



## **The Influence of Profitability and Capital Structure on Stock Returns (Study of Retail Companies Listed on the Indonesia Stock Exchange for the Period 2020 – 2024)**

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**Abstract:** This study analyzes the effect of profitability (measured by Return on Equity, ROE) and capital structure (measured by Debt to Equity Ratio, DER) on stock returns in 10 retail sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024. The background of the study is based on fluctuations in stock returns in the retail sector, which are influenced by internal factors such as profitability and capital structure, as well as theories such as Signaling Theory and Trade-Off Theory. The main objective is to test whether these two independent variables significantly affect stock returns. The method used is multiple linear regression with secondary data analysis through SPSS 27, after conducting classical assumption tests such as normality, multicollinearity, and heteroscedasticity. The results show that capital structure (DER) has a positive and significant effect on stock returns, supporting the Trade-Off Theory, while profitability (ROE) has no significant effect, which contradicts the Signaling Theory. Simultaneously, both variables have a significant effect on stock returns. This conclusion suggests that retail companies should focus more on optimizing capital structure to increase stock returns. The implications of this research provide empirical contributions for investors and company management in facing economic uncertainty..

**Keywords:** Profitability, Capital Structure, Stock Returns, Signaling Theory, Trade-Off.

## **INTRODUCTION**

A country's economy is highly dependent on the role of the business sector, which supports public production and consumption activities. One important instrument in supporting economic growth is the capital market. Investors' goal in investing in stocks is to generate profits, also known as stock returns, which can ultimately secure their livelihoods in the future. One important indicator in assessing investment results is stock returns, which are the level of profit or loss achieved on an investment over a specific period (Viriany et al., 2024). The high returns a company provides to investors indicates good company performance, and investor confidence in a company also has a positive impact on the shares they invest in the capital market.

One sector that attracts significant investor attention in the capital market is the retail sector. Retail encompasses all activities involving the sale of goods or services directly to end consumers



for personal, non-business use. The retail sector's appeal to investors lies in its potential for substantial profits, although it is always accompanied by unavoidable risks, such as changing consumer trends, intense competition, and economic uncertainty. The industrial sector is developing so rapidly that investors must be agile in responding to or capitalizing on profitable situations. However, the stock performance of retail companies on the Indonesia Stock Exchange has fluctuated from year to year. This reflects that while the retail sector has promising prospects, there remains instability in providing returns to investors.

Stock returns in the retail sector are volatile and fluctuate from year to year. Some retail companies experienced significant growth but were unable to sustain it, while others have shown more stability despite slowing growth. This phenomenon demonstrates the uncertainty surrounding profit generation in the retail sector, raising questions about the internal factors influencing stock returns. Internal factors are often a primary concern because they directly reflect a company's performance. One important factor suspected to be influential is profitability.

According to the signaling theory proposed by Michael Spence in 1973, high profitability can be a strong positive signal for investors. Companies with high profitability tend to be more attractive to investors because they reflect greater profit potential (Hanifa & Rahmiyatun, 2024). StructureCapital is an important factor that investors pay attention to, because the composition of debt and equity can have an impact on the level of return and the risks faced by the company (Viriany et al., 2024). According to the Trade-Off Theory, companies need to balance the costs and benefits of using debt as a funding source to achieve an optimal capital structure. An optimal capital structure will increase the company's value, reflected in an increase in the stock price in the market. This increase in stock price will directly impact the stock returns received by investors.

This writing was conducted due to a research gap in the results of previous research Dewi & Albata (2025), proves that Return on Equity has a positive and significant effect on stock returns, while Debt to Equity Ratio has a negative and significant effect on stock returns. Meanwhile, research Wirianata & Imanuel (2024), found that profitability had a significant negative effect on stock returns, and capital structure also had a significant negative effect. Based on the phenomena and previous research results, there is a clear inconsistency in the research gap regarding the effect of profitability and capital structure on stock returns.

**METHOD**

The population of this study was 32 retail companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2024 period. The sample was determined by purposive sampling based on the following criteria: (1) Retail companies listed on the Indonesia Stock Exchange (IDX) and consistently published complete financial reports for the 2020–2024 period. (2) Retail companies that were not delisted from the IDX during the 2020–2024 research period. (3) Retail companies that provided annual stock price data and actively distributed dividends annually during the 2020–2024 period.

Data analysis was carried out using multiple linear regression with the help of SPSS 27 to test the effect of profitability (ROE) and capital structure (DER) on stock returns. Prior to hypothesis testing, the model was tested using classical assumption tests (normality, multicollinearity, and heteroscedasticity). Hypothesis testing was conducted using the T-test (partial), F-test (simultaneous), and coefficient of determination ( $R^2$ ) to determine the extent of the influence of the independent variables on the dependent variable.

**RESULT AND DISCUSSION****Descriptive Test**

Descriptive statistical analysis was used to obtain an initial overview of the characteristics data reviewed through minimum value, maximum value, mean, and standard deviation.

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Standard Deviation
Profitability	50	-5.00	25.00	9.8400	6.34183
Capital Structure	50	-97.00	99.00	35.0800	37.13947
Stock Returns	50	-42.00	85.00	21,5000	25.03732
Valid N (listwise)	50				

**Table 1.** Analysis Descriptive Statistics

Based on the results of descriptive statistical analysis of 50 observation data, it was found that variables Profitability has a minimum value of -5.00 and a maximum of 25.00 with an average



of 9.84 and a standard deviation of 6.34, indicating that the company is generally in a profitable condition, although some are experiencing losses. The Capital Structure variable has a minimum value of -97.00 and a maximum of 99.00 with an average of 35.08 and a standard deviation of 37.14, indicating that there are quite large differences between companies in the use of debt as a source of funding, where some companies rely heavily on their own capital and others use debt in a high proportion. Meanwhile, the Stock Return variable has a minimum value of -42.00 and a maximum of 85.00 with an average of 21.50 and a standard deviation of 25.04, indicating that overall the company provides a positive level of stock returns despite high fluctuations.

### **Multicollinearity Test**

A multicollinearity test was conducted to determine whether there was a high correlation between the independent variables in the regression model. This test was performed using SPSS software by examining the Tolerance and Variance Inflation Factor (VIF) values.

Model	Coefficientsa						
	Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics		
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	3,286	5,559		.591	.557	
	Profitability	.807	.553	.205	1,459	.151	.735
	Capital Structure	.293	.094	.434	3,098	.003	.735
							1,361

**Table 2.** Multicollinearity Test Result.

a. Dependent Variable: Stock Returns

Based on the results of the multicollinearity test, the VIF values for the variables Profitability ( $X_1$ ) and Capital Structure ( $X_2$ ) are  $1.361 < 10$ , respectively, and the Tolerance value for both variables is  $0.735 > 0.1$ . In accordance with the testing criteria, if the VIF value is  $< 10$  and the Tolerance value is  $> 0.10$ , it can be concluded that the regression model does not experience symptoms of multicollinearity. Thus, these results indicate that there is no strong relationship between the independent variables, so there is no multicollinearity.

**Heteroscedasticity Test**

The heteroscedasticity test is carried out to determine whether in the regression model there is inequality in the variance of the residuals from one observation to another.

Model	Coefficientsa					
	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
1	(Constant)	14,204	3,225		4,405	.000
	Profitability	.472	.321	.244	1,470	.148
	Capital Structure	-.070	.055	-.211	-1.273	.209

a. Dependent Variable: Abs\_RES

**Table 3. Heteroscedasticity Test Results**

Based on the heteroscedasticity test results displayed, the coefficients for the Profitability variable ( $B = 0.472$ ,  $p = 0.148$ ) and Capital Structure ( $B = -0.070$ ,  $p = 0.209$ ) are  $>0.05$ . This indicates that there is no significant relationship between the independent variables and the absolute value of the residual, so there is no evidence of heteroscedasticity in the regression model.

**t - Test**

A t-test was conducted to determine the partial effect of each independent variable on the dependent variable. This test was conducted using SPSS software with a significance level of 0.05.

Model	Coefficientsa					
	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
1	(Constant)	3,286	5,559		.591	.557
	Profitability	.807	.553	.205	1,459	.151
	Capital Structure	.293	.094	.434	3,098	.003

a. Dependent Variable: Stock Returns

**Table 4 . Persian Test Results**

Based on the t-test results, the Profitability variable shows a calculated t-value of 1.459 with a significance of  $0.151 > 0.05$ , so that partially profitability does not have a significant effect on



Stock Returns. On the other hand, the Capital Structure variable has a calculated t-value of 3.098 with a significance of  $0.003 < 0.05$ , which means that it has a partial positive and significant effect (because the coefficient B = 0.293), meaning that an increase in Capital Structure tends to increase Stock Returns. Thus, only Capital Structure has a significant positive effect, while Profitability has no real impact.

### F Test

Test The F-test was conducted to determine whether all independent variables simultaneously have a significant effect on the dependent variable. This test was conducted using SPSS software with a significance level of 0.05.

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9885.353	2	4942.676	11,152	.000b
	Residual	20831.147	47	443,216		
	Total	30716.500	49			

a. Dependent Variable: Stock Returns

b. Predictors: (Constant), Capital Structure, Profitability

**Table 5 . Simultaneous Test Results**

Based on the results of the F test, the calculated F value was 11.152 with a significance level of  $0.000 < 0.05$ . This indicates that the regression model is suitable for use and that simultaneously the variables of Profitability and Capital Structure have a significant effect on Stock Returns, so that both independent variables together are able to explain the variation in changes in the company's stock returns.

### Discussion

The findings of this study provide important insights into the relationship between profitability, capital structure, and stock returns in retail companies listed on the Indonesia Stock Exchange during 2020–2024. The results indicate that capital structure, measured by the Debt to Equity Ratio (DER), has a positive and significant effect on stock returns. In contrast, profitability, measured by Return on Equity (ROE), does not have a significant effect. Simultaneously, both



variables together significantly influence stock returns. These findings have several theoretical and practical implications.

The significant positive effect of capital structure on stock returns supports the Trade-Off Theory proposed by Modigliani and Miller (1963), which posits that firms optimize their value by balancing the benefits and costs of debt financing. The results suggest that retail companies that strategically utilize debt in their capital structure can enhance stock returns by increasing financial leverage, improving funding efficiency, and raising firm value. Companies with higher DER may signal to investors their ability to effectively manage debt to generate higher returns, thus encouraging investment in their stocks. This aligns with prior studies that emphasize the role of capital structure in enhancing shareholder value, particularly in sectors that experience rapid market fluctuations, such as retail (Utami et al., 2023; Purwanto, 2021).

Conversely, the lack of a significant effect of profitability on stock returns contradicts the predictions of Signaling Theory (Spence, 1973), which suggests that higher profitability serves as a positive signal to investors regarding the company's performance. This unexpected result may be attributed to several contextual factors in the Indonesian retail sector during the observed period. First, the COVID-19 pandemic and subsequent economic volatility may have diminished the predictive power of ROE on stock returns, as investors faced uncertainty about future earnings stability. Second, retail companies may have experienced inconsistent profit growth, limiting the impact of profitability signals on investor decisions. These findings are consistent with research by Wirianata and Immanuel (2024), which showed that profitability does not always predict stock returns in volatile market conditions. Therefore, while profitability is a conventional measure of performance, external factors and market perceptions may overshadow its influence on stock returns.

Simultaneously, the combined influence of profitability and capital structure indicates that stock returns are determined not solely by one internal factor but by the interaction of multiple financial and operational variables. This implies that while capital structure plays a more dominant role, profitability cannot be entirely disregarded, as it forms part of the overall financial health of a company that investors may consider alongside debt management strategies. For practical purposes, retail company managers should prioritize maintaining an optimal capital structure while



also implementing operational strategies that sustain profitability to support long-term investor confidence.

Furthermore, these results contribute to the literature by clarifying the inconsistent findings in prior research regarding internal determinants of stock returns in the Indonesian retail sector. Previous studies reported mixed effects of ROE and DER on stock returns (Dewi & Albata, 2025; Wirianata & Imanuel, 2024), highlighting the need to consider market volatility and sector-specific characteristics. This study provides empirical evidence that capital structure has a more robust and predictable impact than profitability in the retail sector under uncertain economic conditions. However, the limited sample of 10 companies and the relatively short observation period (2020–2024) suggest that caution should be exercised in generalizing these findings to other sectors or periods.

The study emphasizes the strategic importance of capital structure management in enhancing stock returns. Managers should carefully balance debt and equity financing to maximize financial performance while mitigating risks, particularly in sectors subject to high market volatility. Meanwhile, profitability remains an important but less decisive factor in driving stock returns during periods of economic uncertainty. Future research could expand the scope by including external variables such as macroeconomic indicators, market sentiment, and operational efficiency to provide a more comprehensive understanding of factors influencing stock returns.

## **CONCLUSION**

This study aims to analyze the effect of Profitability (ROE) and Capital Structure (DER) on Stock Returns in retail companies listed on the Indonesia Stock Exchange for the 2020–2024 period. Based on the analysis, it was concluded that Capital Structure has a positive and significant effect on Stock Returns, while Profitability has no significant effect. These results indicate that optimal Capital Structure management can boost stock returns through balanced debt utilization, funding efficiency, and increased firm value. Conversely, the ineffectiveness of Profitability indicates that internal factors such as ROE may be less influential than external factors in volatile economic conditions.

These findings demonstrate a strong correlation between the research findings and the research objective, which is to examine the influence of independent variables on stock returns.



These findings also support the Trade-Off Theory (Modigliani and Miller, 1963) for Capital Structure, which explains the importance of a balance between debt and equity to achieve financial efficiency, but do not support the Signaling Theory (Spence, 1973) for Profitability. Therefore, this study provides an empirical contribution in strengthening the understanding of the determinants of stock returns in the Indonesian retail sector. The findings also provide implications for retail company management to focus more on optimizing Capital Structure to increase efficiency and firm value. Debt use must be managed at an optimal level to avoid excessive financial risk, while profitability needs to be improved through more planned operational strategies. This study is limited by the sample size of only 10 companies and the limited observation period of 2020–2024, so the results cannot be fully generalized to other sectors. Therefore, further research is recommended to increase the observation period, expand the research object to different sectors, and include additional variables such as external factors and operational efficiency in order to provide a deeper understanding of the influence on stock returns.

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