

# THE INFLUENCE OF PROFITABILITY AND LIQUIDITY TOWARDS STOCK PRICE (EMPIRICAL STUDY ON PROPERTY SECTOR SERVICE COMPANIES LISTED ON IDX FOR THE PERIOD 2018-2020)

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## Abstract

*The purpose of this study is to examine and analyze the influence of Profitability (ROA) and Liquidity (CR) on the stock prices of property sector service companies listed on the Indonesian Stock Exchange between 2018 and 2020. This research method is descriptive in nature. The population for this study is property sector service companies listed on IDX between 2018 and 2020, totaling 48 companies. A purposive sampling technique was used to obtain a total of 25 samples of companies. The analysis technique used is the panel data model test, the classical assumption test, and hypothesis testing with the t-statistical hypothesis test for partial regression coefficients and the F-statistical hypothesis test for simultaneous regression coefficients with a significance level of 5%. The results indicate that profitability and liquidity have an influence on stock prices in property sector service companies listed on IDX between 2018 and 2020, while profitability influenced stock price and liquidity had no influenced on stock price.*

**Keywords:** stock price, return on asset, current ratio

## Introduction

Indonesia's economy has increased considerably compared to previous years. As President Joko Widodo said, the Indonesian state has the right to become a world economic power. On that basis, President Joko Widodo welcomed all Indonesians to start collecting Indonesian financial assets to create a leap of progress [1].

In IDX there are many types of stocks, one of which is property stocks that are currently much in demand by most investors [2]. In Indonesia, where population growth shows a fairly high number, of course, this will increase the amount of development demand for apartments, shopping centers, and other public places, which will affect the property industry to be growing [3]. The property stock sector developed by 7.37%, the highest of the 9 (nine) other sectors in the IDX, this shows that investing in shares in the property sector is very profitable [4].

The stock price is formed on the investor's demand and supply of the company's shares so that the stock price can be used as a proxy for the value of the company. The state of demand or supply for stocks that fluctuates each week will bring a fluctuating pattern of stock values as well. In conditions where the demand for shares is greater than the stock price, in general, will increase, while in conditions where the offer is more, the stock price will be reduced [5, 6].

In addition to looking at profit, investors should also look at the liquidity of their companies [7]. To see the company's expertise to pay its obligations can be estimated/determined using liquidity ratios. The liquidity ratio is the expertise of a company to meet short-term commitments on time [8]. The liquidity ratio measures the amount of cash to pay expenses, bills, and all other liabilities that are due [9].

The following is data on stock price, profitability, and liquidity in property companies listed on IDX in 2018-2020:

*Table 1*

**Profitability, Liquidity, and Stock Price in Several Property Sector Companies Listed on IDX in 2018-2020**

Company Name	Return on Asset			Current Ratio			Stock Price		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
APLN	2,22%	0,30%	-1,88%	105,57%	166,43%	189,59%	152	95	188
BIPP	-2,60%	-0,742%	2,23%	158,65%	180,94%	261,03%	88	54	50
CTRA	2,61%	1,54%	0,80%	202,03%	217,42%	177,83%	1010	645	985
GWSA	1,80%	1,34%	1,19%	780,37%	306,83%	1606,62%	142	89	135
ASRI	4,05%	1,22%	-6,01%	65,18%	131,04%	64,41%	312	238	242

Source : [www.idx.co.id](http://www.idx.co.id)

The table above explains that the stock price has increased and decreased, It has been researched by many researchers including by [10] who said that profitability (ROA) and liquidity (CR) simultaneously have a significant influence on the stock price and in line with the opinion of [11, 12] who said that ROA has a significant effect on the stock price, while [13] said that there is no liquidity influence with the current ratio indicator on stock price.

## Literature Review

### Financial Ratio Analysis

Ratio analysis is a form of analysis utilizing comparison computations from the quantitative provided in the balance sheet and income statement. In general, the

computation of financial data ratios analyzes the company's performance in the past, present, and many possibilities in the future [14, 15].

**Signalling Theory**

Signalling theory is a behavior of corporate management in delivering instructions to investors linked to management's opinion of the business's prospects for the future [15, 16].

**Profitability**

Profitability ratios are used to assess how efficient a firm is in utilising its assets to run its operations [17] and the formula for Return On Asset (ROA) is:

$$\text{Return on Assets} = \frac{\text{Earning after tax (EAT)}}{\text{Total assets}}$$

**Liquidity**

The formula for the Current Ratio (CR) is:

$$\text{Current ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

**Price of the Stock**

The market price of a stock can be defined as the stock price. When the stock exchange is closed, the market price is equal to the closing price. Thus, this market price reflects a stock's ups and downs [18], as cited by [19].

**Research Method**

The type of data used is quantitative data. The selected sample of 25 companies from 48 populations of property sector companies listed on Indonesia Stock Exchange for the period 2018-2020. The source of data needed in this study is secondary data obtained from the publication of financial statements published by property sector companies. The data analysis used in this study is a multiple regression analysis using Microsoft excel and Eviews 10.

*Table 1*

**Result and Discussion**

**Statistical Analysis**

	Profitability	Liquidity	Stock Price
Mean	0,022	2931,378	1226,493
Median	0,017	2370,000	238,000
Maksimum	0,262	16066,000	17950,000
Minimum	-0,375	0,257	50,000
Std. Dev	0,074	2378,812	3290,013

**The Influence of Profitability (ROA) towards Stock Price**

When the profitability of the company increases, it will be followed by an increase in its stock price. This can be interpreted that if there is an increase in profitability then the stock price received will increase, and vice versa if there is a decrease in

profitability then the stock price will decrease. Improvement can describe the company's improved performance, so investors believe that increased profitability is one indicator of the success of the company's performance that will provide high profits for investors. This is supported by research conducted by [20] and [11] which states that high profitability will be followed by a high stock price.

### **The Influence of Liquidity (CR) towards Stock Price**

Good company conditions will certainly be able to attract investors to invest in the company so that the stock price will increase. Liquidity has no effect on the stock price can be due to low liquidity levels so it does not attract investors to invest so as not to increase the stock price. This is supported by research conducted by [21] which states that there is no liquidity influence on stock price.

### **The Influence of Profitability and Liquidity towards Stock Price**

High profitability value can increase a company's stock price. A high stock price signifies an excellent company performance, while a high liquidity value can be interpreted that the company can be trusted because it is increasingly able to meet its obligations and liquidity can also be used as a benchmark for the company's growth. This proves that when the profitability and liquidity of the company increase, it will be followed by an increased stock price. This research is supported by research conducted by [22] and [23] stated that profitability and liquidity have a simultaneous influence towards stock price.

## **Conclusion and Recommendation**

### **Conclusion**

1. Profitability affects stock price in property sector service companies listed on IDX in 2018-2020
2. Liquidity does not affect stock price in property sector service companies listed on IDX in 2018-2020
3. Profitability and liquidity affect stock price in property sector service companies listed on IDX in 2018-2020.

### **Recommendation**

1. For companies, the findings indicate that both variables affect stock price, and the authors advise businesses to consider the elements that support the variables. This is attributable to investors' behavior, which is characterized by an emphasis on profitability and liquidity. High profitability and liquidity values will attract a large number of investors, which will benefit the company.
2. For investors, in order to invest, the author advises investors to conduct an analysis first to minimize the risk of loss when investing. The right analysis is to know the company in depth which can be seen from its financial statements because financial statements can describe its performance, especially on profitability and liquidity.
3. For future researchers, the author suggests increasing the research period and conducting similar research in other sectors such as mining sector, agriculture sector, consumer goods industrial sector, and others with an additional number of variables such as transaction frequency, market capitalization, interest rate. The author suggests adding legal references or journals that can support the research.

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