



The Influence of Profitability on Stock Prices in the Financing Sector Companies Listed on the Indonesia Stock Exchange

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Abstract: Profitability serves as a crucial measure in evaluating a company's financial health, especially within the financing industry listed on the Indonesia Stock Exchange (IDX). This research investigates the impact of Return on Assets (ROA) on the stock prices of financing firms. A quantitative approach was utilized, applying simple linear regression analysis. Data were sourced from annual reports and the official IDX website for the 2020–2023 period, with 24 data points selected using purposive sampling. Classical assumption testing confirmed that the model satisfied the conditions for normality and homoscedasticity. The analysis revealed a significant positive relationship between ROA and stock prices, with a coefficient of 100.070 and an R^2 of 0.556, meaning ROA accounts for 55.6% of stock price variation. The findings are in line with signaling theory, highlighting ROA as an indicator of company efficiency and stability during uncertain economic conditions. The study suggests that firms should enhance asset utilization to sustain profitability, investors should consider ROA in their evaluations, and future studies should integrate additional financial metrics for a broader analysis.

Keywords: financing companies, indonesia stock exchange, profitability, return on assets, stock price

Introduction

Profitability serves as a crucial metric in evaluating a company's financial health. Within the financial industry particularly for firms listed on the Indonesia Stock Exchange (IDX) Return on Assets (ROA) is especially important, as it indicates how efficiently a company leverages its assets to produce earnings. A high ROA indicates operational efficiency and strong asset management, which can positively influence investor perception regarding the company's value and growth potential (Said et al., 2022). Conversely, a low ROA may signal poor asset management or an inability to generate adequate profits, potentially leading to negative impacts on the company's stock price (Hidayat et al., 2021).

The financial services sector, particularly financing companies, has unique characteristics compared to other industries. These companies provide credit to individuals and businesses and generate revenue primarily from interest or margin income. Therefore, their profitability heavily depends on the management of credit, interest rate, and liquidity risks. High ROA in this sector often reflects a company's stability in managing its loan portfolio and maintaining healthy margins (Wahyuni & Aditiya, 2021).

Stock prices of financing companies in Indonesia are influenced by financial performance indicators, including ROA. Investors are typically more attracted to firms with high ROA, as it signifies efficient asset use and strong profit generation factors that boost market confidence (Sembiring, 2020). On the other hand, a declining or low ROA can create negative market sentiment and reduce stock value (Sudirman & Siregar, 2023). Understanding the influence of ROA on stock prices in the financing sector is particularly important in light of external market uncertainties such as global interest rate fluctuations and post-pandemic economic conditions (Prabowo & Rini, 2022).

Furthermore, Indonesia's financing sector operates in an open and competitive market that is highly sensitive to macroeconomic conditions. Companies in this sector must demonstrate resilience in managing risks and maintaining profitability amidst economic shocks, which in turn impacts their stock price performance on the IDX (Tanjung & Kurniawan, 2021). Based on this background, this study aims to analyze the effect of profitability, as measured by ROA, on stock prices in financing sector companies listed on the Indonesia Stock Exchange.

Research Method

Theoretical Framework and Hypothesis

a. Profitability and Return on Assets (ROA)

Profitability indicates how well a company can earn income through its core business operations within a specific timeframe. This concept can be assessed through several metrics, with Return on Assets (ROA) being one of the key indicators. ROA assesses how effectively a company leverages its assets to produce earnings. The formula is:

$$\text{ROA} = \text{Net Income} / \text{Total Assets} \quad (1)$$

A high Return on Assets (ROA) reflects effective use of assets and strong profitability, which conveys a favorable message to investors regarding the company's future outlook (Said et al., 2022). Conversely, a low ROA may reflect inefficiencies in generating profit from assets, which can reduce investor interest and negatively impact the stock price (Hidayat et al., 2021).

b. Stock Price

Stock price represents the value investors are willing to pay for a company's shares in the secondary market. It reflects investor perception of the company's performance and future outlook. Stock prices are influenced by numerous factors, one of which is financial performance, particularly profitability as indicated by ROA. Investors generally respond positively to high-ROA companies, as it suggests sound asset management and strong earnings potential (Sembiring, 2020).

In an efficient market, stock prices tend to reflect the expected value based on available information, including financial reports indicating profitability. Therefore, companies with high ROA are generally viewed as financially healthy, attracting more investors and driving up stock prices. In contrast, declining or consistently low

ROA can lead to investor concerns and result in lower stock prices (Sudirman & Siregar, 2023).

c. Research Hypothesis

Based on the theoretical framework, the following research hypothesis is proposed:

H1: Profitability, as measured by ROA, has a positive influence on the stock prices of financing companies listed on the Indonesia Stock Exchange (IDX).

This hypothesis assumes that the higher a financing company's ROA, the greater the likelihood of its stock price increasing. This is because a high ROA demonstrates asset management efficiency and the company's ability to generate profit—factors that enhance investor confidence and boost demand for its shares.

Research Methodology

This research adopts a quantitative method through simple linear regression analysis to investigate the impact of profitability on stock prices in financing companies listed on the Indonesia Stock Exchange (IDX). Return on Assets (ROA) is used as the independent variable, representing the company's profitability and calculated by dividing net income by total assets. The dependent variable is the stock price, represented by the annual closing share price of each firm. The study relies on secondary data sourced from the annual financial statements of the companies and the official IDX website, covering the 2020–2023 period. The sample consists of companies within the financing services sub-sector, selected using purposive sampling based on the availability and completeness of ROA and stock price data throughout the observation period. A total of 24 observations were collected from several companies over the four-year timeframe. Data analysis was conducted using SPSS Statistics 26 to examine the relationship between ROA and stock prices. Classical assumption tests, including normality and heteroscedasticity tests. The results of this analysis are expected to provide empirical insights into the extent to which profitability, as reflected by ROA, affects stock prices in Indonesia's financing sector companies.

Result and Discussion

Descriptive Statistics

The dataset comprises 24 observations collected from financing service companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	24	0.43	10.03	4.22	2.92
Stock Price (IDR)	24	234	1655	553.29	392.44

Based on the descriptive analysis, the ROA variable has a minimum value of 0.43% and a maximum of 10.03%, with a mean of 4.22% and a standard deviation of 2.92. This suggests that, on average, financing service companies generated a net income of approximately 4.22% of their total assets. The relatively high standard deviation indicates

substantial variation in profitability among the companies. For stock price, the minimum recorded value is IDR 234.00 and the maximum is IDR 1,655.00, with a mean of IDR 553.29 and a standard deviation of IDR 392.44. The moderate mean and high standard deviation reflect considerable differences in stock prices across the sample, likely influenced by financial performance, market perception, and other external factors.

Classical Assumption Testing

a. Normality Test

The purpose of the normality test is to assess if the residuals from the regression model follow a normal distribution. This was tested using the One-Sample Kolmogorov-Smirnov Test on the unstandardized residuals.

Table 2. Result of Normality Test

Unstandardized Residual	Sig.
Kolmogorov Smirnov Test	0.200

Since the p-value (0.200) exceeds the 0.05 significance threshold, there is insufficient evidence to reject the null hypothesis. This indicates that the residuals are normally distributed, fulfilling the normality assumption required for regression analysis

b. Heteroscedasticity Test

The heteroscedasticity test evaluates whether the variance of the residuals remains constant across levels of the predicted values. A scatter plot of unstandardized predicted values versus unstandardized residuals was used for this assessment.

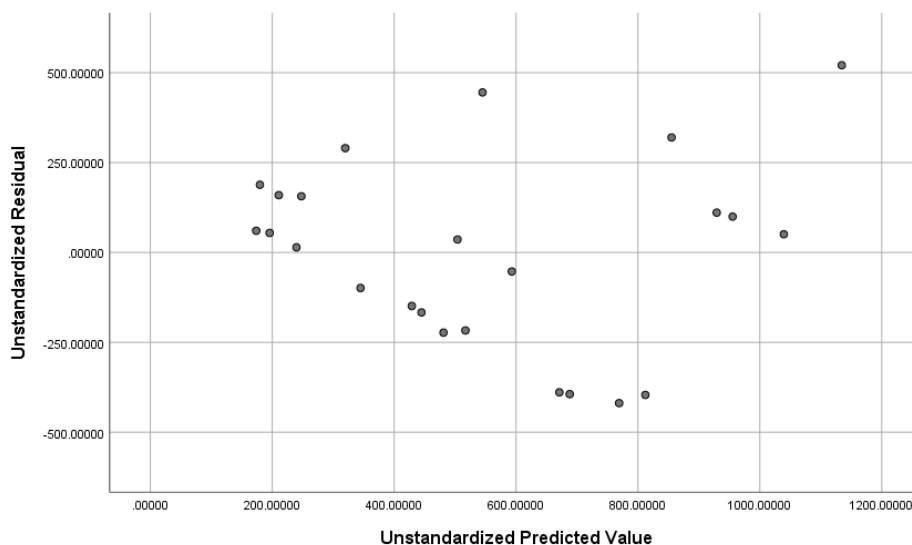


Figure 1. Scatter Plot of Predicted Values vs Residuals

The scatter plot reveals that residuals are randomly dispersed without any clear pattern (e.g., funnel shape or systematic clustering), indicating the absence of heteroscedasticity. Thus, the homoscedasticity assumption is satisfied.

c. Simple Linear Regression Analysis

Table 3. Result of Correlation and Coefficient of Determination

Model	R	R Square
1	0.746	0.556

Table 4. Result of t-test

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	130.662	97.253		1.344	0.193
	ROA	100.070	19.061	0.746	5.250	0.000

The simple linear regression analysis assesses the influence of ROA on stock price among financing service companies listed on the IDX. The R-squared value of 0.556 indicates that 55.6% of the variation in stock price is explained by ROA, while the remaining 44.4% is attributed to other factors outside the model. The adjusted R-squared of 0.536 suggests that the model fits the data reasonably well.

The constant value of 130.662 implies that if ROA were zero, the predicted stock price would be approximately IDR 130.66. The ROA coefficient of 100.070 suggests that for every 1% increase in ROA, the stock price increases by approximately IDR 100.07, assuming other variables remain constant. A t-value of 5.250 and a p-value of 0.000 indicate a statistically significant positive effect of ROA on stock price.

These findings support the research hypothesis that ROA has a positive and significant impact on stock prices in the financing sector. Higher profitability, as reflected by ROA, is associated with higher stock prices, consistent with financial theory that strong performance enhances investor confidence and signals favorable future prospects.

Discussion

This study finds that profitability, measured by ROA, has a positive and significant effect on stock prices of financing companies listed on the IDX. The result aligns with the research hypothesis (H1), which posits that higher ROA increases the likelihood of stock price appreciation.

Theoretically, this finding supports signaling theory (Spence, 1973), which suggests that financial performance indicators like profitability serve as signals to investors in making investment decisions. A high ROA sends a positive signal to the market that the company efficiently manages its assets and generates income, thus boosting investor confidence and increasing stock demand and prices.

The result is also consistent with prior studies by Said et al. (2022) and Sembiring (2020), which found ROA to significantly influence stock prices as an indicator of management efficiency. Furthermore, the findings reinforce empirical evidence from Hidayat et al. (2021), who reported that companies with higher ROA tend to earn greater investor trust due to perceived financial stability and growth potential.

In the context of financial resilience in the banking and financing sectors, these findings highlight the importance of maintaining profitability as a buffer against economic uncertainty. Amid global pressures such as interest rate volatility and lingering effects of the COVID-19 pandemic, financing companies must sustain solid performance. ROA reflects financial resilience firms that maintain or improve ROA under difficult market conditions demonstrate effective asset management and risk control.

This study also aligns with Wahyuni & Aditiya (2021), who emphasized profitability as a key internal strength enabling financing firms to withstand external shocks. In this view, ROA is not merely a financial metric but a measure of business resilience critical for building a sustainable and robust financial system, as emphasized by national financial and banking authorities.

Practically, this research implies that financing companies should prioritize asset efficiency and optimize operational income to maintain high ROA. Doing so not only strengthens internal performance but also enhances stock market appeal.

In conclusion, ROA is a critical indicator that not only reflects profitability but also plays a vital role in reinforcing the resilience of Indonesia's financing sector against market volatility and economic crises. Both investors and policymakers can use ROA as a benchmark to evaluate a company's fundamentals and future stock price potential.

Conclusion

This study concludes that profitability, as measured by Return on Assets (ROA), has a positive and statistically significant impact on stock prices of financing companies listed on the IDX. The regression analysis demonstrates that an increase in ROA directly leads to higher stock prices, with ROA explaining 55.6% of stock price variability. These findings support signaling theory and previous empirical research, indicating that ROA is a vital indicator of efficiency and resilience in the financing sector.

Recommendations

- a. Companies should enhance asset efficiency to maintain high ROA, as it directly affects market valuation.
- b. Investors are advised to consider ROA as a primary metric when evaluating stock performance and growth potential.
- c. Regulators should reinforce transparency and accountability in financial reporting to strengthen the financial sector.
- d. Future research is encouraged to incorporate additional financial variables for a more comprehensive analysis.

This study underscores that profitability not only reflects financial performance but also signifies a company's resilience within the financing industry amid economic fluctuations.

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