The Effect of Profitability, Solvency, Liquidity, and Activity on the Stock Price of Textile Industry listed on the Indonesia Stock Exchange

Muhammad Farhan Irfana[1*)]; Devy Mawarnie Puspitasari[2)]

[1)] *m.farhanirfana@gmail.com, Universitas Mercu Buana, Indonesia*
[2)] *devymawarnie@gmail.com, Universitas Mercu Buana, Indonesia*
*) Corresponding Author

ABSTRACT

The number of investors in the Indonesian capital market continues to increase every year, indicating a higher demand for shares. In accordance with demand theory, increased investor demand tends to raise stock prices. This study aims to determine the effect of profitability, solvency, liquidity, and activity on stock prices. The population in this study was textile industry companies listed on the Indonesia Stock Exchange in the 2019-2023 period, totaling 9 companies in accordance with the criteria set by the researcher. The sample withdrawal method uses the purposive sampling, and the analysis method used is the panel data regression method with the help of EViews 12 software. The results of this study indicate that profitability (EPS) and activity (TATO) have a positive effect on stock prices, solvency (DER) has a negative effect on stock prices, and liquidity (CR) has no effect on stock prices.

Keywords: *Profitability (EPS); Solvency (DER); Liquidity (CR) and Activity (TATO); Stock Prices.*

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INTRODUCTION

The capital market in Indonesia has experienced positive growth in recent decades. The number of Indonesian capital market investors has continued to increase consistently every year. The increase in the number of investors has been driven by technological advances that have made it easier for the public to invest in the capital market and public awareness of the benefits and importance of investing. Based on statistical data from PT Kustodian Sentral Efek Indonesia (KSEI) for the period 2019 to 2023, the average annual increase in the number of investors reached 51%, with the number of investors in 2019 at 2,484,354 and in 2023 at 12,168,061.

Table 1 Number of Investors in the Indonesian Capital Market for The 2019-2023 Period

No.	Year	Number of Investors
1	2019	2.484.354
2	2020	3.880.753
3	2021	7.489.337
4	2022	10.311.152
5	2023	12.168.061

The most well-known and sought-after investment instrument in the capital market is stocks, because stocks can provide high returns with a certain level of risk (Utami & Kartika, 2020). Research on stock prices is considered important because more and more people need information on stock prices based on the increasing number of investors from year to year. Issuers also expect stock prices to rise so that many investors are interested in buying their stocks. Companies that have gone public can raise additional funds through the sale of shares in the capital market. The funds obtained can be optimized to improve the performance of the company (Zhang et al., 2023).

Stock price fluctuations occur in all issuers from various sectors, one of which is the textile industry. The textile industry is a manufacturing sub-sector that contributes significantly to economic growth in Indonesia, plays an important role in meeting domestic needs, especially for clothing materials, and creates a large number of jobs (Qalbiyani et al., 2022).

Graph 1 Average share price of the textile industry for the period 2019-2023 (in IDR)

The stock prices of the textile industry from 2019 to 2023 have fluctuated and tended to decline at the end of the period. From early 2019 to early 2020, stock prices experienced a significant decline. After a one-year decline, stock prices fluctuated with an upward trend until mid-2022,

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after which they again experienced a significant decline until the end of 2023. In this case, if the price of the industry stocks continues to decline, the textile industry will lose potential investors, as they will become less confident and uninterested in investing their funds. Investors do not want to suffer losses due to continuously declining stock prices. The decline in stock prices also has a negative impact on company performance due to the reduction in capital funds obtained from investors to be used as operational costs and business development.

According to Hertina et al. (2019) when investing, investors will look at a company's good financial performance. According to Novita (2022) Investors' decisions to invest in stocks in the capital market are highly dependent on their assessment of a company's health. A company's health can be seen from its financial performance, which can be measured through financial ratios such as profitability, solvency, liquidity, and activity.

This study will focus on the textile industry stock prices because the phenomenon of stock price movements is not in line with the growth in the number of investors. According to demand theory, if demand increases, price should also increase. Therefore, based on the increase in the number of investors, stock prices should also increase. The propose of this study is to know the effect of profitability, solvency, liquidity, and activity on the stock prices of textile industry listed on Indonesia Stock Exchange (IDX).

LITERATURE REVIEW

Signaling Theory
According to Bafera & Kleinert (2023), signal theory explains that parties with information can send signals in the form of reliable information to the recipients of that information. If a company is unable to send positive signals, investors will doubt the company's shares will decline. However, if the company can send positive signals, investors will respond positively as well.

Efficient Market Hypothesis (EMH)
According to Gumanti & Utami (2022), the Efficient Market Hypothesis (EMH) explains that stock prices formed in the capital market reflect existing information. EMH is divided into three forms: weak form, semi-strong form, and strong form. The weak form states that current stock prices reflect historical stock price information, the semi-strong form states that all public information regarding a company's prospects is reflected in stock prices, and the strong form states that stock prices reflect all information, including information available only to insiders of the company.

Stock Prices
Menurut Nurmasari (2020), the stock price is the monetary value or price set for one share of a company traded on the capital market.

Profitability
Profitability is a ratio that can determine a company's ability to generate profits. One proxy for profitability ratio is Earnings Per Share (EPS). EPS can be used to measure the success of management in generating profits that will be obtained by shareholders (Hakmi & Bakri, 2023).

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Solvency

Solvency reflects a company's ability to meet its debt obligations if it is liquidated, whether those obligations are short-term or long-term. One proxy for solvency ratio is Debt to Equity Ratio (DER). DER is ratio of total liabilities (including current and long-term liabilities) to a company's equity, indicating the company's ability to meet its obligations using available capital (Fadila & Nuswandari, 2022).

Liquidity

Liquidity indicates a company's ability to pay off all its current liabilities. One proxy for liquidity ratio is the Current Ratio (CR). CR is a ratio used to assess a company's ability to pay off its current liabilities using its current assets (Fadila & Nuswandari, 2022).

Activity

Activity ratios are used to assess the level of efficiency in the use of assets to generate profits. These ratios can be measured using Total Asset Turnover (TATO) as a proxy. TATO describes the level of efficiency in using all of a company's assets to generate sales volume (Nugraha et al., 2021).

Conceptual Framework

Based on the description, the conceptual framework is formed as follows:

Figure 1 Conceptual Framework
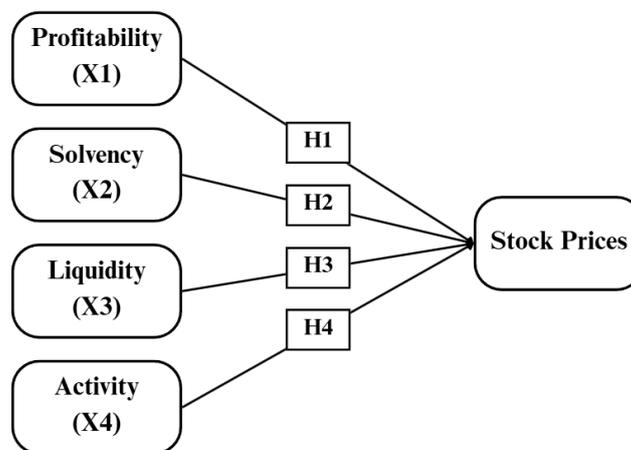
Hypothesis Development

1. The Relationship Between Profitability and Stock Prices

The greater the profit margin earned by a company, the more investors will be interested in investing in that company, which will cause the stock price to rise. Based on this, the following hypothesis can be formulated:

H1: Profitability had a positive impact on the stock prices of textile industry during the period 2019-2023.

2. The Relationship Between Solvency and Stock Prices

A high DER value indicates that the company has more debt than equity, which means that the company is at risk of bankruptcy. Investors tend to avoid companies that are at risk of

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bankruptcy, which will have a negative impact on stock prices. Based on this, the following hypothesis can be formulated:

H2: Solvency had a negative impact on the stock prices of textile industry during the period 2019-2023.

3. The Relationship Between Liquidity and Stock Prices

The higher the company's liquidity level, the greater its ability to pay off its current liabilities. The company's liquidity level will affect investors' interest in investing, which will also affect the movement of the company's stock price. Based on this, the following hypothesis can be formulated:

H3: Liquidity had a positive impact on the stock prices of textile industry during the period 2019-2023.

4. The Relationship Between Activity and Stock Prices

A high TATO value indicates that a company can generate greater revenue with its assets. This reflects good operational performance, which can increase investor confidence to invest
their capital, thereby driving up the stock price. Based on this, the following hypothesis can be formulated:

H4: Activity had a positive impact on the stock prices of textile industry during the period 2019-2023.

METHOD

Research Design

The research design uses causal research, because causal research is the relationship between two or more variables that are causal in nature, used to know the effect of one or more independent variables on a dependent variable.

Research Population and Sample

The population in this study consists of textile industry companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. The sample was selected using purposive sampling, with the following criteria: textile industry companies that were still listed on the IDX during the 2019-2023 period, had financial reports published periodically on the IDX website and the company's official website, and had complete stock price data available on the IDX website for the 2019-2023 period.

Data Analysis Method

The analysis method used in this study is panel data regression analysis, which processes data using the EViews-12 program. Panel data is a combination of time series data and cross-section data. Panel data regression analysis is used to know whether there is a significant influence between one or more variables (Priyatno, 2023).

RESULTS AND DISCUSSION

Results

There are three main approaches in panel data regression analysis, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). To determine the best model among the three panel data regression models, there are three model selection tests, namely the Chow Test: used to determine the best model between CEM and FEM. If the

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Prob. value in the cross-section F is < 0.05, then FEM is selected; the Hausman Test: used to determine the best model between FEM and REM. If the Prob. value is < 0.05, then FEM is selected; and the Lagrange Multiplier Test: used to determine the best model between REM and CEM. If the significance value for Both is < 0.05, then REM is selected.

Table 2 Chow Test Result

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	217.355197	(8,167)	0.0000
Cross-section Chi-square	438.243327	8	0.0000

Table 3 Hausman Test Result

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.838014	4	0.0284

Based on the results of the Chow test and Hausman test in Tables 2 and 3 above, the best model is the Fixed Effects Model. Therefore, the Fixed Effects Model was selected as the most appropriate model for estimating panel data regression, and the Lagrange Multiplier test was ignored, so this journal only presents the results of the Chow test and Hausman test.

Table 4 Panel Data Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.339595	0.108137	49.37821	0.0000
EPS	0.000171	6.20E-05	2.756817	0.0065
DER	-0.002339	0.000829	-2.822086	0.0054
CR	-0.039790	0.035767	-1.112480	0.2675
TATO	0.786099	0.396814	1.981028	0.0492

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.943489	Mean dependent var	5.465186
Adjusted R-squared	0.939428	S.D. dependent var	1.318155
S.E. of regression	0.324417	Akaike info criterion	0.655906
Sum squared resid	17.57612	Schwarz criterion	0.886508
Log likelihood	-46.03151	Hannan-Quinn criter.	0.749405
F-statistic	232.3460	Durbin-Watson stat	0.656403
Prob(F-statistic)	0.000000		

Based on the results of panel data regression analysis, the coefficient of determination or adjusted R-square is 0.9394. This means that the independent variables EPS, DER, CR, and TATO are able to explain 93.94% of the dependent variable Stock Price. The remaining 6.06% is influenced by other variables outside the scope of this study. The Prob(F-statistic) value is

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0.000000 or below the sig. value of 0.05, which means that the independent variables simultaneously have an effect on the dependent variable. To find out whether there is an effect or not from each independent variable on the dependent variable is based on the t-statistic value. The t-statistic value will be compared with the T-table value of 1.65341 in this study.

Discussion
1. The Effect of Earnings Per Share (EPS) on Stock Price
Based on Table 4, the t-statistic value is $2.756817 > $ T-table (1.65341), the Prob. value is $0.0065 < 0.05$, and the coefficient value is 0.000171, indicating a positive value. These results indicate that Earning Per Share (EPS) has a positive effect on stock prices. The higher the EPS value, the greater the interest of investors in buying shares, so the stock price will increase. The results of this study are in line with previous studies conducted by Jin et al. (2022) and Wulansari et al. (2023).

2. The Effect of Debt to Equity Ratio (DER) on Stock Price
Based on Table 4, the t-statistic value is $2.822086 > $ T-table (1.65341), the Prob. value is $0.0054 < 0.05$, and the coefficient value is -0.002339, indicating a negatif value. These results indicate that Debt to Equity Ratio (DER) has a negatif effect on stock prices. A high DER indicates that the company has more debt than equity, indicating a high risk of bankruptcy. Therefore, a high DER can reduce investor interest in investing because it is considered less secure in terms of capital structure, which will have an impact on the decline in stock prices. The results of this study are in line with previous studies conducted by Angreni et al. (2024) and Gotami et al. (2023).

3. The Effect of Current Ratio (CR) on Stock Price
Based on Table 4, the t-statistic value is $1.112480 < $ T-table (1.65341), the Prob. value is $0.2675 > 0.05$, and the coefficient value is -0.039790, indicating a negatif value. These results indicate that Current Ratio (CR) does not have an effect on stock prices. CR does not influence stock prices because it does not directly reflect a company's ability to generate profits. Investors tend to focus more on indicators that reflect operational efficiency or profit growth rather than short-term liquidity. The results of this study are in line with previous studies conducted by Aryani et al. (2024) and Salsabila et al. (2025).

4. The Effect of Total Asset Turnover (TATO) on Stock Price
Based on Table 4, the t-statistic value is $1.981\ 028 > $ T-table (1.65341), the Prob. value is $0.0492 < 0.05$, and the coefficient value is 0.786099, indicating a positive value. These results indicate that Total Asset Turnover (TATO) has a positive effect on stock prices. A high TATO value indicates that the company can generate more revenue with its assets. This reflects good operations, which can increase investor confidence in the company to invest their capital, thereby driving up the stock price. The results of this study are in line with previous studies conducted by Hakmi & Bakri (2023) and Khasanah & Suwarti (2022).

CONCLUSION AND SUGGESTIONS

Earnings Per Share (EPS), used as a proxy for profitability, has a positive effect on the share price of textile companies listed on the IDX for the 2019–2023 period. This explains that a high EPS value can send a positive signal to potential investors to invest. Therefore, maintaining consistent profits is very important to maintain investor confidence.

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The Debt to Equity Ratio (DER) used as a proxy for solvency has a negative effect on the share prices of textile companies listed on the IDX during the 2019–2023 period. This explains that the higher the DER value, the more negative the signal to potential investors. Investors may doubt the company's future prospects because a high DER indicates significant financial risks, which can reduce investor interest in the company's shares and consequently lower stock prices. The Current Ratio (CR) used as a proxy for liquidity has no effect on the stock prices of textile companies listed on the IDX during the 2019–2023 period. This explains that high and low CR cannot affect stock prices.

Total Asset Turnover (TATO) used as a proxy for activity had a positive effect on stock prices in textile companies listed on the IDX during the 2019–2023 period. This explains that a high TATO value reflects operational efficiency and increases positive perceptions from investors.

This study has several limitations. One of the main limitations is the relatively short research period, so that the results obtained are not yet able to describe long-term dynamics in the textile industry sector. In addition, this study does not cover external factors such as the Covid-19 pandemic that occurred during the research period, inflation and interest rates that can affect changes in stock prices. Therefore, it is recommended that future researchers explore variables not covered in this study or incorporate external factors that could influence stock prices, such as the COVID-19 pandemic, inflation, and interest rates, and expand the scope of the industrial sector to make the results more generalizable.

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