sub Sektor Makanan dan Minuman yang Terdaftar di Bursa Efek Indonesia Periode 2013-2017</i>	Independent: ROE, DER, and EPS Dependent: Stock Price	ROE: Net Income and Total Equity. DER: Total Liabilities and Total Equity. EPS: Net Income and Number of Outstanding Common Shares. Stock Price: Stock price after the publication of financial statements.	Descriptive Statistical Analysis Classical Assumption Tests Panel Data Regression Hypothesis Testing	ROE has a positive and significant effect on stock prices. DER has a negative effect on stock prices. EPS has no effect on stock prices. Simultaneously, ROE, DER, and EPS significantly influence stock prices.
3	Nurul Hikmah (2019) <i>Pengaruh ROE, NPM, dan DER Terhadap Harga Saham pada Perusahaan Industri Rokok yang Terdaftar di Bursa Efek Indonesia pada Tahun 2013-2017</i>	Independent: ROE, NPM, and DER Dependent: Stock Price	ROE: Net Income and Total Equity. NPM: Net Income and Sales. DER: Total Liabilities and Total Equity. Stock Price: Closing price.	Regression Model Estimation Method Panel Data Classical Assumption Tests Hypothesis Testing	ROE and NPM have no partial effect on stock prices. DER has a partial effect on stock prices. Simultaneously, ROE, NPM, and DER influence stock prices.
4	Risa Kanisawati (2019) <i>Pengaruh Return on Asset (ROA), Return on Equity (ROE), Price Earning Ratio (PER), dan Price to Book Value (PBV) Terhadap Harga Saham pada Perusahaan Sub Sektor Konstruksi dan Bangunan yang Terdaftar di Bursa Efek</i>	Independent: ROA, ROE, PER, and PBV Dependent: Stock Price	ROA: Net Income after Tax and Total Assets ROE: Net Income after Tax and Total Equity PER: Market Price per Share and Earnings per Share PBV: Market Price per Share and Book Value per Share Stock Price: Closing Price	Classical Assumption Tests Multiple Linear Regression Analysis Hypothesis Testing	ROA and ROE have a significant effect on stock prices. PER and PBV have no effect on stock prices. Simultaneously, ROA, ROE, PER, and PBV significantly influence stock prices.

No.	Researcher, Year, and Title	Variables Examined	Indicators	Analytical Method	Research Findings
	<i>Indonesia Periode 2013- 2018</i>				
5	Andi Nining (2020) <i>Pengaruh Debt to Equity Ratio (DER) Terhadap Harga Saham pada Perusahaan Farmasi di Bursa Efek Indonesia</i>	Independent: DER Dependent: Stock Price	DER: Total Liabilities and Total Equity Stock Price: Closing Price	Simple Linear Regression Analysis Pearson Correlation Analysis Hypothesis Testing	Debt to Equity Ratio has a positive and significant effect on stock prices.
6	Siampa Mario, Sri Murni, and Mirah Rogi (2020) <i>Pengaruh ROA, DER, Current Ratio Terhadap Harga Saham pada Perusahaan Food and Beverages yang Terdaftar di Bursa Efek Indonesia Periode 2014- 2018</i>	Independent: ROA, DER, and CR Dependent: Stock Price	ROA: Net Income after Tax and Total Assets DER: Total Liabilities and Total Equity Current Ratio: Current Assets and Current Liabilities Stock Price: Closing Price	Classical Assumption Tests Hypothesis Testing	Return on Assets (ROA) partially has a positive and significant effect on stock prices. Debt to Equity Ratio (DER) partially has a negative and insignificant effect on stock prices. Current Ratio (CR) partially has a negative and insignificant effect on stock prices. Simultaneously, ROA, DER, and CR have a positive and significant effect on stock prices.
7	Renelfa Lana Julia (2021) <i>Pengaruh Return on Asset, Return on Equity, dan Earning Per Share Terhadap Harga Saham Pada Perusahaan Sub Sektor Perkebunan yang Terdaftar di Bursa Efek Indonesia Periode 2015- 2019</i>	Independent: ROA, ROE, and EPS Dependent: Stock Price	ROA: Net Income and Total Assets ROE: Net Income and Total Equity EPS: Net Income and Number of Outstanding Shares Stock Price: Closing Price	Descriptive Statistical Analysis Classical Assumption Tests Multiple Linear Regression Analysis Hypothesis Testing	Partially, ROA has no significant effect on stock prices, while ROE and EPS have a significant effect on stock prices. Simultaneously, ROA, ROE, and EPS significantly influence stock prices.

No.	Researcher, Year, and Title	Variables Examined	Indicators	Analytical Method	Research Findings
8	Ircham Akbar (2021) <i>Pengaruh ROA, DER, Current Ratio Terhadap Harga Saham pada Perusahaan Real Estate yang ada di Bursa Efek Indonesia</i>	Independent: ROA, DER, and Current Ratio Dependent: Stock Price	ROA: Net Income after Tax and Total Assets DER: Total Liabilities and Total Equity Current Ratio: Current Assets and Current Liabilities Stock Price: Average Closing Price	Descriptive Statistical Analysis Classical Assumption Tests Multiple Linear Regression Analysis Hypothesis Testing	ROA has a positive and significant effect on stock prices. DER has a negative and insignificant effect on stock prices. CR has a positive and insignificant effect on stock prices.
9	Annisa Audina (2021) <i>Pengaruh Return on Asset, Price Earning Ratio, dan Debt to Equity Ratio Terhadap Harga Saham pada Perusahaan Sub Sektor Otomotif dan Komponen yang Terdaftar di Bursa Efek Indonesia Periode 2015-2019</i>	Independent: ROA, PER, and DER Dependent: Stock Price	ROA: Net Income and Total Assets PER: Market Price and Earnings per Share DER: Total Liabilities and Total Equity Stock Price: Closing Price	Descriptive Statistical Analysis Classical Assumption Tests Multiple Linear Regression Analysis Hypothesis Testing	ROA and DER have a significant effect on stock prices. PER has no significant effect on stock prices. Simultaneously, ROA, PER, and DER significantly influence stock prices.
10	Irfan Saputra Arnoldi Wirandi (2022) <i>Pengaruh EPS, DAR, ROA Terhadap Harga Saham Perusahaan Sub Sektor Perdagangan Eceran BEI 2015-2020</i>	Independent: EPS, DAR, and ROA Dependent: Stock Price	EPS: Net Income and Number of Outstanding Shares DAR: Total Liabilities and Total Assets ROA: Net Income and Total Assets Stock Price: Stock Price of the Respective Year	Multiple Linear Regression Analysis Classical Assumption Tests Hypothesis Testing	EPS partially influences stock prices. DAR and ROA partially have no significant effect on stock prices. Simultaneously, EPS, DAR, and ROA influence stock prices.
11	Dwi Aryani, Yanuar Surya Putra, Maria Entina Puspita (2024)	Independent: ROA, CR, and DER Dependent:	ROA: Net Income and Total Assets CR: Current Assets and	Multiple Linear Regression Analysis	ROA partially has a significant effect on stock prices. CR partially has no significant effect on

No.	Researcher, Year, and Title	Variables Examined	Indicators	Analytical Method	Research Findings
	<i>Pengaruh ROA, CR, dan DER Terhadap Harga Saham Perusahaan Sektor Industri Barang Konsumsi</i>	Stock Price	Current Liabilities DER: Total Liabilities and Total Equity Stock Price: Closing Price Throughout the Year	Classical Assumption Tests Hypothesis Testing	stock prices. DER partially has no significant effect on stock prices. Simultaneously, ROA, CR, and DER have a significant effect on stock prices.
12	Yustinus Rawi Dandono and Reihana Nabilah (2024) <i>Analisa Pengaruh Current Ratio (CR), Debt to Equity Ratio (DER), Dan Return On Asset (ROA) Terhadap Harga Saham Pada Perusahaan Sub Sektor Makanan Dan Minuman Yang Tercatat Di Bursa Efek Indonesia (BEI) Periode 2018 - 2022</i>	Independent: CR, DER, and ROA Dependent: Stock Price	Current Ratio: Current Assets and Current Liabilities DER: Total Liabilities and Total Equity ROA: Net Income after Tax and Total Assets Stock Price: Closing Price	Classical Assumption Tests Multiple Linear Regression Analysis Hypothesis Testing	CR partially has a significant effect on stock prices. DER partially has no significant effect on stock prices. ROA partially has a significant effect on stock prices. Simultaneously, ROA, CR, and DER significantly influence stock prices.

Based on Table 2.1, several similarities and differences can be identified between previous studies and the research conducted by the author. In the study conducted by Paramita (2019), entitled “*Pengaruh CR, ROA, ITO, dan DER terhadap Harga Saham*”, the similarities lie in the use of the variables CR, ROA, DER, and stock price. The difference lies in the research setting, as the author examines companies in the Food and Beverage subsector listed on the Indonesia Stock Exchange for the 2019–2023 period. While the previous study applied multiple linear regression analysis, the author employs panel data regression analysis. The findings of the prior study indicate that CR and ROA have a negative and insignificant effect on stock prices, whereas DER has a positive and significant effect.

In the study by Wijaya (2019), entitled “*Pengaruh Return on Equity (ROE), Debt to Equity (DER), dan Earning Per Share (EPS) Terhadap Harga Saham pada Perusahaan Sub Sektor Makanan dan Minuman yang Terdaftar di Bursa Efek Indonesia Periode 2013-2017*”, the similarity lies in the use of DER and stock price. The difference is the research period, as the author examines the 2019–2023 period. The previous findings show that DER has a negative effect on stock prices, while ROE,

DER, and EPS simultaneously have a significant effect.

In the study by Hikmah (2019), entitled “*Pengaruh ROE, NPM, dan DER Terhadap Harga Saham pada Perusahaan Industri Rokok yang Terdaftar di Bursa Efek Indonesia pada Tahun 2013-2017*”, the similarity lies in the variables DER and stock price. The difference lies in the research setting, as the author focuses on the Food and Beverage subsector for the 2019–2023 period. The findings from the previous study show that DER partially affects stock prices, and ROE, NPM, and DER simultaneously influence stock prices.

The study conducted by Kanisawati (2019), entitled “*Pengaruh Return on Asset (ROA), Return on Equity (ROE), Price Earning Ratio (PER), dan Price to Book Value (PBV) Terhadap Harga Saham pada Perusahaan Sub Sektor Konstruksi dan Bangunan yang Terdaftar di Bursa Efek Indonesia Periode 2013-2018*”, shares similarities in the variables ROA and stock price. The difference lies in the research setting, as the author focuses on the Food and Beverage subsector for the 2019–2023 period. While the previous study used multiple linear regression analysis, the author applies panel data regression analysis. The previous findings indicate that ROA partially has a significant effect on stock prices, and that ROA, ROE, PER, and PBV simultaneously have significant effects.

In the study by Nining (2020), entitled “*Pengaruh Debt to Equity Ratio (DER) Terhadap Harga Saham pada Perusahaan Farmasi di Bursa Efek Indonesia*”, the similarity lies in the variables DER and stock price. The difference lies in the research setting, as the author examines Food and Beverage subsector companies for the 2019–2023 period. The previous study found that DER has a positive and significant effect on stock prices.

In the study by Mario et al. (2020), entitled “*Pengaruh ROA, DER, Current Ratio Terhadap Harga Saham pada Perusahaan Food and Beverages yang Terdaftar di Bursa Efek Indonesia Periode 2014-2018*”, the similarities include ROA, DER, CR, and stock price. The difference lies in the research period, as the author examines the 2019–2023 period. While the previous study used multiple linear regression analysis, the author applies panel data regression analysis. The previous findings indicate that ROA partially has a positive and significant effect on stock prices, while DER and CR have a negative and insignificant effect. Simultaneously, ROA, DER, and CR have a positive and significant effect on stock prices.

In the study by Julia (2021), entitled “*Pengaruh Return on Asset, Return on Equity, dan Earning Per Share Terhadap Harga Saham Pada Perusahaan Sub Sektor Perkebunan yang Terdaftar di Bursa Efek Indonesia Periode 2015-2019*”, the similarity lies in the variables ROA and stock price. The difference lies in the research setting, as the author focuses on Food and Beverage subsector companies for the 2019–2023 period. While the previous study used multiple linear regression analysis, the author uses panel data regression analysis. The previous findings show that ROA does not significantly affect stock prices, while ROA, ROE, and EPS simultaneously have significant effects.

In the study by Akbar (2021), entitled “*Pengaruh ROA, DER, Current Ratio Terhadap Harga Saham pada Perusahaan Real Estate yang ada di Bursa Efek Indonesia*”, the similarity lies in the variables ROA, DER, CR, and stock price. The difference lies in the research setting, as the author studies Food and Beverage subsector companies for the 2019–2023 period. The previous study used multiple linear regression analysis, whereas the author applies panel data regression analysis. The findings show that ROA has a positive and significant effect, DER has a negative and insignificant effect, and CR has a positive and insignificant effect on stock prices.

The study by Audina (2021), entitled “*Pengaruh Return on Asset, Price Earning Ratio, dan Debt to Equity Ratio Terhadap Harga Saham pada Perusahaan Sub Sektor Otomotif dan Komponen yang Terdaftar di Bursa Efek Indonesia Periode 2015-2019*”, shares similarities in the variables ROA, DER, and stock price. The difference lies in the research setting, as the author examines the Food and Beverage subsector for the 2019–2023 period. While the previous study used multiple linear regression analysis, the author applies panel data regression analysis. The findings show that ROA and DER have significant effects on stock prices, and that ROA, PER, and DER simultaneously significantly influence stock prices.

The study by Wirandi (2022), entitled “*Pengaruh EPS, DAR, ROA Terhadap Harga Saham Perusahaan Sub Sektor Perdagangan Eceran BEI 2015-2020*”, shares similarities in the variables ROA and stock price. The difference lies in the research setting, as the author focuses on Food and Beverage subsector companies for the 2019–2023 period. The previous findings show that ROA does not partially affect stock prices, while EPS, DAR, and ROA simultaneously affect stock prices.

The study by Aryani et al. (2024), entitled “*Pengaruh ROA, CR, dan DER Terhadap Harga Saham Perusahaan Sektor Industri Barang Konsumsi*”, shares similarities in the variables ROA, CR, DER, and stock price. The difference lies in the research setting, as the author focuses on the Food and Beverage subsector for the 2019–2023 period. While the previous research used multiple linear regression analysis, the author applies panel data regression analysis. The previous findings show that ROA partially has a significant effect on stock prices, while CR and DER have no significant partial effect. Simultaneously, ROA, CR, and DER have significant effects.

Finally, the study by Dandono and Nabilah (2024), entitled “*Analisa Pengaruh Current Ratio (CR), Debt to Equity Ratio (DER), Dan Return On Asset (ROA) Terhadap Harga Saham Pada Perusahaan Sub Sektor Makanan Dan Minuman Yang Tercatat Di Bursa Efek Indonesia (BEI) Periode 2018 -2022*”, shows similarities in the variables CR, DER, ROA, and stock price. The difference lies in the research period used by the author, namely 2019–2023. While the previous study used multiple linear regression analysis, the author applies panel data regression analysis. The findings show that CR and ROA partially have significant effects on stock prices, while DER has no significant partial effect. Simultaneously, ROA, CR, and DER significantly influence stock prices.

The conclusions drawn from the reviewed prior studies can be summarized in the following table:

Table 2. 2 Summary Matrix of Previous Studies

Variable	Dependent		
	Stock Price		
Independent	Influential		Not Influential
	Positive	Negative	
<i>Return on Asset (X₁)</i>	1. (Mario <i>et al.</i> , 2020) 2. (Akbar, 2021) 3. (Audina, 2021) 4. (Aryani <i>et al.</i> , 2024) 5. (Dandono & Nabilah, 2024)	1. (Paramita, 2019) 2. (Kanisawati, 2019)	1. (Julia, 2021) 2. (Wirandi, 2022)
<i>Current Ratio (X₂)</i>	1. (Akbar, 2021)	1. (Paramita, 2019) 2. (Mario <i>et al.</i> , 2020) 3. (Dandono & Nabilah, 2024)	1. (Aryani <i>et al.</i> , 2024)
<i>Debt to Equity Ratio (X₃)</i>	1. (Paramita, 2019) 2. (Hikmah, 2019) 3. (Nining, 2020) 4. (Audina, 2021)	1. (Wijaya, 2019) 2. (Mario <i>et al.</i> , 2020) 3. (Akbar, 2021)	1. (Aryani <i>et al.</i> , 2024) 2. (Dandono & Nabilah, 2024)

Source data processed by the author, 2025.

2.7.2 Conceptual Framework

The conceptual framework is a model that illustrates the relationship between underlying theories and the key factors considered essential in a research study. In this study, the variables examined consist of Return on Assets, Current Ratio, and Debt to Equity Ratio.

2.7.2.1 The Effect of Return on Assets on Stock Price

Return on Assets (ROA) is a ratio that reflects a company's ability to generate net income from the total assets it employs. This ratio indicates the extent to which management is effective in utilizing the company's assets to generate profit. A higher ROA demonstrates greater efficiency in asset utilization, resulting in increased profitability. According to Hanafi and Halim, as cited in Paramita (2019), a higher profitability ratio signifies greater earnings for the company, and firms with strong profitability often receive positive responses from capital market participants, particularly in terms of stock price appreciation.

Empirical evidence from studies conducted by Mario *et al.* (2020), Akbar (2021), Audina (2021), Aryani *et al.* (2024), and Dandono and Nabilah (2024) indicates that Return on Assets (ROA) has a positive effect on stock prices. These findings suggest

that companies with higher ROA are perceived as being able to utilize their assets more effectively to generate optimal earnings, leading investors to respond positively through increased stock prices.

This finding is consistent with the theory stating that companies capable of generating higher profits provide greater returns to shareholders. Stable and increasing profitability serves as a positive signal regarding the company's future prospects, thereby encouraging stock price appreciation. Based on the theory and empirical findings, the following hypothesis is proposed:

H₁ = Return on Asset (ROA) has a positive effect on stock price.

2.7.2.2 The Effect of Current Ratio on Stock Price

The Current Ratio (CR) is used to assess a company's ability to meet its short-term obligations using its current assets. This ratio reflects the company's level of liquidity and its capacity to maintain a balance between current assets and current liabilities. According to Kasmir, as cited in Mario et al. (2020), the Current Ratio illustrates a company's ability to settle short-term liabilities or obligations that are due in the near term. Firms with strong liquidity are considered more capable of sustaining financial stability, which enhances investor confidence in the company's future prospects.

Research conducted by Akbar (2021) found that the Current Ratio (CR) has a positive effect on stock prices. The study concluded that a higher CR implies a better capability to meet short-term obligations, which provides investors with greater assurance regarding the company's financial stability. This increased confidence ultimately contributes to higher stock prices.

This finding is aligned with liquidity theory, which states that a company's ability to maintain financial stability serves as a positive signal for investors. High liquidity indicates that the company can sustain smooth operational activities and avoid default risk, thereby increasing the attractiveness of its shares in the capital market. Based on theoretical and empirical evidence, the following hypothesis is formulated:

H₂ = Current Ratio (CR) has a positive effect on stock price.

2.7.2.3 The Effect of Debt to Equity Ratio on Stock Price

The Debt to Equity Ratio (DER) is a financial ratio that indicates the proportion of total debt to total equity owned by a company. This ratio provides insight into the firm's capital structure used to finance its operational activities. According to Brigham and Houston, as cited in Nining (2020), an optimal capital structure can enhance firm value because the effective use of debt can increase returns to shareholders through financial leverage.

Empirical studies by Paramita (2019), Hikmah (2019), Nining (2020), and Audina (2021) demonstrate that the Debt to Equity Ratio (DER) positively affects stock prices. These findings explain that proportional and well-managed use of debt can increase

company earnings, provided that borrowed funds are deployed productively to generate revenue exceeding the cost of interest.

These results are consistent with capital structure theory, which states that the use of debt can enhance firm value when companies are able to manage their obligations efficiently. Firms with an optimal capital structure are perceived as having stronger growth prospects, thereby increasing investor confidence and contributing to rising stock prices. Based on the theory and previous research, the following hypothesis is proposed:

H₃ = Debt to Equity Ratio (DER) has a positive effect on stock price.

2.7.2.4 The Effect of Return on Assets, Current Ratio, and Debt to Equity Ratio on Stock Price

Stock price is a key indicator that reflects a company's value in the capital market. Changes in stock price indicate how investors perceive the firm's performance and future outlook based on available financial information. Return on Assets (ROA), Current Ratio (CR), and Debt to Equity Ratio (DER) are financial indicators that describe the company's profitability, liquidity, and leverage, respectively. According to Hanafi and Halim, as cited in Paramita (2019), strong financial performance reflects a company's ability to manage assets, liabilities, and equity effectively, thereby sending a positive signal to investors.

Studies conducted by Aryani et al. (2024), Paramita (2019), and Nining (2021) show that ROA, CR, and DER simultaneously influence stock prices. These findings indicate that the three financial ratios collectively represent a comprehensive overview of a company's financial condition, which consequently affects its stock price in the market.

This conclusion is in line with signaling theory, which posits that financial information serves as an important signal for investors in making investment decisions. When companies display strong financial performance, investors tend to respond positively by increasing demand for the firm's shares, leading to stock price appreciation. Based on these theoretical and empirical foundations, the following hypothesis is formulated:

H₄ = Return on Asset (ROA), Current Ratio (CR), and Debt to Equity Ratio (DER) simultaneously affect stock price.

Based on the conceptual framework and previous studies, the research constellation can be illustrated as follows:

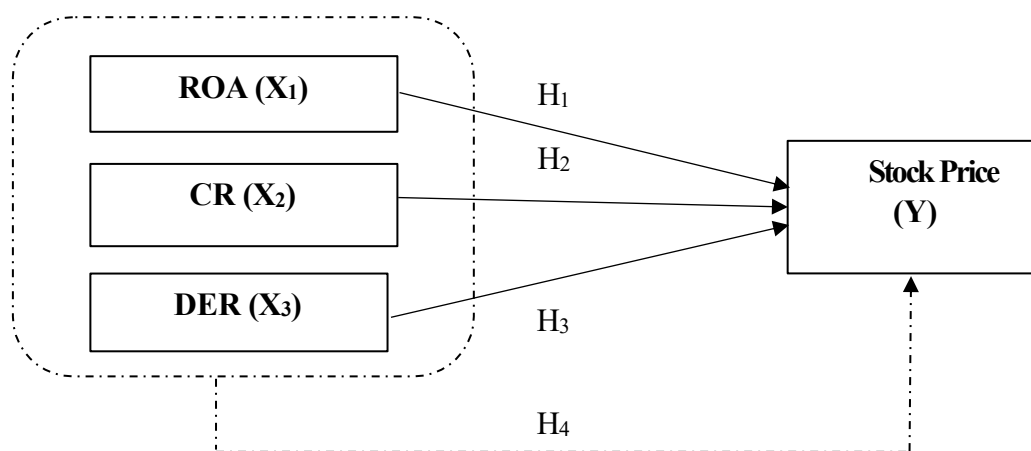


Figure 2. 1 Conceptual Framework

- > : Partially Influential
 - - - - -> : Simultaneously Influential
 X : Independent Variable
 Y : Dependent Variable

2.8 Research Hypotheses

A hypothesis is a provisional assumption whose validity must be tested and supported by empirical evidence. Based on the problem formulation and research objectives, the hypotheses of this study are as follows:

- H1 : Return on Asset (ROA) has a positive effect on the stock price of food and beverage sub-sector companies during the 2019–2023 period.
 H2 : Current Ratio (CR) has a positive effect on the stock price of food and beverage sub-sector companies during the 2019–2023 period.
 H3 : Debt to Equity Ratio (DER) has a positive effect on the stock price of food and beverage sub-sector companies during the 2019–2023 period.
 H4 : Return on Asset (ROA), Current Ratio (CR), and Debt to Equity Ratio (DER) simultaneously affect the stock price of food and beverage sub-sector companies during the 2019–2023 period.