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The Impact of the Debt to Equity and Current Ratio on Stock Prices with Return on Equity as an Intervening Variable in Companies in the Food and Beverage Sub-Sector Listed on the Indonesia Stock Exchange Period 2019–2023

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A B S T R A C T

Finding out how the debt-to-equity ratio and the current ratio impacted stock price was the aim of this study, with return on equity serving as an intervening variable. Companies in the food and beverage subsector were part of the Indonesia Stock Exchange study from 2019 to 2023. Eleven businesses were selected through the use of purposeful sampling from among the forty-four the subsector of food and beverage companies with listings on the Indonesia Stock Exchange. The structural equation model-partial least square (SEM-PLS) is the statistical analysis data analysis technique employed in this investigation approach to perform route analysis using latent variables. This study uses the SmartPLS version 3 program to manage data. The test results led us to the following associations: The debt-to-equity ratio also influences the stock price; the current ratio has no effect on return on equity; return on equity lowers the stock price; the debt-to-equity ratio has no effect on the stock price through return on equity; and the current ratio has an impact on the stock price.

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INTRODUCTION

Are evidence of a company's ownership, where the owner is also referred to as a shareholder (stockholder or shareholder). A piece of paper that certifies that the owner of the paper is the owner of the business that issued the securities is the form of shares. Investors who purchase shares will benefit from capital gains and dividends (Adnyana, 2020). The company's internal and external factors impact changes in stock prices. Another name for internal factors is essential factors, these are elements that come from within the business and are under the management's control, making them significant to investors and businesses. According to Alfani and Andarini (2017), these include the level of return on investment, the level of business risk, and the management's ability to generate profits that will be paid out as capital gains or dividends to shareholders. The ability of a business to manage its operations effectively is shown by high stock values. The value of the issuer's stock will decrease if the stock price keeps falling (Gunawan, 2020). In this case, supply to sell and demand to purchase shares interact to determine the stock price. The closing price, which represents the market value established at the conclusion of the trading period, is the stock price that is used as a benchmark.

LITERATURE REVIEW

Stock Price

A person who wishes to obtain proof of ownership of the company must pay the stock price. The price of the evidence of ownership (stocks) increases with a business's performance (Manulang et al., 2021). One type of security that is exchanged on the stock exchange or capital market is stock prices. It is believed that declining demand for shares and corporations' inability to pay dividends are the causes of stock price swings (Siregar et al., 2021). The relationship between supply and demand in the stock market determines stock prices. Generally speaking, when demand exceeds supply, stock prices will increase; when supply exceeds demand, prices will decrease. It is clear from the several definitions given above that stock prices represent a company's worth, which fluctuates based on supply and demand.

Return On Equity

The net profit for shareholders divided by the total amount of equity held by shareholders is known as return on equity. A high rate of return on investment is undoubtedly what shareholders want, and ROE indicates the rate they receive. The stock price will typically be high if ROE is high, and activities that raise ROE will probably also raise the stock price (Brigham & Houston, 2010). As a percentage, one measure of profitability that is used to assess a company's ability to generate profits from the investments made by its shareholders is return on equity. The company's revenue and the capital invested by its owners (common shareholders and preferred shareholders) are compared to calculate ROE. Sari and Dwilita in 2019. The ratio of profit after taxes to total equity (Equity) obtained from capital deposits made by owners is known as return on equity. The more effectively a business manages its own

capital to produce profits or net income, the better the Return on Equity. Investors frequently use ROE to evaluate how well a business uses shareholder capital to produce profits (Firman & Rambe, 2021). The many definitions provided above suggest that return on equity (ROE) is the ratio of net profit after taxes to total equity. Additionally, this ratio calculates the profit margin on owned capital.

The Current Ratio

The current ratio is the most commonly used ratio to evaluate a company's liquidity from short-term liabilities. It compares current assets and current liabilities and shows the company's capacity to satisfy short-term obligations with available current assets (Lestari & Suryantini, 2019). Firman and Rambe (2021) state that the current ratio is a measure of a company's ability to use its current assets to pay off short-term debts or liabilities that are getting close to their due dates. The current ratio demonstrates a company's liquidity and its ability to pay short-term debts with short-term assets. A high current ratio suggests that working capital issues won't have an impact on the business's day-to-day operations. According to Ratnaningtyas (2021), the company's state of health shows that it is well-positioned to conduct its business operations. From the foregoing interpretation, it may be seen that this ratio is employed to determine whether the business can pay off short-term loans that are about to mature. The ability of the company to meet its short-term obligations increases with the current ratio.

Debt to Equity Ratio

The success of the business will be impacted by the business will perform badly because of the higher interest load; the company's profitability would decrease as its debt climbed. The debt-to-equity ratio is a metric used to evaluate debt in relation to equity. Comparing all debts including current debts with all equity yields this ratio. Knowing how much money borrowers (creditors) have contributed to business owners is made easier with the help of this ratio. To put it another way, this ratio determines each rupiah of personal capital utilized as debt collateral in 2018, Kasmir. When comparing debt and equity in a company's funding, the debt-to-equity ratio (DER) is a metric that indicates how well equity can cover all liabilities (Gunawan, 2020). Calculating and evaluating debt with equity from each amount utilized as collateral for the total debt is possible with the debt-to-equity ratio. The company's ability to fulfill both short- and long-term commitments can be evaluated using this ratio. As per the previously mentioned idea, the debt-to-equity ratio assesses the capacity of the business to fulfill its long-term commitments.

Conceptual Framework

The Effect of Current Ratio on Stock Prices

According to Firman and Rambe (2021), a measure of a company's ability to pay off short-term debts or obligations that are getting close to maturity with its current assets is the current ratio. Naturally, while investing in stocks,

investors or potential investors consider the business's ability to manage both its potential for profit and its immediate liabilities. The greater the current ratio, the more liquid the company's assets are and the more capable it is of meeting its short-term obligations ahead of schedule (Vanesa & Evani, 2023)

The Influence of Debt-to-Equity Ratio on Stock Prices

One important financial measure for evaluating a company's financial health is the debt-to-equity ratio, or DER. This proportion is often used to measure a company's capacity to pay off its obligations. Because of its significant debts, the corporation is riskier the higher the DER value Junaeni (2017).

Investors are willing to take on more risk when the debt-to-equity ratio is higher since it indicates that the overall amount of debt is more than the entire amount of equity. As a result, shareholders' evaluation of the company's capacity to improve earnings from the capital spent in its operational activities would decline. The company's growing capacity to turn a profit will have an impact on earnings per share (Assegaf, 2018).

The Effect of Return on Equity on Stock Prices

A ratio called return on equity (ROE) illustrates how much a business can make from the management of its capital, including both its own and investors' money. This percentage frequently shows how well the business manages costs and accepts favorable investment opportunities. If the ROE is high, the business has managed its capital well enough to attract investors and earn their trust (Diaz & Jufrizen, 2014).

Return on equity (ROE), or how much money the shareholders make for every rupiah invested, is a measure of how profitable the company's own capital can be. Therefore, a higher ROE is better (Batubara & Purnama, 2018).

Current Ratio's Impact on Return on Equity

The current ratio shows how well the corporation can satisfy its short-term obligations. Another view, however, holds that a high current ratio denotes excess current assets, which will harm the company's success, whereas a low current ratio suggests risk. In 2019, Lestari and Suryantini

Current assets and current liabilities that the business must pay are compared using the current ratio (CR). The corporation is considered should be able to settle all of its immediate debts with creditors in the event that the CR level is high. A high CR, however, is not always a good thing since it will show that there are excess current assets that are not being used efficiently, which could lead to lower profitability or profits and a lower return on equity (Pongrangga et al., 2018).

The Impact of the Debt-to-Equity Ratio on Equity Return

The debt-to-equity ratio (DER) affects the company's success; a high DER will negatively impact the company's performance. The business will incur greater interest costs as a result of having more debt, which will reduce profitability. An essential component of a business is its debt-to-equity ratio (DER), which is a source of external capital. One way to evaluate a business's financial health is to look at its debt. When choosing a stock, an investor also takes debt into account. The debt-to-equity ratio shows how well a corporation

can meet its financial obligations; the greater the ratio, the larger the overall amount of debt relative to the total amount of equity. When determining whether to invest in a company, investors may use its debt loans as a pointer, according to Sari et al. (2019).

The company's level of ROE will be impacted by a high or low DER. The source of funds from loans or debt will be more efficient in producing profits (raising Return on Equity) if the cost of the loan (cost of debt) is lower than the cost of equity, and vice versa (Armin & Maryandhi, 2018).

Current Ratio's Impact on Stock Prices Via Return on Equity

The ability of a business to turn a profit (gain) within a specific time frame is known as profitability.

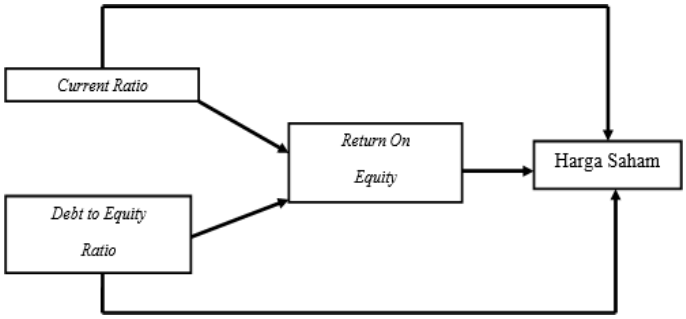

Figure 1. Conceptual Framework

Since the company's profit is a key component in creating company value that demonstrates the company's prospects for the future as well as an indicator of the company's ability to meet its obligations to shareholders, the ability of the company to generate profit in its operational activities is the primary focus when evaluating the company's performance (Khasanah et al., 2022). The company may have sufficient liquidity to handle its short-term obligations without compromising the overall assets used to produce earnings if its current ratio is in the middle, neither too high nor too low. A balanced current ratio in this case can help maintain a great return on equity performance, which in turn will influence stock prices by informing investors of the company's successful operations.

The Influence of Debt-to-Equity Ratio on Stock Prices Through Return on Equity

When comparing debt and equity in a company's funding, the debt-to-equity ratio indicates the company's capacity to meet its own financial obligations. A higher debt to equity ratio indicates a greater reliance on outside parties, which raises the company's risk level. This will result in declining stock exchange pricing, which will reduce earnings (Hantono, 2017).

Using debt to increase the potential return on investment is referred to as the leverage ratio. By employing borrowed money to create more revenue, a business that employs debt (leverage) will raise its equity return. Because income from net exceeds shareholders' equities and the yield on equity will rise if the business is able to generate profits higher than the cost of debt.

A ratio called return on equity (ROE) illustrates how much a business can make from the management of its capital, including both its own and investors' money. This percentage frequently shows how well the business manages costs and accepts favorable investment opportunities. If the ROE is high, the business has managed its capital well enough to attract investors and earn their trust (Diaz & Jufrizen, 2014). The following is the conceptual framework used in this study.

METHODOLOGY

This study's research methodology is an associative approach. A study that seeks to ascertain the influence or relationship between two or more variables is known as associative research (Sugiyono, 2013). However, the study methodology employed is a quantitative one, which involves analyzing data that contains certain numerical values. The data used in this analysis, which spans the years 2019–2023, comes from a combination of secondary and empirical sources, including annual data on companies in the food and beverage subsector listed on the Indonesia Stock Exchange. All 44 firms in the food and beverage subsector that were listed on the Indonesia Stock Exchange between 2019 and 2023 made up the study's population. Purposive sampling was the method of sampling employed in this investigation. Purposive sampling is a sampling strategy in which researchers choose samples according to the goals and attributes that align with the study. Thus, 11 food and beverage firms were selected as a sample. The 11 businesses listed below served as study samples. The documentation methodology was the method of data collecting employed in this investigation. The quantitative data included in this study came from secondary sources, specifically the Indonesia Stock Exchange's annual financial reports. In order to do route analysis using latent variables, the statistical analysis method used for this work is the structural question model-partial least square (SEM-PLS). For SEM-PLS analysis, there are multiple class stages: (1) Measurement Model Analysis (Outer Model), which includes Collinearity, Discriminant Validity, and Construct Reliability and Validity. (2) Analysis of structural models (inner model), specifically R-squared, F-squared, (3) Testing Hypotheses.

RESULT AND DISCUSSION

Making predictions is the goal of employing partial least squares, or PLS. which aids researchers in obtaining latent variable values for their research in order to create predictions, as well as in predicting the relationship between constructs. Latent variables can be thought of as linear sums of their indicators. The way the inner model (structural model that links latent variables) and outer model (measurement model, specifically the relationship between indicators and their constructs) are specified determines the weight estimates used to build the latent variable score components. As a result, the dependent variable's residual variance—which includes both latent variables and indicators—is reduced.

Construct Reliability and Validity

A test to gauge a construct's validity and reliability is called construct reliability and validity (validity and reliability of the construct). Good Composite Reliability is defined as >0.6 (Juliandi, 2018). Every research variable has a composite reliability value more than 0.6, according to the findings of the Construct reliability and validity study. Each variable has a composite dependability of 1,000 > 0.6, according to the data. Therefore, it can be said that every variable employed in this study has been shown to be dependable.

Discriminant Validity

The degree to which a construct is actually distinct from other constructs is known as discriminant validity. The Heretroit-Monotrait Ratio (HTM) value is the most up-to-date assessment. A notion has excellent discriminant validity if its HTMT value is less than 0.90 (Juliandi, 2018).

According to the study's findings, discriminant validity explains why each variable in this study has a value of less than 0.90. The indicators utilized in this study are said to have strong discriminant validity based on the results obtained.

Collinearity

The purpose of collinearity testing is to demonstrate the strength of the correlation between constructs. A high correlation indicates that there is an issue with the model. We refer to this issue as collinearity. The Variance Inflation Factor (VIF) number is the one that is utilized to examine it. According to Juliandi (2018), if the VIF value is greater than 5.00, there is a collinearity issue; if it is less than 5.00, there isn't.

According to the findings of the collinearity study, each of the research variable's indicators has a value between 1.00 and 5.00. According to the findings, there are no collinearity issues with any of the indicators employed in this investigation.

R-Square

The study's results show that variables X1 (current ratio) and X2 (debt to equity ratio) have a 27% ability to explain variable Y (stock price), according to the R-Square of route model 1 = 0.268, which classifies them as weak (small). Current ratio (X1) and debt to equity ratio (X2) have a medium ability to describe variable Y (stock price), at 36%, with an R-Square of route model 2 = 0.359.

F-Square

The following conclusions are drawn from the F-Square table values based on the findings of the F-Square study.

1. An F-Square score of 0.334 indicated that the variable X1 Current Ratio had a substantial impact on the variable Y Stock Price.
2. The Z Return on Equity variable was slightly impacted by the X1 Current Ratio variable's F-Square value of 0.025.
3. The variable Y Stock Price, which had an F-Square value of 0.160, was moderately influenced by the variable X2 Debt to Equity Ratio.
4. The variable Z Return on Equity, which had an F-Square value of 0.465, was significantly influenced by the variable X2 Debt to Equity Ratio.

5. The variable Y Stock Price, which had an F-Square value of 0.072, was somewhat impacted by the variable Z Return on Equity.

Direct Effect (Direct Influence)

Tabel 1. Direct Effect

	Original Sample (O)	**Sample Mean (M)**	**Standard Deviation (STD EV)**	**T Statistics (O/S TDEV)**	**P Values**
Current Ratio -> Stock price	0,621	0,625	0,149	4,165	0,000
Current Ratio -> Return On Equity	0,156	0,143	0,101	1,551	0,121
Debt To Equity Ratio -> Stock Price	0,515	0,515	0,174	2,963	0,003
Debt To Equity Ratio -> Return On Equity	0,679	0,646	0,188	3,613	0,000
Return On Equity -> Stock Price	- 0,286	- 0,278	0,129	2,211	0,027

Source: Data Processed Using SemPLS, 2024

The path coefficients table allows for the following deductions to be made: With an initial sample value of 0.621, the correlation between stock prices and the current ratio variable indicates that the two variables are moving in the same direction. The two variables have a significant relationship, and the current ratio has a significant effect on stock prices, according to the P-value of 0.000 <0.05. With an initial sample value of 0.515, the correlation between the correlation between the debt-to-equity ratio and stock prices suggests that the two variables are trending in the same direction. With a P-value of 0.003 <0.05, it can be stated that there is a substantial association between the two variables and that the ratio of debt to equity has a big impact on stock prices. The initial sample value for the link between the current ratio variable and return on equity was 0.156, indicating that the two variables are related in the same direction. Given that the P-value is 0.121>0.05, it can be said that there is no significant association between the two variables and that return on equity is unaffected by the current ratio. The original sample value for the association between the debt-to-equity ratio variable and return on equity was 0.679, indicating that the two variables have a favorable partnership. Given that the P-value is 0.000 <0.05, it can be concluded that the two variables have a significant relationship and that the debt-to-equity ratio has a significant impact on return on equity. There is an inverse correlation between stock prices and the return on equity variable, as indicated by the first sample value of -0.286. Return on equity considerably lowers stock prices, as evidenced by the P-value of 0.027 <0.05, which shows a meaningful link between the two variables.

Indirect Effect (Indirect Influence)

Tabel 2. Indirect Effect

	Original Sampel (O)	***Sampel Mean (M)***	***Standard Deviation (STD EV)***	***T Statistics (O/S TDE V)***	***P Values***
Current Ratio -> Return On Equity -> Stock Price	-0,045	-0,045	0,036	1,244	0,214
Debt To Equity Ratio -> Return On Equity->Stock Price	- 0,194	-0,192	0,117	1,663	0,096

Source: Data Processed Using SemPLS, 2024

The first sample value of the current ratio to stock price via the intervening variable, return on equity, was -0.045. The resultant P-value is 0.214>0.05. Thus, it can be said that stock prices are not much impacted negatively by the current ratio as measured by equity return. The original debt-to-equity ratio sample value to stock price using the intervening variable, return on equity, was -0.194. The resultant P-value is 0.096>0.05. Accordingly, it can be said that stock prices are not significantly impacted negatively by the debt-to-equity ratio as measured by return on equity.

Current Ratio's Impact on Stock Prices

The initial sample value for the direct effect test between stock prices and the current ratio variable was 0.621, indicating that the two variables have a positive association. As evidenced by the P-values of 0.000 <0.05, which show a significant correlation between the two variables, the current ratio has a significant effect on stock prices.

A company with a high current ratio has solid liquidity, which can boost investor confidence and drive-up stock prices. A too high current ratio, however, can also indicate that the company is not using its current assets efficiently, which could lower stock prices and negatively impact market sentiment. On the other hand, an excessively low current ratio may be a sign of liquidity concern, which could lower stock prices and investor interest. This is consistent with earlier research findings by (Novalddin et al., 2020), which demonstrated that stock prices are significantly positively impacted by the current ratio. The study's findings (Adnan & Ngatno, 2018) further demonstrated that stock prices are significantly impacted by the current ratio.

The Influence of Debt-to-Equity Ratio on Stock Prices

The original sample value for the direct effect test between stock prices and the debt-to-equity ratio variable was 0.515, indicating that the two variables have a positive association. The debt-to-equity ratio has a considerable impact on stock prices, as seen by the P-values of 0.003 <0.05, which indicate a strong association between the two variables.

Investors are willing to take on more risk when the debt-to-equity ratio is higher since it indicates that the overall amount of debt is more than the entire amount of equity. As a result, shareholders' evaluation of the company's

capacity to improve earnings from the capital spent in its operational activities would decline. The company's growing capacity to turn a profit will have an impact on earnings per share (Assegaf, 2018).

The debt-to-equity ratio has a beneficial impact on stock prices, according to prior research (Khasanah & Suwarti, 2022). According to other research, the debt-to-equity ratio raises stock values (Gunawan, 2020).

The Effect of Current Ratio on Return on Equity

The original sample value for the direct effect test between the current ratio variable and return on equity was 0.156, indicating that the two variables had a positive association. The current ratio has no bearing on return on equity, as indicated by the P-values of 0.121>0.05, which indicate that there is no significant association between the two variables. The corporation is considered to be able to pay all of its short-term debts to creditors if the CR level is high. A high CR, however, is not always a good thing since it will show that there are excess current assets that are not being used efficiently, which could lead to lower profitability or profits and a lower return on equity (Pongrangga et al., 2018).

According to the study, return on equity was not significantly impacted by the current ratio value (Kusmawati & Ovalianti, 2022). Return on equity was not significantly impacted by the current ratio, according to another study (Armin & Maryandhi, 2018).

The Influence of Debt-to-Equity Ratio on Return on Equity

Return on equity and the debt-to-equity ratio variable had a positive correlation, as indicated by the initial sample value of 0.679 for the direct impact test between the two variables. Since there is a substantial correlation between the two variables (P-values of 0.000 < 0.05), it can be concluded that the debt-to-equity ratio has a major impact on return on equity.

A high or low DER will have an effect on the company's ROE. If the cost of debt (or loans) is less than the cost of equity, the source of funding will be more effective in generating profits (increasing Return on Equity), and vice versa (Armin & Maryandhi, 2018).

According to the research, return on equity is significantly positively impacted by the debt-to-equity ratio value (Balqish, 2020). According to other research, return on equity is significantly impacted by the debt-to-equity ratio (Hantono, 2017).

The Impact of Equity Return on Stock Prices

A negative correlation between stock prices and the return on equity variable was indicated by the first sample value of -0.286 for the direct effect test. The P-value of 0.027 <0.05 indicates a significant correlation between the two variables, indicating that return on equity considerably lowers stock prices. Return on equity (ROE), or how much money the shareholders make for every rupiah invested, is a measure of how profitable the company's own capital can be. Therefore, a higher ROE is better (Batubara & Purnama, 2018).

According to the findings of research by Munira et al. (2018) and Siregar et al. (2021), return on equity value had no discernible effect on stock prices.

The Effect of Current Ratio on Stock Prices Through Return on Equity

The initial sample value for the indirect effect test (indirect association) between the stock price and the current ratio variable via the intervening variable, return on equity, was -0.045. Consequently, the P-value is 0.214 > 0.05. Therefore, the current ratio as determined by return on equity does not have a significant negative influence on stock prices.

The company can demonstrate that it has enough cash on hand to meet its immediate obligations without jeopardizing the overall assets used to generate revenue by maintaining a healthy current ratio, which is neither too high nor too low. Strong return on equity performance in this case can be supported by a balanced current ratio, which can ultimately influence stock prices by informing investors of the company's successful operations. According to the study's findings (Adnan & Ngatno, 2018), return on equity can significantly lessen the current ratio's effect on stock prices. Other studies, however, claim that return on equity has little bearing on stock prices (Siregar et al., 2021).

The Influence of Debt-to-Equity Ratio on Stock Prices Through Return on Equity

An initial sample value of -0.194 was obtained from the indirect effect test (indirect association) between the Debt-to-Equity Ratio variable and Stock Price through the intervening variable, Return on Equity. The resultant P-value is 0.096>0.05. Accordingly, it can be said that stock prices are not significantly impacted negatively by the debt-to-equity ratio as measured by return on equity.

The debt-to-equity ratio affects stock prices in a number of ways, including return on equity. A company's stock price will probably rise if it can effectively manage debt and produce a high return on equity. However, if excessive debt is poorly managed and lowers return on equity, investors may view the company as riskier, which could result in a decline in the stock price.

Although it is not a significant influence, return on equity can mitigate the effect of the debt-to-equity ratio on stock price, according to the study's findings (Adnan & Ngatno, 2018). The results of other studies show that there is no appreciable relationship between the debt-to-equity ratio and stock prices (Sari et al., 2019).

CONCLUSIONS AND RECOMMENDATIONS

The following conclusions can be made in light of the author's research and discussion on the impact of the debt-to-equity ratio and current ratio on stock prices, with return on equity acting as an intervening variable, for food and beverage subsector companies listed on the Indonesia Stock Exchange for the 2019–2023 period: For the 2019–2023 period, the current ratio has an impact on stock prices of companies in the food and beverage subsector that are listed on the Indonesia Stock Exchange. For the 2019–2023 timeframe, the debt-to-equity ratio has an impact on stock prices for companies in the Indonesia Stock Exchange-listed food and beverage subsector. For the 2019–2023 period, the current ratio has no bearing on return on equity for food and beverage

subsector companies listed on the Indonesia Stock Exchange. For businesses in the food and beverage subsector that are listed on the Indonesia Stock Exchange, the debt-to-equity ratio affects return on equity for the 2019–2023 period. For companies in the food and beverage subsector listed on the Indonesia Stock Exchange, return on equity has a negative effect on stock prices for the 2019–2023 period. For the 2019–2023 period, the current ratio has no bearing on the stock prices of companies in the food and beverage subsector listed on the Indonesia Stock Exchange according to return on equity. For the 2019–2023 timeframe, the debt-to-equity ratio as measured by return on equity has no bearing on stock prices of companies in the food and beverage subsector that are listed on the Indonesia Stock Exchange. The author offers the following recommendations in light of the previously discussed conclusions: To raise the company's worth, the business must be able to optimize its financial performance. In order to satisfy its short-term obligations and raise the company's worth, the corporation should attempt to raise the current ratio by raising current assets. By controlling the overall excess capital, the business should attempt to lower the debt-to-equity ratio; if this is accomplished, the company's value will rise. By making the best use of its current resources, the corporation should aim to boost return on equity and raise its worth. A firm's stock price should be taken into consideration by potential investors and those who wish to invest in it. This is because a higher stock price suggests that the company is managing its finances well.

FURTHER RESEARCH

This research still has limitations so further research is still needed on this topic.

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