

## **The Effect of Profitability and Liquidity on The Stock Returns at PT. Kimia Farma Tbk**

**Gildan Nugraha Hidayat<sup>1</sup>, Euis Hernawati<sup>2</sup>**

*\*Correspondence Author: [gildannh27@gmail.com](mailto:gildannh27@gmail.com)*

<sup>1,2</sup> Piksi Ganesha Polytechnic, Bandung, Indonesia

INDEXING	ABSTRACT
<b>Keywords:</b> Keyword 1; Profitability Keyword 2; Liquidity Keyword 3; Stock return	This study seeks to examine the influence of profitability and liquidity on stock returns in PT. The study method utilized is a quantitative approach, specifically employing multiple linear regression analysis. To The stock return variable is calculated by determining the difference between the current year's stock price and the previous year's stock price, thereafter dividing this difference by the prior year's yearly price. The profitability variable is assessed using ROA, while the liquidity variable is evaluated using CR. This research was conducted on PT. Kimia Farma Tbk, utilizing the yearly financial reports from the IDX for the period 2019-2023. The study's findings demonstrated that neither profitability nor liquidity characteristics significantly influenced stock returns. And simultaneously the profitability and liquidity variables do not significantly affect stock returns, as their significance values are negligible. Consequently, variations in profitability and liquidity quality do not influence the company's stock return rate.

### **Article History**

Received 08 October 2024; Revised 20 October 2024; Accepted 31 October 2024

## **INTRODUCTION**

The capital market serves as a venue for corporations to procure funds, facilitating direct financing of their operations by issuing shares to the public on the stock exchange, sometimes referred to as going public (Pilbeam, 2018). Capital structure optimization is a critical and intricate domain within company financial management, as performance success, viability, and future sustainability hinge on financing decisions (Kontuš *et al.*, 2023). The capital market in Indonesia has evolved swiftly, establishing itself as a vital investment entity that substantially contributes to economic growth. Stock market investors unequivocally seek to achieve earnings and returns (Yanita Sanjaya and Maulida, 2022). Investors in the capital market require both fundamental and technical information. Technique Technical knowledge includes the economic, social, and political conditions of a nation. In addition to focusing on technical information, investors also started to consider fundamental data derived from the company's internal metrics, particularly its financial status, when executing stock transactions on the Indonesia Stock Exchange (Khan and Islam, 2020). Positive working capital is essential for reducing the cost of capital and enhancing corporate profitability (Alarussi and Gao, 2023). The analysis results (Hirdinis, 2019) indicate that capital structure positively influences company value, but firm size negatively impacts firm value.

Financial statements are widely utilized as they are anticipated to furnish potential investors and creditors with the necessary information to make informed selections regarding the allocation of their cash (Bhattacharyya, 2017). Financial performance

measurement serves as an indicator for investors to evaluate a company's success based on its public and audited financial statements (Yanita Sanjaya and Maulida, 2022). Financial ratio analysis is the predominant way for evaluating a company's financial performance in Indonesia (Lestari *et al.*, 2022).

The return rate is the ratio of investment revenue throughout many periods to the total amount of capital invested. Investors generally anticipate substantial gains with minimal danger of loss; thus, they want to ascertain the optimal investment return by establishing a suitable investment strategy (Nofitasari and Adi, 2021). Stock returns are determined by the variance between the current stock price and the price from the preceding period. Enhancing the company's stock return will incentivize investors to allocate capital to the firm (Yanita Sanjaya and Maulida, 2022). This study highlights various elements, such as profitability and liquidity, that affect stock returns.

Profitability quantifies the profit generated from share capital, sales volume, and the company's assets. The profitability of a corporation is evidenced by its success in generating profits. Dewi and Fajri (2020) assert that the current level of profitability indicates productivity and operational efficiency in its existing state (Liu *et al.*, 2023). Improving the company's financial performance is a primary objective. Research by Yanita Sanjaya and Maulida (2022), and also Dewi and Fajri (2020) indicates that profitability positively and significantly influences stock returns. This outcome contrasts with the findings of Lestari *et al.* (2022) and Sunaryo (2020), which assert that profitability does not influence stock returns. Research by Nofitasari and Adi (2021) indicates that profitability has a favorable although insignificant effect on stock returns.

Liquidity is a metric that indicates a company's capacity to fulfill short-term liabilities (Kasmir, 2019 in Akbar, 2022). The liquidity ratio assesses a company's ability to fulfill its current obligations to both external and internal stakeholders. To meet the company's imminent obligations, it must possess liquid cash or other current assets that can be swiftly turned into cash (Husna and Ardiansari, 2019; Damayanti and Darmayanti, 2022). Researched by Akbar (2022) indicates that liquidity significantly influences stock returns. Research undertaken by Sari (2020) and Rahmi (2022) indicates that liquidity does not affect stock returns.

Firm growth is a pivotal focus in entrepreneurship research and is typically regarded as a favorable performance outcome (Mansikkamäki, 2023). The superior financial performance of a company might influence investors' perceptions of its shares, thereby impacting the returns generated. Kimia Farma Tbk (KAEF) is a publicly traded state-owned enterprise listed on the Indonesia Stock Exchange (IDX). It is the inaugural pharmaceutical firm in Indonesia, formed by the Dutch East Indies government. Consequently, Kimia Farma Tbk has contributed to the nation's development for over a century, closely monitoring the advancement of Indonesian health. At present, Kimia Farma and its affiliated enterprises manage a network of 10 manufacturing facilities, 1,234 pharmacy outlets (Pharmacy Kimia Farma), 419 health clinic outlets, 72 laboratory clinic outlets, 8 optical clinics, and 3 beauty clinics (biofarma.co.id). Consequently, the researcher is compelled to concentrate this investigation on Kimia Farma Tbk. This study aims to assess the influence of profitability and liquidity on the stock returns of PT. Kimia Farma Tbk.

## LITERATURE REVIEW

The return is the yield derived from an investment. Returns may manifest as actual returns that have transpired or as anticipated returns that are projected to occur in the future. Capital gain or capital loss is the disparity between the present investment price and the price from a previous period (Jogianto, 2013 in Sunaryo, 2020). The stock return is calculated as the difference between the current year's stock price and the previous year's stock price, divided by the stock price of the prior period (Sukmawati and Tarmizi, 2022).

Profitability refers to the company's capacity to effectively manage its assets to generate profits and enhance shareholder confidence. Furthermore, profitability indicates the company's capacity to produce income relative to expenses during a specified duration (Harmono, 2022 in Komalasari and Yulazri, 2023). This profitability ratio assesses the total performance of management in respect to sales and investments. A greater profitability ratio more correctly indicates the company's ability to earn profits (Sunaryo, 2020). Calculate the profit rate in the profitability ratio using Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Gross Profit Margin (GPM) (Aini *et al.*, 2021, in Aisyah and Hernawati, 2024).

Liquidity refers to a company's capacity to fulfill its obligations or settle its short-term liabilities. The liquidity ratio measures a company's capacity to fulfill its short-term obligations when they come due. A corporation is considered liquid if it can fulfill its short-term commitments upon maturity, and conversely, it is deemed illiquid if it cannot. A corporation must possess sufficient cash or other current assets that can be promptly turned into cash to fulfill its short-term obligations (Iman *et al.*, 2021). Short-term improvement in the company indicates little liquidity risk, hence attracting numerous investors to acquire shares (Rusardi and Hermanto, 2017 in Hardiani *et al.*, 2021). The current ratio (CR), quick ratio (QR), and cash ratio (CAR) can be utilized to determine the liquidity ratio.

## RESEARCH METHOD

This study employs a quantitative methodology. Widiyanto (2013) in Iman *et al.* (2021) asserts that the quantitative approach involves data acquired as numerical or quantitative information, which is subsequently processed, evaluated, and analyzed to derive conclusions. This study utilized pre-existing data from the Indonesia Stock Exchange, concentrating on the pharmaceutical sector, specifically PT. Kimia Farma Tbk, with an examination of annual financial statements. Annual financial statements are utilized across a five-year term, specifically from 2019 to 2023. The data collecting method utilizes documentation techniques, examines existing data, and integrates secondary data from the company's financial records available on the Indonesia Stock Exchange. The sample employs a purposeful sampling strategy, wherein it has been specifically identified and evaluated.

**Table 1. Variable Operational Definition**

No	Variable	Definition	Indicator	Scale
1	Return on Shares (Y)	Stock return is the difference between the current share price and the previous share price where the difference in stock price can provide profits or losses for shareholders who buy shares of companies listed on the IDX (Jogianto, 2010 in Hardiani et al., 2021)	Return saham = $\frac{P_1 - P_{t-1}}{P_{t-1}}$ Information: P1 = The company's share price in the current period Pt-1 = The company's share price in the previous period	Ratio
2	Return On Asset (X1)	ROA is a ratio that shows the return on the number of assets used in the company (Cashmere in Iman 2021).	$ROA = \frac{Net\ Profit}{Total\ Asset}$	Ratio
3	Current Ratio (X2)	Current Ratio is a ratio used to measure a company's ability to meet its short-term obligations that are due soon using the total current assets owned. The Current Ratio indicates the adequacy of the company's current assets to pay its obligations due (Hery in Iman et al 2021).	$CR = \frac{Current\ Asset}{Current\ Liability}$	Ratio

This study used the multiple linear regression analysis technique for data analysis. This study used multiple linear regression analysis to assess the impact of profitability and liquidity on stock returns. SPSS version 29 is utilized for data processing.

## RESULT AND DISCUSSION

**Table 2. Multicollinearity Test Results**

Model		Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.	Collinearity Statistic	
		B	Std. Error				Tolerance	VIF
1	(Constant)	.508	.950		.535	.003		
	ROA	-.038	.195	-.146	-.196	.863	.765	1.307
	CR	-.012	.021	-.430	-.576	.623	.765	1.307

Source: Data Processed, 2024

The variance-inflation factor (VIF) for the profitability variable is 1.307, and for the liquidity variable, it is also 1.307. The VIF value of the second independent variable is less than 10, and since the profitability variable has a VIF of 0.765 and the liquidity variable also has a VIF of 0.765, which is greater than 0.100, the assumption of multicollinearity is satisfied, indicating that symptoms of multicollinearity are absent.

**Table 3. Results of the Normalization Test (Kolmogorov Smirnov)**

		Unstandardized Residual	
N		5	
Normal Parameters <sup>a,b</sup>	Mean	.0000000	
	Std. Deviation	1.16376026	
Most Extreme Differences	Absolute	.272	
	Positive	.272	
	Negative	-.191	
Test Statistics		.272	
Asymp. Sig. (2-tailed) <sup>c</sup>		.200 <sup>d</sup>	
Monte Carlo Sig. (2-tailed) <sup>e</sup>	Sig.	.272	
	99% Confidence Interval	Lower Bound	.261
		Upper Bound	.284

Source: Data Processed, 2024

The asym.sig (2-tailed) value obtained is 0.200 or greater than 0.05, indicating a normal distribution of the data.

**Table 4. Results of the Heteroscedasticity Test (Park Test)**

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.065	.264		0.248	.845
	ROA	.106	.051	.183	-2.079	.285
	CR	-.051	.006	-.793	-8.409	.075

Source: Data Processed, 2024

The profitability variable exhibits a significance value of 0.285, while the liquidity variable displays a significance value of 0.075. Since both variables exhibit significance values over 0.05, signs of heteroscedasticity and the assumption of the heteroscedasticity test are not present.

**Table 5. Test Result F**

Model		Sum of Square	df	Mean Square	F	Sig.
1	Regression	.923	2	.461	.170	.854 <sup>b</sup>
	Residual	5.417	2	2.709		
	Total	6.340	4			

Source: Data Processed, 2024

The significance value found is 0.854, exceeding 0.05; thus, it is inferred that the profitability and liquidity variables do not concurrently influence stock returns.

**Table 6. Hypothesis Test Results (T-Test)**

Model		Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
		B	Std. Error			
1	(Constant)	.508	.950		.535	.646
	ROA	-.038	.195	-.146	-.196	.863
	CR	-.012	.021	-.430	-.576	.623

Source: Data Processed, 2024

According to the table above, the profitability variable has a significance value of 0.863, exceeding 0.05, indicating that the profitability variable does not significantly affect the dependent variable, which is stock return. The liquidity variable, with a significance value of 0.623 ( $>0.05$ ), indicates that it does not significantly influence stock returns.

The results of the hypothesis test in this study demonstrate that the share returns of PT are not affected by profitability. The findings do not corroborate the studies conducted by Yanita Sanjaya and Maulida (2022), and Dewi and Fajri (2020), which asserted that profitability influences stock returns. Nonetheless, the findings of this study corroborate the studies by Lestari *et al.* (2022) and Sunaryo (2020), indicating that profitability does not influence stock returns. Increasing profitability does not influence investors' willingness to allocate their capital, as the net profit generated is not commensurate with the company's total assets, resulting in a decline in stock prices and a reduction in the returns received by investors (Wingsih, 2013 in Lestari *et al.*, 2022). The findings of this demonstration indicate that organizations exhibiting favorable or enhanced profitability circumstances lack the capacity to recruit investors. Investors possess faith that the company's stock potential would enhance, notwithstanding periods of suboptimal profitability (Lestari *et al.*, 2022).

The hypothesis test results demonstrated that liquidity did not influence the stock return in PT Kimia Farma. This conclusion contradicts the findings of Musneh *et al* (2020) and Akbar (2022), which illustrate the influence of liquidity on stock returns. Indeed, the findings of this study align with the research conducted by Sari (2020) and Rahmi (2022), which indicated that liquidity does not affect stock returns. The fluctuations in stock return rates are unaffected by liquidity. Liquidity does not affect stock returns. Stock returns are not influenced by current assets and current liabilities within liquidity. Conversely, liquidity is not influenced by the closing price of the shares included in the stock return (Rahmi, 2022).

## CONCLUSION

The study's findings indicate that profitability and liquidity do not significantly affect stock returns at PT. Kimia Farma Tbk, as evidenced by a significance value of 0.854 ( $>0.05$ ). The profitability variable does not significantly affect share returns. Profitability, whether favorable or unfavorable, does not enhance a company's appeal to investors, who prioritize other criteria that yield greater long-term benefits. The liquidity variable does not significantly influence stock returns, indicating that fluctuations in stock returns are

independent on the level of liquidity of PT. Despite the lack of substantial outcomes, this study offers vital insights and paves the way for other research opportunities. The researcher recommends extending the research duration to 10 years and incorporating other factors or alternative approaches in future studies to achieve a more comprehensive knowledge of the link between these variables.

## REFERENCES

### Journal's article

- Aisyah, A. S., and Hernawati, E. (2024). The Impact of Profitability and Capital Structure on The Company Level at PT. Wismilak Inti Makmur, Tbk. *International Journal of Management and Business*, 1(3), 23-31.
- Akbar, D. A. (2022). Pengaruh Profitabilitas, Leverage, Aktivitas Dan Likuiditas Terhadap Return Saham Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Tahun 2018-2020. *Kompak :Jurnal Ilmiah Komputerisasi Akuntansi*, 15(2), 403–414. <https://doi.org/10.51903/kompak.v15i2.812>
- Alarussi, A. S., & Gao, X. (2023). Determinants of profitability in Chinese companies. *International Journal of Emerging Markets*, 18(10). <https://doi.org/10.1108/IJOEM-04-2021-0539>.
- Biofarma. (2024) Kimia Farma Tbk (KAEF). Diakses dari: <https://www.biofarma.co.id/id/kimia-farma-tbk-kaef>. pada tanggal 1 Oktober 2024
- Damayanti, N. M. E., & Darmayanti, N. P. A. (2022). Pengaruh Ukuran Perusahaan, Likuiditas, Profitabilitas, Dan Struktur Modal Terhadap Nilai Perusahaan Transportasi Dan Logistik. *E-Jurnal Manajemen Universitas Udayana*, 11(8), 1462. <https://doi.org/10.24843/ejmunud.2022.v11.i08.p02>
- Dewi, A. S., and Fajri, I. (2020). Pengaruh likuiditas dan profitabilitas terhadap return Saham pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia. *Jurnal Pundi*, 3(2), 79-90.
- Hardiani, S. E., & Hakim, M. Z. (2021). *Pengaruh Profitabilitas, Likuiditas, Leverage, Dan Nilai Pasar Terhadap Return Saham (Pada Perusahaan Industri Barang Konsumsi Yang Terdaftar Di Bursa Efek tahun 2016- 2019)*. 41–51. <https://doi.org/10.32528/psneb.v0i0.5153>
- Hirdinis, M. (2019). Capital structure and firm size on firm value moderated by profitability. *International Journal of Economics and Business Administration*, 7(1). <https://doi.org/10.35808/ijeba/204>
- Iman, C., Sari, F., & Pujiyanti, N. (2021). Tinjauan teoritis likuiditas dan profitabilitas terhadap nilai perusahaan. *Jurnal Ilmiah Akuntansi Kesatuan*, 9(3), 531–534.
- Khan, M. H. R., and Islam, M. S. (2020). Investors' Structure and Investment Decision Making Factors: Evidence from Capital Market in Bangladesh. *Accounting and Finance Research*, 9(1), 1-67.
- Kitalulus. (2024) Pengertian Rasio Likuiditas, Rumus, & Cara Menghitungnya. Diakses dari: <https://www.kitalulus.com/blog/bisnis/rasio-likuiditas/>. pada tanggal 1 Oktober 2024
- Komalasari, D. N., and Yulazri, Y. (2023). Pengaruh Pengungkapan Likuiditas, Solvabilitas, Ukuran Perusahaan Dan Profitabilitas Terhadap Nilai Perusahaan. *Scientific Journal Of Reflection: Economic, Accounting, Management and Business*, 6(2), 470–479. <https://doi.org/10.37481/sjr.v6i2.670>

- Kontuš, E., Šorić, K., & Šarlija, N. (2023). Capital structure optimization: a model of optimal capital structure from the aspect of capital cost and corporate value. *Economic Research-Ekonomska Istrazivanja*, 36(2). <https://doi.org/10.1080/1331677X.2022.2147565>
- Lestari, M. D., Karim, N. K., & Hudaya, R. (2022). Pengaruh Profitabilitas, Leverage dan Likuiditas terhadap Return Saham Perusahaan Manufaktur di Bursa Efek Indonesia. *Riset, Ekonomi, Akuntansi Dan Perpajakan (Rekan)*, 3(1), 1–16. <https://doi.org/10.30812/rekan.v3i1.1704>
- Liu, Y., Yang, B., & Su, Y. (2023). Changes in firm profitability, heterogeneous investor beliefs, and stock returns. *Journal of Management Science and Engineering*, 8(2). <https://doi.org/10.1016/j.jmse.2022.10.004>
- Mansikkamäki, S. (2023). Firm growth and profitability: The role of age and size in shifts between growth–profitability configurations. *Journal of Business Venturing Insights*, 19. <https://doi.org/10.1016/j.jbvi.2023.e00372>
- Musneh, R., Karim, M. R. A., Geetha, C., & Arokiadason, P. B. (2020). Liquidity risk impact on stock returns. *Malaysian Journal of Business and Economics (MJBE)*, 7(1), 113–113.
- Nofitasari, F. K., and Adi, S. W. (2021). Pengaruh Risiko Sistematis, Leverage, Ukuran Perusahaan, Profitabilitas Dan Likuiditas Terhadap Return Saham. *Proceeding Seminar Nasional & Call For Papers STIE AAS*, 4(1), 369–379. <https://prosiding.stie-aas.ac.id/index.php/prosenas/article/view/130> Pundi, 3(2), 79. <https://doi.org/10.31575/jp.v3i2.150>
- Rahmi, I. A. (2022). Pengaruh Likuiditas Dan Risiko Sistematis Terhadap Return Saham Pada Perusahaan Yang Terdaftar Di Bei. *Jurnal Revenue : Jurnal Ilmiah Akuntansi*, 2(2), 205–217. <https://doi.org/10.46306/rev.v2i2.58>
- Sari, R. I. (2020). Pengaruh Kepemilikan Institusional, Dewan Komisaris Independen, Profitabilitas, Dan Likuiditas Terhadap Return Saham Perusahaan Property Dan Real Estate. *Jurnal Investasi*, 6(1), 1–15. <https://investasi.unwir.ac.id/index.php/investasi/article/view/52>
- Sukmawati, R., and Tarmizi, M. I. (2022). Return On Assets, Return On Equity Dan Earning Per Share Berpengaruh Terhadap Return Saham. *E-Jurnal Manajemen*, 27(2), 58–66. <http://117.74.115.107/index.php/jemasi/article/view/537>
- Sunaryo, D. (2020). Pengaruh Rasio Likuiditas, Aktivitas Dan Profitabilitas Terhadap Return Saham Sub Sektor Perbankan Bumn Di Bursa Efek Indonesia (Bei) Periode 2010-2018. *Jurnal BanqueSyar'i*, 6(1), 57–80.
- Telaumbanua, N., Sinaga, R. V., & Sembiring, S. (2021). Pengaruh Likuiditas, Aktivitas, Solvabilitas dan Profitabilitas terhadap Return Saham pada Perusahaan Sektor Consumer Goods yang Terdaftar di Bursa Efek Indonesia. *Jurnal Manajemen Dan Bisnis*, 72–85.
- Yanita Sanjaya, M., & Maulida, A. (2022). Analisis Pengaruh Rasio Likuiditas, Solvabilitas dan Profitabilitas terhadap Return Saham. *MES Management Journal*, 2(2), 65–83. <https://doi.org/10.56709/mesman.v2i2.48>.

#### **Authored Book**

- Bhattacharyya, A. K. (2017). *Essentials of financial accounting*. PHI Learning Pvt. Ltd..
- Pilbeam, K. (2018). *Finance and financial markets*. Bloomsbury Publishing.