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The Effect of Liquidity, Profitability, and Solvency on Stock Prices in LQ-45 Companies Listed on The Indonesia Stock Exchange (IDX) For The Period 2020-2022

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Purpose – *This study aims to test and analyze the relationship between liquidity, profitability, and solvency in relation to stock price*

Design/methodology/approach – *This research was conducted using a purposive sampling. The research data includes 81 observations that focus on the Index LQ 45 with 27 samples of research during 2020-2022. The writer tested the hypothesis by using a data regression model with the SPSS tool.*

Findings – *The results of this study found that Liquidity has a negative and insignificant effect on stock price, Profitability has a positive and significant effect on stock price, Solvency has a negative and significant effect on share price.*

Research limitations/implications – *This research focuses on the stock price where this research study discusses the relationship of liquidity, profitability, and solvency in LQ-45 index companies*

INTRODUCTION

Companies listed in the LQ-45 index consist of several business sub-sectors, and make considerable contributions to help increase economic growth in Indonesia. The company's shares that are classified in the lq-45 index are one of the stocks that have good business prospects. However, in the midst of the pressure of the Covid19 pandemic, almost all companies have experienced a decline, such as the industrial, energy, and infrastructure sectors. Meanwhile, the health sector has increased because the Covid-19 pandemic has claimed quite a lot of lives. At the end of the 2020 period, the Jakarta Composite Stock Price Index (JCI) decreased by 0.95% at the level of 5,979.07. The decline involved a decline in the value of lq-45 index stocks.

From this phenomenon, it can be stated that the Covid-19 outbreak has had a considerable impact on every industrial sector, with limited space for community activities in direct interaction to reduce activities and decrease public consumption interest. From these events, it affects the fundamentals of a company and some investors withdraw their capital back. Financial statements are information that investors can use when they want to make decisions, because they provide investors with an overview of the extent of the development of the company's condition (Harahap, 2018 in Astuti, 2021).

In the capital market, the price of a stock can be used as one of the benchmarks for whether the financial performance is good or not. This can be seen from the lq-45 index, with an increase in performance can reflect the value of the company to investors. Use the measurement as a tool to measure how the company manages its resources to generate profits. After deducting the burden of other expenses from the profits obtained, it produces a profit that is an indicator in fulfilling its obligations to the funder. If the company's performance reflects the opposite value, it can be immediately felt by the company because of the reduced interest of the inverter to invest his capital in the company that was previously interested.

Liquidity is one of the ratios that can be used to measure how a company pays off its short-term liabilities with current assets. In other words, liquidity is the ability to convert assets into cash or the ability to obtain cash, short-term is conventionally considered a period of up to one year (J John *et al*., 2005). A company's profitability determines how much profit a company generates. The profits obtained determine the level of effectiveness of the company's management (Sukmawati Sukamulja, 2019). Debt is a ratio that investors often pay attention to, because long-term liabilities have an influence on the company's performance. Solvency ratio calculates how large or able a company is to meet the company's long-term obligations.

The ratios used in fundamental analysis provide real information to users of financial statements. The information produced focuses on the company's financial ratios and events that directly or indirectly affect the company's performance. From this analysis, complete information is obtained that can be used as a basis for decision-making.

THEORETICAL FOUNDATIONS

Signal Theory

The establishment of a company is managed by an organization related to the company's operational activities. In this signal theory, it focuses on companies that have *gone public* by announcing information about financial statements, and other activities aimed at external parties such as investors, creditors, and other information users. The company's management has more information related to the company's operations and the company's future prospects compared to external parties so that the company's financial statements are a positive or negative signal for the company. The positive signals given by the company will give a positive response as well and investors are able to distinguish between quality companies and those that are not. With the receipt of this positive signal, the stock price will be higher and the value of the company will increase (Jogiyanto 2010).

Stock

Rusdin (2015) stated, that shares are one of the proofs of ownership of financial instruments owned by investors through the intermediary of the Indonesia Stock Exchange by showing a certificate of proof of ownership of a company, and shareholders have the right to claim the company's income and assets. The issuance of shares provides an opportunity to increase the company's funds. This activity involves investors, creditors, and the government that occurs in the industrial sector. Investors can buy shares via brokers, in Indonesia the purchase of shares must be made in multiples of 100 shares or also known as 1 lot of shares. One of the goals investors want to invest in the company is to obtain *capital gains* and dividends. However, if the company suffers losses, investors are also indirectly affected by the loss (Linzzy 2018)

Stock Price

Ang (2011) stated, the stock price is the value of shares determined by the buying and selling power of shares in a certain market mechanism and also the selling price from one investor to another. The value of the stock price can fluctuate according to the interests of investors and the company's performance can affect the investor's perspective on the company. The signals given by the company can attract investors or vice versa the signals given are not good, then investors will look for other companies that are more convincing, because the main goal of investors is to make a profit.

Liquidity

Mardiyanto (2009) stated that liquidity is the ability to be able to pay off short-term obligations (debts) on time, including also paying off the part of long-term obligations that are due in the year in question. Debt is an obligation that must be paid, and if there is a delay or inability to pay off the obligation, it will have a direct impact on the credibility of the company. The liquidity ratio is related to the value of the company, because it provides information on the real state of how the company is responsible without increasing external capital (Idris and Rachma 2018).

Profitability

Munawir (2007) stated that profitability is the ability of a company to generate profits in a certain period of time. Profit is net income generated from the company's activities. The company's profit information is attached to the financial statements which can give a good signal to investors. A measure of a company's profitability from sales after accounting for all costs and income taxes. This ratio is an informative and useful ratio when used to compare subject companies with others (Idris and Rachma 2018).

Solvency

Kasmir (2016) stated that solvency is a ratio used to measure the extent to which a company's assets are financed by debt, meaning how much debt burden the company bears compared to its assets. With solvency ratio analysis, it describes the number of company assets owned by shareholders compared to assets owned by creditors. Companies that have debts do not give investors a point of view that the company is not good, but if the company is unable to pay off the company's debt at maturity, it gives a bad signal to the company (Abrori and Suwito 2019).

The Effect of Liquidity on Stock Prices

Liquidity is the ability of a company to meet its short-term obligations. Operational activities carried out every day incur a cost burden that must be borne by the company so that these obligations must be paid off immediately using the company's current assets. external parties such as investors, creditors, and the government so that the recipient of information is expected to be interested in investing in the company. Good information received is obtained through financial statements that are well prepared and accurate and can provide a real picture of the results or achievements that have been achieved by a company (Nyoman Sutapa, 2018). This statement is supported by previous research conducted by (Idris Ramadhani & Rachma Zannati, 2018; Stella Levina & Elizabeth Sugiarto, 2019; Ikhsan Abdullah, 2019; Ni Luh Yunita *et al*., 2020) which stated that the value of liquidity has a positive effect on stock prices. on the contrary, there are also from previous studies conducted by (Ayu *et al*., 2018; tri *et al*., 2018; Nurrul Shafa Noviana, 2018; A Abrori & Suwito, 2019; Febriana Purwanti, 2019) stated that the liquidity of a company has a negative effect on stock prices. The researcher's perception of the results obtained is due to the fact that there are still some investors who consider liquidity as something less relevant in decision-making.

H1 : Liquidity has a positive effect on stock prices

The Effect of Profitability on Stock Prices

An organization is managed by the management in a company, governance can affect the company's performance, one way for investors to see the performance of a company through the company's financial statements. The profits generated by the company are one of the reflections of how the management performs. The net profit generated by the company is the result after the reduction of interest expense and tax burden. The profitability ratio measures and helps control revenues, so every transaction that comes to the company becomes a profit for the company. So investors tend to see or consider this ratio in making decisions to invest in stocks (Tatang *et al*., 2019). This statement is supported by previous research conducted by (Meitry Dina Wisma Dewi, 2019; Marlini Widiyanti, 2019; Muhammad Alfan and Heru Suprihadi, 2020; Elisabeth *et al*., 2020) which stated that the value of profitability has a positive effect on stock prices. on the contrary, there is also from previous research conducted by (Anamaria Pongkorung, 2018; Edi Sugiarto, 2018; Linzzy Pratami Putri, 2018; Muhammad Rizqi Hisbullah, 2021; Agus Wahyudi, 2022) stated that the profitability of a company has a negative effect on the stock price.

H2 : Profitability has a positive effect on stock prices

The Effect of Solvency on Stock Prices

Solvency is a ratio of debt to a company's assets, where the debt includes short-term and long-term debt. The debt that the company is obliged to consist of various accounts. The meaning of liability is the sacrifice of economic benefits from economic events that may occur in the future, arising as a result of the entity's obligation at this time, to hand over assets. Debt that is managed properly will be a profit that can increase *earnings per share*. This statement is supported by previous research conducted by (Januardin *et al*., 2019; Dodi Candra & Eli Wardani, 2021; Yulistian *et al*., 2021; Amalia Savitri & Dahlia, 2022) who stated that the solvency value has a positive effect on stock prices. on the contrary, there is also from previous research conducted by (Ella Irawan, 2018; Belinda Evanjeline & Suwitho, 2020; Adellia Rachma Hardini & Titik Mildawati, 2021; Lutfiya Putri Rahayu & Triyonowati, 2021; Tri *et al*., 2021) stated that the solvency of a company has a negative effect on the stock price

H3 : Solvency has a positive effect on stock price

METHODOLOGY

This study aims to determine the possibility of a relationship regarding the influence of independent variables of liquidity, profitability, and solvency on the dependent variables of stock price. The research paradigm used in this study is positivism as a method that is systematically arranged using deductive logic from the beginning of hypothesis formulation. In this study, the type of data used is by using quantitative data. Quantitative methodologies in accordance with their requirements are often required to use numbers, starting from data collection, interpretation of the data, and the appearance of the results (Arikunto, 2006). The research strategy used is a case study, where this case study is shown to investigate and study events or phenomena about something, and the analysis uses a corporate organization with minimal researcher involvement not involved in producing data. The sampling design in this study is *probability sampling* using *cluster sampling*. The research background used *is non-contrived* because the researcher's position does not intervene in this study. For the implementation time, use *a time series* using data analysis, namely hypothesis testing.

Table 1. Measuring instruments and variable measurement sources

Concept	Variable	Measuring Instruments	Source
Dependent	Stock Price	Closing Price	(Kasmir, 2015)
Independent	Liquidity	Current Assets / Current Debt	(James, 2001)
Independent	Profitability	Total Assets / Net Profit	(James, 2001)
independent	Solvency	Total Debt/Equity	(Jhon, 2005)

Types and Sources of Research Data

The type of data used in this study is secondary data, namely data provided by other parties and does not come from direct sources. The population in this study is lq-45 index companies listed on the Indonesia Stock Exchange in 2020-2022. The population in this study is 27 companies from lq-45 index companies that have conducted audits. Based on the determination of the criteria to be included as a sample are as follows:

1. LQ-45 index companies engaged in the financial sector in the 2020-2022 period.
2. Companies that are not listed in the LQ-45 index for 3 (three) consecutive years in the 2020-2022 period
3. LQ-45 companies listed on the Indonesia Stock Exchange in the 2020-2022 period that do not earn profits continuously.

RESULT

Descriptive Statistical Test Analysis

Table 2. Descriptive Statistical Test Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation

Current Ratio	81	.23	5.65	1.8816	1.14377
Return on Asset	81	.00	.45	.0947	.08320
Debt to Equity Ratio	81	.13	4.46	1.1818	1.08091
Stock Ln_Harga	81	5.97	10.62	8.2548	1.07220
Valid N (listwise)	81				

Source : SPSS 26 Output Data

Based on the results of the research data processing, the dependent variable of the share price with a minimum value of 5.97 owned by PT Erajaya Swasembada Tbk (ERAA) in 2020 means that the company has the lowest share price value among other companies. The maximum value of 10.62 is owned by PT Gudang Garam Tbk (GGRM) in 2020. Furthermore, the stock price dependent variable has a mean value of 8.2548 which is greater than the standard deviation of 1.07220.

The first independent variable is liquidity as measured by *the current ratio* with a minimum value of 0.23 with a total current asset value of IDR 322,739,000,000,000 and current liabilities of IDR 1,377,790,000,000,000 owned by PT Tower Bersama *Infrastructure* Tbk in 2020. The maximum value is 5.65 with total current assets of IDR 989,802,000,000,000 and current liabilities of IDR 175,039,000,000,000 by PT Vale Indonesia Tbk (INCO) in 2022. Furthermore, the liquidity variable has a mean value of 1.8816 and a standard deviation of 1.14377. The mean value is greater than the standard deviation value indicating that the data has not much variation, this is because the mean value is accurate in representing the data.

The second independent variable is profitability as measured by *return on assets* obtained a minimum value of 0.00 with a total net profit of IDR 12,586,400,000,000 and total assets of IDR 75,069,600,000,000 owned by PT Wijaya Karya Tbk in 2022.a maximum value of 0.45 with a total net profit of IDR 1,199,345,000,000,000 and total assets of IDR 2,640,177,000,000,000 by PT Indo Tambangraya Megah Tbk in 2022. Furthermore, the profitability variable has a mean value of 0.947 and a standard deviation of 0.08320. The mean value is greater than the standard deviation value indicating that the data has not much variation, this is because the mean value is accurate in representing the data.

The third independent variable, namely solvency as measured by *the debt to equity ratio*, obtained a minimum value of 0.13 with a total debt of IDR 251,282,000,000,000,000 and total equity of IDR 1,990,870,000,000,000,000,000 owned by PT Media Nusantara Citra. The maximum value is 4.46 with a total debt value of IDR 5,376,670,000,000,000,000,000,000 and total equity of IDR 120,620,000,000,000,000,000,000 by PT Sarana Menara Nusantara Tbk in 2021. Furthermore, the solvency variable has a mean value of 1.1818 and a standard deviation of 1.08091. The mean value is greater than the standard deviation value indicating that the data has not much variation, this is because the mean value is accurate in representing the data.

Classical Assumption Test Analysis

Normality

Table 3. Normality Test

One-Sample Kolmogorov-Smirnov Test	
	Unstandardized Residual

N		81
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.95831405
Most Extreme Differences	Absolute	.094
	Positive	.070
	Negative	-.094
Test Statistic		.094
Asymp. Sig. (2-tailed)		.075c
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Source : SPSS 26 Output Data

Based on the test results in the table above showing a result of 0.075 or above a significant value of 0.05, it can be concluded that the residual data has been distributed normally (0.075 > 0.05).

Multicollinearity test

Table 4. Multicollinearity Test

Coefficients[a]			
Type		Collinearity Statistics	
		Tolerance	VIF
1	*Current Ratio*	.520	1.922
	Return on Asset	.963	1.038
	Debt to Equity Ratio	.527	1.896
a. Dependent Variable: Ln_Y			

Source : SPSS 26 Output Data

Based on the test results in the table above, it shows that all *tolenrance values* > 0.10 and the VIF values of independent variables are < 10. This shows that there is no correlation between independent variables or independent variables in the research model. The *tolerance* and VIF values of the independent variables are the liquidity variable (*current ratio*), which is *a tolerance* value of 0.520 and a VIF value of 1,922, the profitability variable (*return on asset*), which is *a tolerance* value of 0.963 and a VIF value of 1,038, the solvency variable (*debt to equity ratio*), which is the *tolerance* value 0.527 and a VIF value of 1.896.

Heteroscedasticity Test

Table 5. Heteroscedasticity Test

Coefficientsa						
Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.761	.201		3.783	.000
	Current Ratio	.074	.065	.162	1.134	.260
	Return on Asset	.538	.660	.086	.814	.418
	Debt to Equity Ratio	-.130	.069	-.268	-1.886	.063
a. Dependent Variable: ABS2						

Source : SPSS 26 Output Data

Based on the test results in the table above, it shows that the liquidity variable (*current ratio*) has a significant value of 0.260 (sig > 0.05), the profitability variable (*return on asset*) has a significant value of 0.418 (sig > 0.05), and the solvency variable (*debt to equity ratio*) has a significant value of 0.063 (sig > 0.05). Therefore, it can be concluded that every independent variable or independent variable does not have heteroscedasticity symptoms.

Autocorrelation Test

Table 6. Autocorrelation Test

Model Summary^b					
Type	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.449a	.201	.170	.97680	1.810
a. Predictors: (Constant), *Debt to Equity Ratio, Return on Asset, Current Ratio*					
b. Dependent Variable: Ln_Y					

Source : SPSS 26 Output Data

Based on the test results in the table above, it shows that the Durbin Watson (dw) value is 1,810. In the data used the number of observations (n) 81, the independent variable (k) consists of the liquidity variable (*current ratio*), the profitability variable (*return on asset*), the solvency variable (*debt to equity ratio*), and the dependent variable (Y) is the stock price. The du value referring to the Durbin Watson table (DW *test*) is 1.7164 when compared to the dw value of 1.810, then the du value (1.7164) is smaller than the dw value (1.810), and the dw value (1.810) is smaller than the 4 – du value (2.2836), so it can be concluded that there is no autocorrelation (1.7164 < 1.810 < 2.2836).

Multiple Linear Regression Test Analysis

Table 7. Multiple Linear Regression Test Analysis

Coefficientsa			
Type		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	8.978	.407
	Current Ratio	-.213	.132
	Return on Asset	2.733	1.337
	Debt to Equity Ratio	-.492	.139
a. Dependent Variable: Ln_Y			

Source : SPSS 26 Output Data

Based on the test results in the table above, a regression model equation that explains the influence between liquidity, profitability, and solvency on stock prices in LQ-45 index companies is as follows:

Stock Price = 8.978 – (-0.213)(CR) – 2.733(ROA) – (-0.492)(DER)

Thus, the value of the linear regression equation above, these coefficients can be interpreted as follows:

The constant value of 8,978 is the value of the Stock Price if each independent variable is worth 0. The X1 independent variable, namely Liquidity (CR), has a value of -0.213 which means that the higher the CR value, the higher the value of the Stock Price will be. The X2 independent variable, namely Profitability (ROA), has a value of 2,733 which means that the higher the ROA value, the higher the value of the Stock Price will be. The X3 independent variable, namely Solvency (DER), has a value of -0.492 which means that the higher the DER value, the higher the value of the Stock Price will be.

Hypothesis Test Analysis

Coefficient of Determination (R^2)

Table 8. R^2 Analysis

Model Summary^b				
Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.449a	.201	.170	.97680
a. Predictors: (Constant), *Debt to Equity Ratio*, *Return on Asset*, *Current Ratio*				
b. Dependent Variable: Ln_Y				

Source : SPSS 26 Output Data

Based on the test results in the table above, the calculation of the determination coefficient of *the Adjusted R Square* coefficient value of 0.170 which shows that the ability of the liquidity variables (*current ratio*), profitability (*return on asset*), and solvency (*debt to equity ratio*) in explaining the variation of stock price variables is 17% and for the rest which is 83% (1 – 0.17) explained by the other variables in out of the equation.

Test T

Table 8. T Test Analysis

Coefficientsa						
Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.978	.407		22.034	.000
	Current Ratio	-.213	.132	-.227	-1.609	.112
	Return on Asset	2.733	1.337	.212	2.044	.044
	Debt to Equity Ratio	-.492	.139	-.496	-3.538	.001
a. Dependent Variable: Ln_Y						

Source : SPSS 26 Output Data

Based on the partial regression test of the liquidity variable (*current ratio*), it has a significant value of 0.112 (> 0.05), and has a regression coefficient (B) of -0.213. These results show that the liquidity variable has a negative and insignificant effect on the stock price. The profitability variable (*return on asset*) has a significant value of 0.044 (< 0.05), and has a regression coefficient (B) of 2.733, these results show that the profitability variable has a positive and significant effect on the stock price. The solvency variable (*debt to equity ratio*) has a significant value of 0.001 (< 0.05), and has a regression coefficient (B) of -0.492. The results show that the solvency variable has a negative and significant effect on the stock price.

DISCUSSION

The Effect of Liquidity on Stock Prices

Based on partial statistical tests, the liquidity variable (X1) has a regression coefficient value of -0.213 which means it has a negative relationship with the stock price with a significant value of 0.112 which is greater than 0.05. It can be concluded that H0 is accepted and Ha1 is rejected, so that the liquidity variable has a negative insignificant effect on the stock price of LQ-45 index companies listed on the Indonesia Stock Exchange for the 2020-2022 period. The results stated that the researcher's hypothesis was not in line with the results of the study. The negative direction indicates that the liquidity ratio has not provided information that can convince investors as a basis for decision-making. The value of a high liquidity ratio does not necessarily reflect the real situation, because the assets owned have not been managed optimally and current assets produce lower *returns* compared to fixed assets. This makes investors pay less attention to the short-term ratio because liquidity (*current ratio*) is more concerned with the internal condition of a company in fulfilling its short-term obligations. This result is in accordance with the findings (Nurrul Shafa Noviana, 2018), and (Febriana Purwanti, 2019) but this result is contrary to the findings that state that the results of the liquidity ratio have a positive effect on stock prices (Ikhsan Abdullah, 2019).

The Effect of Profitability on Stock Prices

Based on a partial statistical test, the variable profitability (X2) has a regression coefficient value of 2.733 which means it has a positive relationship with the stock price with a significant value of 0.044 which is less than 0.05. It can be concluded that H0 was rejected and Ha2 was accepted, so that the profitability variable had a significant positive effect on the stock price of LQ-45 index companies listed on the Indonesia Stock Exchange for the 2020-2022 period. The results stated that the hypothesis was in line with the results of the study. The positive direction indicates that the profitability ratio provides a good response for investors as well as other users. One of the roles of signal theory is how the information owned by the company can be properly channeled to external parties, namely investors, creditors, the government, and other users. Profit is one of the attractions because the profit generated by the company is the ability of management to manage the available assets or resources. Increased profitability provides benefits for shareholders, because the increase in profits every year has a positive impact on shareholders. This result is in accordance with the findings (meitry Dina Wisma Dewi, 2019) stating that the profitability ratio has a positive effect on stock prices.

The Effect of Solvency on Stock Prices

Based on partial statistical tests, the solvency variable (X3) has a regression coefficient value of -0.492 which means it has a negative relationship with the stock price with a significant value of 0.001 which is less than 0.05. It can be concluded that H0 is accepted and Ha3 is rejected, so that the solvency variable has a significant negative effect on the stock price of LQ-45 index companies listed on the Indonesia Stock Exchange for the 2020-2022 period. The results stated that the researcher's hypothesis was not in line with the results of the study. The negative direction indicates that the solvency ratio, if it increases, will cause the stock price to decrease. This is because the greater the use of debt compared to its own capital will result in a decrease in the value of the company so that the stock price decreases. In general, investors will avoid investing in companies with a high DER (*debt to equity ratio*), because the more the value of the DER, the less the dividend that will be distributed to shareholders. This is because the profits earned are used to pay debts. With a fairly high debt value, investors are not interested in investing in the company, so the demand for shares will decrease and the stock price will also decrease. It is said to be significant, meaning that the magnitude of the DER value greatly affects the stock price. This result is in accordance with the findings (Ella Irawan & Nur Laily, 2018), and (Lutfiya Putri Rahayu, 2021) but this result is contrary to the findings that state that the solvency results have a positive effect on the stock price (Popy Marsela & One Yantri, 2021).

CONCLUSION

Based on the results of research conducted on the influence of liquidity, profitability, and solvency on stock prices. Therefore, it can be concluded that liquidity has a negative and statistically insignificant effect on stock prices, profitability has a positive and statistically significant effect on stock prices, solvency has a negative and statistically significant effect on stock prices.

IMPLICATIONS AND LIMITATIONS

Prioritizing the calculation of ratios in decision-making to minimize the risk of losses in investing, helping investors in managing capital resources. The main goal of investors is to make a profit from the capital invested in a company. How to see the signals provided by the company can be obtained from studying financial statements. The decisions that investors take will have an effect in the future.

The limitation of this study is the limited number of independent variables used and in this research process the researcher has limited time in the work. However, with the sample used from the population of lq-45 index companies listed on the Indonesia Stock Exchange that have been represented in this study, it is hoped that the results of this study will provide input on the importance of using ratios in decision-making to reduce unwanted risks.

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