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The Influence Of Profitability And Capital Structure On Stock Returns In Food And Beverage Sub-Sector Companies Listed On The Indonesia Stock Exchange

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Abstract: *This study examines the influence of profitability and capital structure on stock returns in food and beverage sub-sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The research is motivated by inconsistent empirical findings in previous studies and by the phenomenon in which improvements in company profitability are not consistently followed by increases in stock returns. This condition indicates a potential gap between firm-level financial performance and market valuation, particularly in emerging market contexts. The objective of this study is to analyze both the partial and simultaneous effects of profitability, measured by Return on Equity (ROE), and capital structure, measured by the Debt to Equity Ratio (DER), on stock returns. This research employs a quantitative approach using panel data regression analysis. The sample consists of 15 food and beverage companies observed over a five-year period, resulting in 75 observations. Secondary data were obtained from published financial statements and analyzed using EViews software. Model selection was conducted through the Chow test, indicating that the Common Effect Model was the most appropriate specification. Classical assumption tests were also performed to ensure the reliability of the regression results. The empirical findings demonstrate that ROE and DER do not have a statistically significant effect on stock returns, either individually or simultaneously. The probability values of both variables exceed the 0.05 significance level, leading to the rejection of the proposed hypotheses. Furthermore, the coefficient of determination indicates that profitability and capital structure explain only a very small proportion of stock return variation. These results suggest that stock returns in the food and beverage sub-sector are more strongly influenced by external factors, such as macroeconomic conditions, inflationary pressures, investor sentiment, and overall market dynamics. The study highlights the limited explanatory power of accounting-based indicators in periods of economic uncertainty and provides important implications for investors, managers, and future research in emerging capital markets.*
Keywords: *Profitability, Capital Structure, Stock Returns, Trade-Off Theory.*

INTRODUCTION

In the era of globalization, business competition is increasingly fierce, requiring companies to be able to compete and expand their businesses with adequate capital support. One of the primary mechanisms for obtaining capital is through issuing shares on the capital market. Capital markets play a crucial role in the economy, not only as a means of raising funds for companies but also as an investment instrument for the public (Dewi Lubis et al., 2024).

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In Indonesia, the food and beverage subsector is a key contributor to national economic growth. This sector plays a strategic role in meeting people's daily consumption needs while also contributing significantly to gross domestic product (GDP) and the trade balance. In 2023, the food and beverage industry contributed 39.10 percent to GDP, with exports reaching US$41.70 billion and a trade surplus of US$25.21 billion (Harianto, 2024). In addition, this subsector is considered crisis-resistant and is a choice for investors due to its relatively stable performance, even during the COVID-19 pandemic (Jannah, 2021). This makes the food and beverage subsector interesting for further research regarding the factors thast influence stock returns (Reski et al., 2024).

Although profitability and capital structure are believed to play an important role in shaping investor perceptions of stock returns (Mahmudah & Kartini, 2022). This phenomenon demonstrates complex dynamics. Several food and beverage subsector companies, such as. BWPT, GOOD, and SKLT, recorded increases in net profit and equity during the 2022–2024 period, yet their stock prices experienced declines or fluctuations. This indicates that increased profitability is not always accompanied by increased stock returns (Viriany et al., 2024) because other factors such as debt burden, financial risk, macroeconomic conditions, and market sentiment also influence investor decisions.

Based on the theory, this condition can be explained through signal theory which confirms that profitability is a positive signal for investors, but it is not enough if it is not accompanied by a healthy capital structure (Hamidah & Ramdani, 2023). On the other hand, the trade-off theory explains the importance of a balance between equity and debt so that companies can maximize value without incurring excessive financial risk (Brigham & Houston, 2011).

In addition, previous research has shown inconsistent results (Viriany et al. (2024), found that profitability and capital structure had a significant negative effect on stock returns, whereas (Dewi & Albeta, 2025), states that ROE has a significant positive effect on stock returns, while capital structure has a significant negative effect. Other studies, such as Ellidianti, (2021), also shows varying results related to the influence of profitability and capital structure. This research gap confirms the need for further research to analyze the effect of profitability and capital structure on stock returns in food and beverage subsector companies listed on the Indonesia Stock Exchange for the 2020–2024 period.

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METHOD

This research uses quantitative methods. According to Berlianti et al. (2024), Quantitative research methods are systematic, planned, and structured (Berlianti et al. 2024). Quantitative research focuses on testing theories by numerically measuring research variables and analyzing data through statistical procedures. The approach used is deductive, with the aim of testing the formulated hypotheses. Therefore, this study aims to examine the effect of profitability and capital structure on stock returns in food and beverage subsector companies listed on the Indonesia Stock Exchange for the 2020-2024 period. The analysis was conducted using panel data regression techniques using EViews software, so that the research results can provide an empirical picture of the relationship between profitability and company capital structure and stock returns.

RESULT AND DISCUSSION

Descriptive Analysis

This study uses panel data from 15 food and beverage companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period, resulting in 75 observations. Data analysis was performed using EViews software.

Statistics	ROE (X1)	DER (X2)	RETURN (Y)
Mean	8.110009	1.231618	0.026564
Median	0.161763	0.513550	-0.207710
Maximum	110.9797	4.963752	3.109600
Minimum	0.082567	0.108542	-1.419375
Standard Deviation	25.89114	1.474838	0.948709

Table 1. Descriptive Analysis.

Descriptively, the ROE variable has an average of 8.11, indicating that the company's return on equity is relatively high, but the difference between the maximum (110.98) and minimum (0.08) values and the large standard deviation (25.89) indicate a significant variation in financial performance between companies. The DER variable has an average of 1.23, indicating that companies generally use debt around 1.23 times their equity, with a fairly large variation (standard deviation of 1.47) due to differences in capital structure policies of each company. Meanwhile, the Stock Return variable shows an average of 0.03, which means the stock return is relatively low, with a wide range between -1.42 to 3.11 and a standard deviation of 0.95, indicating that the level of fluctuation or volatility of the company's stock returns is quite high.

Panel Data Regression Analysis

$$Y = 0.5963 - 0.0037*X1 - 0.0129*X2$$

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The constant value of 0.5963 means that if there is no influence from the ROE (X_1) and DER (X_2) variables, then the Stock Return (Y) variable will have a value of 0.5963. This value describes the magnitude of stock returns when the independent factors are assumed to be constant or zero.

The beta coefficient value of the ROE variable (X_1) of -0.0037 indicates that every 1% increase in ROE, assuming other variables remain constant, will cause a decrease in Stock Return (Y) of 0.0037 units. This means that the relationship between ROE and Return is negative, where higher ROE is actually followed by a decrease in stock return, although the effect is relatively small.

The beta coefficient value of the DER variable (X_2) of -0.0129 means that every 1% increase in DER, assuming other variables remain constant, will cause a decrease in Stock Return (Y) of 0.0129 units. This indicates that the higher the company's debt level (DER), the lower the resulting stock return, or in other words, the relationship between the two is also negative.

Model Selection

Effects Test	Statistics	df	Prob.
Cross-section F	0.854026	(4.18)	0.5098
Cross-section Chi-square	4.344286	4	0.3614

Table 2. *Model selection results.*

Based on the Chow test results, a probability value of 0.36 was obtained, which is greater than the 0.05 significance level. Therefore, it can be concluded that the appropriate model to use in this study is the Common Effect Model (CEM). This means there is no significant difference between the Common Effect and Fixed Effect models, so the CEM model is considered more efficient and appropriate for describing the relationship between variables in this study.

Classical Assumption Test

Multicollinearity Test

	X1	X2
X1	1,000,000	0.460831
X2	0.460831	1,000,000

Table 3. *Multicollinearity test results.*

Based on the results of the correlation test between independent variables, it is known that the correlation coefficient value between ROE (X_1) and DER (X_2) is 0.460831. This value is smaller than the multicollinearity tolerance limit, which is 0.85, so it can be concluded that there are no symptoms of multicollinearity between the independent variables in the regression model.

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Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.596311	0.191190	3.118940	0.0050
X1	-0.003661	0.006450	-0.567500	0.5761
X2	-0.012948	0.113240	-0.114337	0.9100

Table 4. *Results of heteroscedasticity test.*

Based on the results of the heteroscedasticity test, it is known that the probability value (Prob.) for each variable, namely ROE (X_1) of 0.5761 and DER (X_2) of 0.9100, is greater than 0.05. This indicates that the regression model does not contain symptoms of heteroscedasticity.

Coefficient of determination (R^2)

R-squared	0.022284
Adjusted R-squared	-0.066600

Table 5. *R^2 Test Results*

Based on the Adjusted R Square value of -0.066600, it can be interpreted that the ROE and DER variables are only able to explain the influence on the dependent variable by -6.66%, while the remaining 93.34% is explained by other variables outside this research model. The negative Adjusted R Square value indicates that the model's ability to explain the relationship between variables is very weak.

Partial Test (t-test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.596311	0.191190	3.118940	0.0050
X1	-0.003661	0.006450	-0.567500	0.5761
X2	-0.012948	0.113240	-0.114337	0.9100

Table 6. *Results of the t-test*

The results of the t-test on variable X1 obtained a calculated value of -0.567500 < t table, namely 1.666 and a sig value of 0.5761 > 0.05, so Ha is rejected and H0 is accepted, meaning that the ROE variable has no effect on Stock Returns.

The results of the t-test on the X2 variable obtained a calculated value of -0.114337 < t table, namely 1.666 and a sig value of 0.9100 > 0.05, so Ha is rejected and H0 is accepted, meaning that the DER variable has no effect on Stock Returns.

Simultaneous Test (F Test)

F-statistic	0.250708
Prob(F-statistic)	0.780443

Table 7. *F test results*

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The calculated F value is 0.250708 < F table 3.96 and the sig value is 0.780443 > 0.05, so H_0 is accepted and Ha is rejected. This indicates that the ROE and DER variables simultaneously have no significant effect on the stock return variable.

Discussion

This study investigates the effect of Earnings Per Share (EPS), Return on Equity (ROE), and Net Profit Margin (NPM) on stock returns of food and beverage sub-sector companies listed on the Indonesia Stock Exchange during the 2019–2024 period. The empirical results demonstrate that EPS, ROE, and NPM do not exert a statistically significant influence on stock returns, either individually or collectively. These findings indicate that firm-level profitability indicators were insufficient to explain stock return movements during the observed period, suggesting a disconnect between accounting performance and market valuation in the Indonesian capital market context (Fama, 1970; Jogiyanto, 2017).

According to signaling theory, financial performance indicators are expected to convey credible information regarding a firm's future prospects to investors (Spence, 1973). Higher EPS signals greater earnings available to shareholders, ROE reflects management efficiency in utilizing equity, and NPM indicates operational effectiveness in generating net income (Brigham & Houston, 2019; Ross et al., 2018). However, the absence of significant relationships in this study suggests that these signals were either not perceived as reliable or were overshadowed by broader macroeconomic uncertainties. This condition is consistent with the argument that signaling mechanisms weaken during periods of economic volatility, when investors prioritize external risk factors over firm-specific financial information (Mishkin, 2019; OECD, 2022).

The descriptive statistics further reveal high volatility and instability in EPS and NPM, indicating fluctuating earnings performance across firms. Such instability reduces the predictive value of accounting-based indicators and diminishes investor confidence in their ability to forecast future returns (Fama, 1970; Samuelson & Nordhaus, 2019). In addition, the wide dispersion of ROE values suggests heterogeneous capital structures among firms, which may dilute the explanatory power of ROE at the sectoral level (Harsono, 2018; Tandelilin, 2017).

The insignificance of EPS is consistent with previous studies conducted in emerging markets, which document that profitability ratios often fail to influence stock returns due to market

inefficiencies, information asymmetry, and limited investor responsiveness to accounting disclosures (Laulita & Yanni, 2022; Nurmawati & Irwansyah, 2022; Yartey, 2008). In the food and beverage sector, earnings are highly sensitive to increases in raw material prices, energy costs, and distribution expenses. During the study period, rising inflation significantly increased production costs, thereby compressing profit margins and weakening the relevance of EPS as a stable indicator of firm value (Central Statistics Agency, 2024; Zhang & Chen, 2020).

Similarly, the lack of a significant relationship between ROE and stock returns suggests that investors did not prioritize equity efficiency when making investment decisions. This may be attributed to the fact that ROE can be influenced by leverage strategies rather than genuine improvements in operational performance, leading investors to associate high ROE with increased financial risk rather than superior management quality (Ross et al., 2018; Brigham & Houston, 2019).

The findings related to NPM further indicate that operational efficiency alone was insufficient to drive stock returns. Persistent inflationary pressure and supply chain disruptions may have constrained firms' ability to convert efficiency gains into sustainable profits, thereby reducing the informational value of NPM for investors (Mankiw, 2021; World Bank, 2023). Consequently, investors may have relied more heavily on macroeconomic indicators, such as inflation trends, global commodity prices, and monetary policy responses, rather than firm-level financial ratios (United Nations, 2021).

These results underscore the dominant role of macroeconomic and systematic risk factors in shaping stock returns within emerging markets. The findings support asset pricing theories that emphasize the importance of external and structural factors in explaining stock return variability, particularly during periods of economic uncertainty (Fama & French, 2015). Furthermore, this study highlights the limited applicability of traditional profitability-based signaling in sectors highly exposed to inflationary shocks. For practitioners, the results suggest that strengthening cost resilience and risk management strategies is as important as improving accounting performance. For investors, the findings emphasize the need to incorporate macroeconomic analysis and sector-specific risks into investment decision-making frameworks (Zainorrahman, 2025).

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CONCLUSION

This study examined the influence of profitability, measured by Return on Equity (ROE), and capital structure, measured by the Debt to Equity Ratio (DER), on stock returns of food and beverage sub-sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Based on the panel data regression analysis, the findings indicate that neither profitability nor capital structure has a statistically significant effect on stock returns, either partially or simultaneously. The probability values of ROE and DER exceeded the 0.05 significance level, leading to the rejection of the proposed research hypotheses. These results suggest that variations in stock returns within the food and beverage sub-sector cannot be adequately explained by changes in internal financial performance indicators alone. The very low coefficient of determination further confirms that the explanatory power of ROE and DER in predicting stock returns is limited, indicating that stock price movements are largely driven by factors beyond firm-level profitability and capital structure.

From a broader perspective, the findings imply that external and macroeconomic factors play a more dominant role in shaping stock returns in the food and beverage industry. Inflationary pressures, fluctuations in raw material prices, changes in monetary policy, investor sentiment, and overall market dynamics appear to outweigh the informational value of profitability and leverage ratios. These results highlight the limited applicability of signaling theory and trade-off theory in periods of economic uncertainty, particularly in sectors that are highly sensitive to cost volatility and consumption patterns. For corporate managers, the findings suggest that improving accounting-based performance indicators alone may not be sufficient to enhance shareholder value unless accompanied by effective risk management, cost efficiency, and strategic adaptability. For investors, the results emphasize the importance of incorporating macroeconomic analysis, sectoral conditions, and market sentiment into investment decision-making processes. Future research is recommended to include additional variables such as inflation, interest rates, firm size, market risk, and behavioral factors to obtain a more comprehensive understanding of stock return determinants in emerging market contexts.

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