CONTABILITA
Journal of Accounting and Finance

Volume 02, No. 02, October 2026
ISSN 3123-6499

Unpacking the Role of Profitability and Solvency in Stock Price Dynamics: Evidence from Indonesia's FMCG Sector

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Abstract:
This study investigates the association between stock prices with profitability and solvency ratios in Fast Moving Consumer Goods (FMCG) companies listed on the Indonesia Stock Exchange by analyzing the influence of these factors both partially and simultaneously. Employing a quantitative approach, Return on Equity (ROE) and the Debt to Equity Ratio (DER) were designated as independent variables, while stock price as the dependent variable. A selection process resulted in 6 companies, providing a total of 60 observations. Data analysis employed Panel Data Regression, using the Chow Test, Hausman Test, and Lagrange Multiplier Test to determine the most appropriate model among the Common Effect, Fixed Effect, and Random Effect models. Subsequently, t-tests were used to analyze the influence of individual variables, while F-tests evaluated their simultaneous impact. The study findings reveal a significant positive effect of ROE, whereas DER shows a significant negative effect. The model declares 27.82% of the fluctuations in stock prices, and 72.18% of the factors surrounding those underlying variables are also affected. These outcomes that encourage corporate profitability and debt financing decisions are key factors in explaining stock price fluctuations among FMCG companies

Keywords: Profitability, Solvency, Stock Price, Return on Equity, Debt to Equity Ratio

INTRODUCTION

Over time, progress has driven rapid economic growth in Indonesia. The country's current economic expansion is closely linked to the capital market's role. By providing capital for companies and serving as an investment vehicle, the capital market has strongly boosted Indonesia's economic development. The capital market offers a variety of financial instruments, including bonds, stocks, mutual funds, and derivatives, with stocks being the most popular and widely traded instrument (Ahdiyani et al., 2022) . The capital market serves as a platform for transactions between capital providers and capital users, a process that involves risks in the form of potential profits and losses. The capital market influences the national economy by performing both economic and financial functions.

Currently, both the number of transactions and trading volume on the Indonesian stock market continue to soar. Shares reflect investor ownership of a company. Share prices are determined by buying and selling activity in the capital market. Shares are classified as securities because their value depends on market prices and they represent evidence of company ownership. The closing price, referred to by the Indonesia Stock Exchange as "end cost," serves as the standard valuation reference. (Rahma et al., 2021). Investors monitor share prices during transactions and use that value to assess the future prospects of the companies they invest in.

Shareholders or investors expect their shares to generate profitable returns. To minimize risk, investors analyze financial statements to assess performance and identify potential profits. Financial performance represents a company's success based on its activities. Measuring financial performance is also vital for a company. This is because it relates to the management control system, namely the company's success in achieving

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ISSN 3123-6499

its goals (Peranginangin & Lase, 2021a) . In addition to financial statement analysis, financial ratio analysis is also necessary. Financial ratio analysis is defined as the assessment of a company's financial success by linking the relationships and indicators in the company's financial statements to observe the movement or fluctuations in the company's financial condition.

Despite analyzing financial reports and financial ratios, stock prices remain volatile. Stock prices fluctuate constantly, exposing investors to various financial risks. Stock price fluctuations are driven by internal and external factors. Therefore, investors always consider the company before investing. These considerations typically include financial statements, which generally include cash flow statements, profit and loss statements, balance sheets, and ratios. Stock market conditions, deposit interest rates, political and social conditions, and national macroeconomic policies are also considered (Yunazar et al., 2023) .

Stock price fluctuations are influenced by company dynamics and unstable external conditions. Examples of unstable external conditions include the COVID-19 pandemic, war, and unstable exchange rates. Stock price fluctuations also occur in manufacturing companies in the Fast Moving Consumer Goods (FMCG) sector. FMCG companies produce goods for everyday use, generating rapid turnover due to high consumer consumption (Ramadhani et al., 2026) . Despite their rapid turnover, these companies often experience fluctuations, especially during unstable conditions. In fact, in July 2023, several FMCG companies experienced a 0.33% decline in share value.

Several major events between 2014 and 2023 caused stock prices to fluctuate. The FMCG sector was chosen as the research object not solely because of the Covid-19 pandemic, but because of the sector's structural characteristics, which make it a relevant case for testing. First, FMCG is a sector with relatively inelastic demand because its products are daily necessities, making it a frequent refuge for investors during uncertain economic conditions. This characteristic raises an interesting question: if product demand is relatively stable, are FMCG stock price movements still determined by the company's internal financial performance, such as profitability and solvency, or are they more influenced by external factors? Second, the FMCG sector contributes significantly to consumption. Household spending and national economic growth, making its stability and investment attractiveness crucial for ongoing study. Third, the 2014-2023 period spans a long-term dynamic range, including normal economic conditions, two periods of national leadership change in 2014 and 2019, the Covid-19 pandemic, and post-pandemic recovery.

Thus, this study not only captures the effect of a single anomaly but also tests the consistency of the influence of profitability and solvency ratios on stock prices across market conditions, so the results are expected to be more robust and less biased toward any particular economic event. Previous research has examined the impact of profitability and solvency ratios on stock prices, but the results have been inconsistent. Some early studies indicated that profitability ratios influence stock prices (Notama et al., 2021). Other studies, however, have shown the opposite, indicating that profitability ratios do not influence stock prices (Barus, 2021). Furthermore, several early studies have indicated that solvency ratios do not significantly impact stock prices (Alifatussalimah & Sujud, 2020).

This contrasts with findings from other studies that show a significant negative influence of the solvency ratio on stock prices, reflecting weaknesses in management or the use of corporate debt, given that high debt levels are considered a factor that influences stock prices (Vidiyastutik & Rahayu, 2021) . Conversely, some studies indicate that although the profitability ratio does not affect stock prices, the solvency ratio

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does (Candera et al., 2022). Moreover, other early studies indicate that profitability and solvency jointly influence stock prices (Sarja et al., 2025).

Differences in previous preliminary studies on the influence of profitability and solvency ratios on stock prices indicate that the relationship between these variables still needs further study. These differences suggest a research gap that needs further analysis, especially in the Fast Moving Consumer Goods (FMCG) sector. Based on this phenomenon, this study formulates the problem formulation, namely: (1) How does the profitability ratio affect the stock price of FMCG manufacturing companies?; (2) How does the solvency ratio affect the stock price of FMCG manufacturing companies?

This research aims to examine and identify the influence of profitability and solvency indicators on the stock prices of companies in the Fast Moving Consumer Goods (FMCG) industry, by examining these factors both partially and simultaneously. The results are expected to provide empirical evidence on the relationship between financial ratios and stock prices, while also contributing to the literature on financial topics and serving as a reference for investors, companies, management, and future research.

LITERATURE REVIEWS

Signaling Theory

Signaling theory explains the behavior of managerial groups that communicate the company's future prospects to investors (Spence, 1973) . The theory emerged due to managers possessing internal information that is not fully accessible to investors, resulting in information asymmetry between the company and the market. Signaling theory emphasizes the importance of balancing information between managers and investors. It posits that managers are expected to manage resources effectively to deliver strong performance, thereby presenting positive company prospects to investors (Shelly Safitri & Nanu Hasanuh, 2025).

Trade-off Theory (Trade-off Theory)

Trade-off Theory is a theory that states management must balance the benefits and costs of debt use relative to the company's funding (Wagisuwari & Sitorus, 2024). Trade-off Theory also states that a company's capital structure decision balances the benefits of using debt, such as tax savings, against the costs that arise from using debt, including bankruptcy costs (financial distress costs) and the risk of default(Megawati et al., 2021).

Profitability Ratios

The profitability ratio measures how much profit a company generates based on the relationship between its resources and the returns from sales, profits, or losses on its own capital. The profitability ratio also shows profits from sales or investments, indicating the company's efficiency.

Therefore, the profitability ratio is a benchmark for measuring a company's success in running its business. A company's profitability can be measured by comparing profits to capital. This study applies Return on Equity (ROE) to assess profitability. ROE is defined as a ratio that measures a company's capability to generate annual net profit after tax relative to invested capital, expressed as a percentage (Murnawati et al., 2024) . Thus, this indicator reflects a company's capacity to utilize capital to generate profits, with an increase in ROE indicating better profitability. ROE serves as a benchmark for evaluating a company's capital profitability, and an increase in this metric indicates a stronger capacity to generate profits.

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Solvency Ratio

A company's ability to meet its debt obligations is a key indicator of financial health and consequently attracts significant attention. Solvency ratios measure the proportion of a company's assets funded by debt and serve as important benchmarks for assessing the ability to meet both short-term and long-term debt obligations (Idris, 2021) . The Debt to Equity Ratio (DER) is used to assess solvency. DER reflects the company's ability to use equity to cover its debts; therefore, an increase in DER indicates a higher risk of default on debt obligations.

Stock Price

A company's ability to meet its debt obligations is a key indicator of financial health and consequently attracts significant attention. Solvency ratios measure the proportion of a company's assets funded by debt and serve as important benchmarks for assessing the ability to meet both short-term and long-term debt obligations (Idris, 2021). The Debt to Equity Ratio (DER) is used to assess solvency. DER reflects the company's ability to use equity to cover its debts; therefore, an increase in DER indicates a higher risk of default on debt obligations. Shares are securities that represent ownership in a company, indicating that investors or shareholders have a share of ownership (equity) in the company (Notama et al., 2021).

Hypothesis Development

The Effect of Profitability Ratios on Stock Prices

Previous preliminary studies have indicated that profitability ratios influence stock prices (Notama et al., 2021). This reflects that higher profitability indicates a company's ability to optimize asset management to maximize profits. Such strong performance increases the confidence of investors who have invested capital or owned shares in the company, which ultimately drives up stock prices. This view is in line with the findings of studies that indicate profitability has a significant impact on stock prices; specifically, profitability displays a company's capability in generating profits, where a high level of profitability indicates operational efficiency, which then triggers investor interest in purchasing shares and has an impact on increasing stock prices (Yudistira & Adiputra, 2020)

This hypothesis also draws on Signaling Theory, which posits that investors do not fully know internal information, creating information asymmetry between the company and the market. To mitigate this, companies issue signals in the form of financial information, such as profitability performance, as an indication of the company's future condition and prospects. Rising profitability, reflected in ROE, is a positive signal for investors, as the company uses its resources to generate profits. The market responds by increasing buying interest and raising share prices. Conversely, declining profitability signals a negative outlook and erodes investor confidence. This theory forms the basis for the hypothesis regarding the effect of the profitability ratio on stock prices.
$H_{1:}$ Profitability Ratio Has an Influence on Stock Price License: Creative Commons Attribution

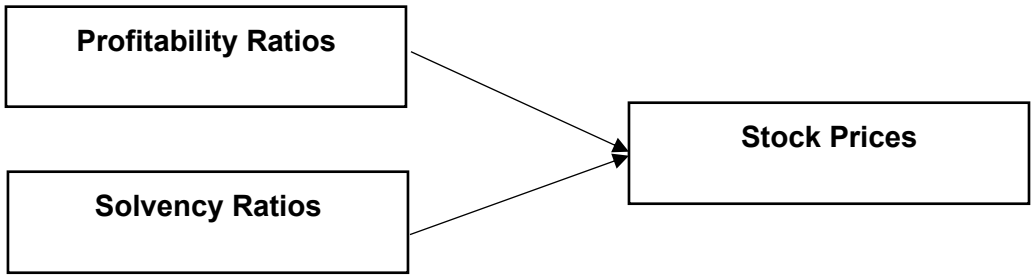
The Effect of Solvency Ratios on Stock Prices

Previous studies have shown that solvency ratios have a significant negative impact on stock prices (Vidiyastutik & Rahayu, 2021) . A company's ability to meet its debt obligations influences investor decision-making and company value, which in turn affects stock prices. Solvency ratios affect stock prices because companies that rely on

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debt financing incur significant additional costs, which in turn leads to lower profits (Candera et al., 2022). This decline in profits triggers a decline in stock prices, which then reduces the investor base and investment interest. The hypothesis is based on the previous theoretical discussion, namely the Trade-off Theory, which states that a company's capital structure decisions balance the benefits of debt, such as tax savings, with the costs incurred, including bankruptcy costs and default risk. The greater the company's debt through the Debt-to-Equity Ratio (DER), the greater the risk of fulfilling obligations, thereby reducing investor confidence in the company's prospects. A large proportion of debt can suppress profits through interest expenses and increase uncertainty about future cash flows. This theory forms the basis for the hypothesis of the effect of the solvency ratio on stock prices.
H_2: Solvency Ratios Have an Influence on Stock Prices.

Conceptual Framework



RESEARCH METHODOLOGY

The study applies a quantitative research approach. Quantitative research is a planned, systematic scientific method for examining phenomena and their associated causal relationships. This method focuses on collecting measurable numerical data and analyzing it using statistical, mathematical, and computer-based techniques to generate objective conclusions (Ghozali, 2017). In practice, statistical methods are applied to collect, process, and analyze the quantitative data. In addition, this study also relies on mathematical models and relevant theories.

The study applies two variables: independent variables (X), profitability ratios and Solvency Ratios, and dependent variables (Y), where the dependent variable represents stock price. Profitability is measured using Return on Equity (ROE), and solvency is assessed using the debt-to-equity ratio (DER).

Operational Definition of Variables

Return on Equity (ROE) shows a company's capability to generate profit using its equity, also known as return on shareholders' equity. Return on Equity (ROE) is an indicator that measures a company's ability to generate profits using its own capital, where an increase in ROE reflects an increase in profitability. The profit figure used in the calculation is annual net profit, which is profit after deducting interest and tax expenses. Return on Equity (ROE) calculation formula (Sarja et al., 2025)

$$ROE = \frac{\text{Earnings After Interest \& Tax}}{\text{Equity}}$$

Debt to Equity Ratio (DER) is an indicator used to evaluate the debt-to-equity ratio, specifically describing the relationship between total liabilities/debt and total equity. This

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indicator estimates the proportion of equity that supports debt. A higher ratio increases the risk of default for creditors, which generally indicates lower profitability, but on the other hand has a positive impact on the company. Conversely, a lower ratio indicates a large portion of equity held by owners, thereby increasing the margin of safety (or buffer) against potential losses that may be experienced by borrowers (Shelly Safitri & Nanu Hasanuh, 2025) . Debt to Equity Ratio (DER) calculation formula :

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Stock price is the dependent variable in this study. Stock price is one of the indicators used to assess investors' interest in owning a company's shares. If a company's stock price consistently increases, investors and potential investors tend to perceive the company as having good financial performance. In this study, stock price is measured using the closing price (Notama et al., 2021; Peranginangin & Lase, 2021a) .

Research Population and Sample

This study used saturated sampling, a method in which all members of the population are included as research samples. This technique was adopted because all companies within the defined population were included as units of analysis without any partial sample selection.

The population of this study comprises manufacturing companies operating in the Fast-Moving Consumer Goods (FMCG) sector and listed on the Indonesia Stock Exchange (IDX) during 2014–2023. The sample included all companies that met the predefined population criteria. Therefore, the sample size is equal to the total population size.. Fast Moving Consumer Goods (FMCG) manufacturing companies listed on the IDX in 2014-2023 became the population..

Table 1. Fast-Moving Consumer Goods (FMCG) Company Sector

No	Code	Company Name
1	UNVR	PT Unilever Indonesia Tbk
2	ICBP	PT Indofood CBP Sukses Makmur Tbk
3	INDF	PT Indofood Sukses Makmur Tbk
4	MYOR	PT Mayora Indah Tbk
5	ULTJ	PT Ultrajaya Milk Industry & Trading Company Tbk
6	ROTI	PT Nippon Indosari Corpindo Tbk
7	STTP	PT Siantar Top Tbk
8	KINO	PT Kino Indonesia Tbk
9	SKLT	PT Sekar Laut Tbk
10	ADES	PT Akasha Wira International Tbk

The research in this study applies Panel Data Regression. Panel Data Regression is defined as a combined analysis method of a series of observation values over a certain period of time at the same time interval (uniform) with the type of data from observations of subjects at the same time (Basuki & Prawoto, 2021). By applying the Chow Test, Hausman Test, and Lagrange Multiplier Test. All three are applied to test the most appropriate model among Common Effect, Fixed Effect, or Random Effect. After the test is applied, it is shown that the most appropriate model is Random Effect.

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RESULTS AND DISCUSSION

Panel Data Regression Estimation Model Selection Test

Chow Test

The Chow Test is used to determine the appropriate Common Effects or Fixed Effects model for the data. This test generates the following hypothesis:
Null hypothesis, if Prob. > 0.05 then the exact model is Common Effect.
Hypothesis 1, if Prob. < 0.05 then the correct model is Fixed Effect.

Table 2. Chow Statistic

	test	df	Prob.
Cross-section F		(5,52) 5	0.0000
Cross-section Chi-square	60.345728 115.037181		0.0000

The Chow test shows a probability value of 0.0000, or 0.0000 < 0.05, so H0 is rejected. This finding indicates that the Fixed Effect model is more appropriate than the Common Effect model.

Hausman Test

The Hausman Test is applied to determine the appropriate Fixed Effects or Random Effects model for the data. This test generates the following hypothesis:
Null hypothesis (Hÿ), if Prob. > 0.05 then the exact model is Random Effect.
Hypothesis 1 (H1), if Prob. < 0.05 then the correct model is Fixed Effect.

Table 3. Hausman

	Chi-Sq. Statistic Test Results	df	Prob.
Test Summary Random cross-section	0.286352	2	0.8666

The Hausman test shows a probability value of 0.8666, or a probability value of 0.8666 > 0.05, so H0 is rejected. This finding indicates that the Random Effect model is more appropriate than the Fixed Effect model.

Lagrange Multiplier Test

The Lagrange Multiplier Test is applied to determine the appropriate Random Effects or Common Effects model for the data. This test generates the following hypothesis:
Null hypothesis (Hÿ), if Prob. > 0.05 then the exact model is Common Effect.
Hypothesis 1 (H1), if Prob. < 0.05 then the exact model is Random Effect.

Table 4 Results of the Lagrange

Breusch-Pagan	Multiplier Cross-	Time	Both
	179.8865	4.244506	184.1310
	(0.0000)	(0.0394)	(0.0000)

Source: Eviews 12 output, Data processed by the author (2026)

The application of the Lagrange Multiplier Test displays a *Breusch-Pagan cross-section* probability value of 0.0000, so 0.0000 < 0.05 indicates that H0 is rejected. This indicates that *the Random Effect* model is more appropriate than the *Common Effect model.*

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Random Effect Model Estimation Results

Based on the three tests above, the most appropriate model is the *Random Effects model.* The findings from *the Random Effects* model show the panel data regression equation:

$$Y = 5245.026 + 9667.939\ ROE - 2678.970\ DER$$

Table 5. Random Effect Model Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5245.026	1699.034	3.087063	0.0031
ROE	9667.939	3469.045	2.786916	0.0072
DER	-2678.970	634.6708	-4.221038	0.0001

Effects Specification

Effects	S.D.	Rho
Cross-section random	3773.266	0.9056
Idiosyncratic random	1217.933	0.0944

Weighted Statistics

Statistic	Value	Statistic	Value
R-squared	0.302688	Mean dependent var	507.0763
Adjusted R-squared	0.278221	S.D. dependent var	1411.864
S.E. of regression	1199.485	Sum squared resid	82009592
F-statistic	12.37123	Durbin-Watson stat	0.783576
Prob(F-statistic)	0.000034		

Unweighted Statistics

Statistic	Value
R-squared	-0.003351
Sum squared resid	5.49E+08
Mean dependent var	4993.650
Durbin-Watson stat	0.117005

Source: output, Processed data by Author Eviews 12 (2026)

Based on the findings, it also shows a constant of 5245.026, indicating that if ROE and DER are constant, the stock price is predicted to be 5245.026. The ROE coefficient of 9667.939 is positive and significant at the 5% level, meaning that every increase in ROE increases the stock price, holding other variables constant. The DER coefficient, -2678.970, is negative and significant at the 5% level, indicating that each increase in DER reduces the stock price, holding other variables constant. The Adjusted R-squared value of 0.278221 indicates that ROE and DER together explain 27.82% of the variation in stock prices, while the rest is explained by variables outside the model.

Random Effect + White Cross Section Model

Table 5. Results of the Random Effect Model with White Cross-Section Robust Standard Errors

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5245.026	1302.952	4.025494	0.0030
ROE	9667.939	3699.715	2.613158	0.0281
DER	-2678.970	295.8413	-9.055429	0.0000

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Effects Specification

Effects	S.D.	Rho
Cross-section random	3773.266	0.9056
Idiosyncratic random	1217.933	0.0944

Weighted Statistics

Statistic	Value
R-squared	0.302688
Adjusted R-squared	0.278221
S.E. of regression	1199.485
F-statistic	12.37123
Prob(F-statistic)	0.000034
Mean dependent var	507.0763
S.D. dependent var	1411.864
Sum squared resid	82009592
Durbin-Watson stat	0.783576

Unweighted Statistics

Statistic	Value
R-squared	-0.003351
Sum squared resid	5.49E+08
Mean dependent var	4993.650
Durbin-Watson stat	0.117005

Source: Eviews 12 output, Data processed by the author (2026)

To ensure the REM results are free from potential heteroscedasticity and residual correlation between cross-section units, we further estimated the model using robust standard errors via the White Cross-section approach. Further estimation indicates that the regression coefficient values for each variable, namely ROE of 9667.939 and DER of -2678.970, do not change compared to the REM estimation results in Table 4, where the White Cross-section correction does not change the coefficient values or the direction of influence of each variable, but only corrects the standard error so that the estimate becomes more robust and statistically valid. The difference appears in the adjusted standard error values; for example, the DER standard error, which was originally 634.6708 in Table 4, becomes 295.8413 in Table 5, so the t-statistic becomes larger (from -4.221038 to -9.055429) and the level of significance is stronger (Prob. 0.0000).

Testing the Classical Assumptions of Panel Data

In Panel Data Regression using the Random Effect model approach, testing of relevant classical assumptions focuses on multicollinearity and heteroscedasticity tests, because the problem of inter-individual and inter-temporal heterogeneity has been structurally accommodated by the model. Multicollinearity testing is used to determine whether there is excessive correlation between the applied independent variables. Multicollinearity should be avoided because its presence can reduce the precision of regression coefficient estimates.

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Table 6. Multicollinearity Test Results

Variable	DER	ROE
DER	1.000000	-0.284179
ROE	-0.284179	1.000000

Source: Eviews 12 output, Data processed by the author (2026

The findings from the multicollinearity test application are that the correlation coefficient value of ROE and DER is -0.284179, which is far below the threshold of 0.80–0.90. The findings indicate that there are no serious multicollinearity problems between the independent variables in the model.

Heteroscedasticity examination is needed to answer the residual variance in the regression model which is not uniform across all observations.

Table 7. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3120.527	669.1147	4.663665	0.0000
ROE	-4668.186	2804.125	-1.664757	0.1014
DER	553.6460	486.7253	1.137492	0.2601

Source: Eviews 12 output, Data processed by the author (2026)

The heteroscedasticity test shows probabilities of 0.1014 for ROE and 0.2601 for DER, both exceeding 0.05; thus, the model shows no heteroscedasticity. However, as a standard precaution in panel data analysis, the author still includes robust standard errors (White Cross-section), as presented in Table 7. Unlike conventional multiple linear regression, which requires rigorous autocorrelation testing through Durbin-Watson values, the classical autocorrelation test is no longer applied to the Random Effects Model estimation in panel data regression. This is because the Random Effects Model is estimated using the Generalized Least Squares (GLS) method, which automatically calculates and corrects the residual correlation structure arising from the two-way error components in panel data, namely individual effects and time effects, through weighting based on the variance components of each unit. Thus, GLS estimation automatically reduces the autocorrelation problem in time-series OLS regression. Furthermore, the study includes robust standard error correction using the White Cross-section approach in Table 5. This correction is intended to provide standard error results that remain consistent and valid despite the presence of heteroscedasticity and residual correlation between cross-section units

Partial Significance Test (t-Test)

The t-test is a statistical method used to assess the significance of the relationship between an independent variable and a dependent variable. Based on the Random Effect Model results with White Cross-section correction, included in Table 5, and using a significance level of ÿ = 0.05, the findings for ROE against Stock Price and DER against Stock Price are as follows. The ROE coefficient is 9667.939 with t-statistic = 2.613158 and probability value = 0.0281. Because the probability value is 0.0281 < 0.05. The findings indicate that variable ROE has a significant positive effect on variable Stock Price, meaning that the higher the ROE, the higher the stock price, because high ROE reflects the company's efficiency in generating profits from its own capital, thereby increasing investor confidence. Then, the DER coefficient is -2678.970, with a t-statistic of -9.055429 and a probability value of 0.0000. Because the probability value is 0.0000

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< 0.05, DER has a negative and significant effect on stock prices. This means that the higher the DER ratio, the lower the stock price, because a high debt-to-equity level indicates greater financial risk, reducing investor interest and confidence in the company. The findings show that profitability indicators, especially Return on Equity (ROE), significantly affect stock prices. These findings reinforce previous studies that found profitability indicators significantly affect stock prices (Notama et al., 2021) (Purwastianingrum & Riyanti, 2026).

The findings indicating that ROE has a significant positive impact on Stock Price can be explained in more depth through the fundamental characteristics of FMCG. Unlike capital-intensive sectors, the FMCG category operates with a business model that relies on fast working capital turnover and stable sales volume because its products are daily necessities. In this context, ROE is not just a profitability ratio, but a reflection of management's efficiency in using shareholder equity to generate recurring profits (Peranginangin & Lase, 2021b) . FMCG sector investors tend to measure based on the company's ability to generate consistent cash flow and profits from its existing capital base, not solely on business scale growth. A high ROE indicates that the company can convert equity into profit efficiently without relying on asset expansion or large debt . This condition directly affects the company's fundamental valuation because ROE reflects the potential for higher returns on equity compared to similar competitors.

The research findings indicate a significant negative influence of the solvency ratio, as measured by the application of the debt-to-equity ratio, DER, on stock prices. This finding supports earlier studies that revealed the solvency ratio has a significant negative influence on stock prices, indicating that the company does not manage its debt optimally (Vidiyastutik & Rahayu, 2021). DER has a negative and significant impact on stock prices, interpreted more specifically within the risk characteristics of the FMCG sector. FMCGs generally have thinner operating profit margins than the technology or energy sectors, making them sensitive to interest expenses and financial risks arising from their large debt-to-equity ratios. A high DER means most of the company's operating funding comes from debt, which requires fixed interest payments regardless of fluctuations in sales performance. Because of the thin margin, the large interest expense can significantly erode net income, especially during economic pressures such as increases in benchmark interest rates or weakening consumer purchasing power(Murnawati et al., 2024) . Therefore, investors in the FMCG sector will interpret a high DER as a deviation from these defensive characteristics. This finding explains that in the FMCG sector, which relies on cash flow stability and long-term investor confidence, prudence in managing capital structure is a vital part of the company's market valuation.

Coefficient of Determination (R^2)

The coefficient of determination analysis measures the extent to which variation in the dependent variable is explained by the independent variables. This analysis evaluates the model's ability to explain variation in the dependent variable. This study uses the coefficient of determination and Adjusted R-squared to identify the most effective regression model.

The Adjusted R-squared value of 0.278221 indicates that the variation in stock prices can be explained by variables ROE and DER by 27.82%, while the remaining 72.18% can be explained by other variables outside this research model, such as macroeconomic conditions, dividend policies, market sentiment, and other financial ratios that are not included in the model. The values also confirm the characteristics of the FMCG sector: stock prices are driven not only by financial ratios

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but also by perceptions of macroeconomic risk and the sustainability of long-term consumer demand.

CONCLUSION

Processing and testing the study data revealed several key findings on financial factors related to the stock prices of FMCG manufacturing companies throughout 2014–2023. First, the Profitability Ratio, specifically Return on Equity (ROE), yielded a significant positive effect on Stock Price. The results indicate an increase in the company's ability to generate profits from equity, which affects stock value in the market. Therefore, profitability, as reflected in ROE, is a relevant indicator for explaining stock price movements. The finding that ROE has a significant positive effect confirms that in the FMCG sector, which relies on stable sales volume and relatively thin margins, the company's efficiency in converting equity into profit is a signal of management quality that is responded to positively by the market through a premium valuation. In other words, in sectors that tend to grow organically, investors place a large weight on the company's ability to optimize existing capital, not solely on the scale of business expansion.

Second, the findings on the Solvency Ratio, namely the Debt to Equity Ratio (DER), showed a significant negative impact on Stock Price. The findings indicate an inverse relationship: an increase in DER is generally accompanied by a decrease in stock prices, assuming other variables remain constant. These findings show that higher debt usage increases a company's financial risk and subsequently affects investors' assessments of the stock. DER has a significant negative impact on stock prices, confirming that FMCG stocks in the market are investment instruments sensitive to deviations from a low-risk profile. An increase in the debt-to-equity ratio threatens the company's financial flexibility in the face of margin pressure, so investors discount the stock's value as compensation for the added financial risk.

First, this study uses only 2 independent variables, namely ROE and DER, so it cannot explain variations in stock prices comprehensively. Other variables relevant to the FMCG sector, such as Earnings Per Share (EPS), Price to Book Value (PBV), Net Profit Margin (NPM), and liquidity ratios, have not been included in this research model. Furthermore, the research sample is limited to six FMCG companies thus, the small number of cross-sectional units may limit the generalizability of the study results to the entire FMCG sector on the Indonesia Stock Exchange, including companies with small and medium market capitalizations that may have different capital structure characteristics and market responses.

Based on these limitations, future research should consider adding other independent variables relevant to the characteristics of the FMCG sector, such as Earnings Per Share (EPS), Net Profit Margin (NPM), or Price to Book Value (PBV). Furthermore, the study could include more FMCG companies listed on the Indonesia Stock Exchange. Furthermore, future studies are suggested to include macroeconomic variables such as inflation, Bank Indonesia interest rates, and the rupiah exchange rate, in order to provide a clearer and more relevant picture of FMCG sector stock prices.

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