

## **The Effect of Debt Policy and Profitability on Stock Prices: Evidence from Food and Beverage Companies Listed on the Indonesia Stock Exchange**

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### **ABSTRACT**

This study investigates the effect of debt policy and profitability on stock prices of food and beverage companies listed on the Indonesia Stock Exchange. Using a quantitative approach, the study analyzes secondary data obtained from published financial statements of selected firms. Debt policy is proxied by the Debt to Equity Ratio (DER), while profitability is measured using Return on Assets (ROA). Multiple linear regression analysis is employed after satisfying classical assumption tests. The empirical results indicate that profitability has a statistically significant effect on stock prices, whereas debt policy does not exhibit a significant effect when examined individually. However, the simultaneous test reveals that debt policy and profitability jointly have a significant effect on stock prices. The coefficient of determination shows that the explanatory power of the model is relatively modest, suggesting that stock prices are influenced by various other factors beyond firm-level financial ratios. These findings imply that investors in the food and beverage sector place greater emphasis on firms' ability to generate profits than on capital structure decisions. Nevertheless, debt policy remains relevant when evaluated in conjunction with profitability. This study contributes to the literature by providing sector-specific evidence from an emerging market context and offers practical insights for managers and investors regarding financial performance and firm valuation.

**Keywords:** debt policy; profitability; stock price; food and beverage industry; Indonesia Stock Exchange

### **INTRODUCTION**

Capital markets play a vital role in channeling funds from investors to firms, thereby supporting economic growth and corporate expansion. In this context, stock prices function as a key market-based indicator of firm value, reflecting investors' assessments of financial performance, risk, and future prospects. Understanding the determinants of stock prices is therefore essential for investors, corporate managers, and policymakers, particularly in emerging markets where market efficiency and information asymmetry remain ongoing concerns.

Firm-level financial performance has long been recognized as a fundamental determinant of stock prices. Profitability reflects management's effectiveness in utilizing corporate assets to generate earnings and is often interpreted by investors as a signal of operational efficiency and sustainability. Higher profitability is generally associated with stronger investor confidence and improved market valuation. Consequently, profitability measures such as Return on Assets (ROA) are widely employed in empirical capital market studies to capture firms' earning capacity.

In addition to profitability, capital structure decisions constitute another important dimension of firm valuation. Debt policy reflects management's financing strategy and risk-taking behavior. While the use of debt may enhance firm value through tax benefits, excessive leverage can increase financial risk and potentially reduce investor confidence. Theoretical perspectives such as the trade-off theory and the capital structure irrelevance proposition offer contrasting predictions regarding the role of debt in determining firm value. As a result, the empirical relationship between leverage, commonly proxied by the Debt to Equity Ratio (DER), and stock prices remains inconclusive.

Prior empirical studies report mixed evidence on the effects of debt policy and profitability on stock prices. Some studies suggest that leverage has no significant impact on market valuation, while others document a significant relationship that varies across industries and economic conditions. Profitability, although more consistently linked to stock prices, also exhibits heterogeneous effects depending on firm characteristics and market environments. These inconsistencies indicate that the influence of financial ratios on stock prices is context-dependent and warrants further sector-specific investigation.

The food and beverage industry represents one of the most resilient and strategically important sectors in emerging economies such as Indonesia. As a provider of essential consumer goods, this sector tends to exhibit relatively stable demand across economic cycles. Nevertheless, despite its defensive nature, food and beverage companies experience notable fluctuations in stock prices, suggesting that investors continuously reassess firm-specific financial conditions. This phenomenon raises important

questions regarding which financial indicators are most relevant in shaping market valuation within this sector.

The food and beverage sector was selected as the object of this study due to its strategic role and distinctive characteristics within the Indonesian economy. As a provider of essential consumer goods, this sector demonstrates relatively stable demand compared to cyclical industries, making it less vulnerable to economic fluctuations. This stability allows for a clearer examination of how firm-level financial indicators, such as profitability and capital structure, influence stock prices without being excessively distorted by extreme market volatility.

Moreover, food and beverage companies are among the most actively traded firms on the Indonesia Stock Exchange, attracting substantial investor attention. The sector is characterized by intense competition, continuous product innovation, and varying financing strategies, which create observable differences in financial performance and leverage levels across firms. These variations provide a suitable empirical setting to analyze how investors interpret profitability and debt policy in valuing stocks.

Motivated by these considerations, this study examines the effect of debt policy and profitability on stock prices of food and beverage companies listed on the Indonesia Stock Exchange during the 2020–2022 period. By focusing on a specific industry within an emerging market setting, this study seeks to contribute to the literature by providing empirical evidence on how investors evaluate capital structure and operational performance in pricing stocks. The findings are expected to offer practical insights for corporate managers in designing financing strategies and for investors in

assessing firm value under conditions of market uncertainty.

A substantial body of empirical research has examined the relationship between financial performance, capital structure, and stock prices, yet the findings remain inconclusive. Several studies document that debt policy does not significantly influence stock prices. For instance, Latifah and Suryani (2020) find that leverage has no significant effect on stock prices, suggesting that investors may perceive debt usage as a routine financing decision rather than a value-relevant signal, particularly in stable industries. Similar evidence is reported in studies emphasizing that capital structure decisions may become less relevant when firms operate within acceptable risk thresholds.

Conversely, other studies report a significant relationship between debt policy and stock prices. Ainun (2019) demonstrates that the Debt to Equity Ratio has a statistically significant effect on stock prices, indicating that leverage may influence investor perceptions under certain conditions. These contrasting findings suggest that the impact of debt policy on stock prices is highly context-dependent, varying across industries, time periods, and economic environments.

Regarding profitability, empirical evidence generally indicates a stronger association with stock prices. Manurung (2014) and Sambora et al. (2014) argue that firm performance is a key determinant of market valuation, as investors tend to respond positively to firms with strong earning capacity. Profitability serves as an important signal of managerial efficiency and future growth potential, thereby influencing stock price movements. However, not all studies report a uniformly positive relationship. Alfianti and Andarini (2017), for example, find that Return on Assets has a negative

and significant effect on stock prices, highlighting that investor reactions to profitability information may vary depending on expectations, firm maturity, or broader market conditions.

Taken together, prior studies reveal mixed and sometimes contradictory results regarding the influence of debt policy and profitability on stock prices. These inconsistencies indicate that the relationship between financial ratios and market valuation cannot be generalized across all contexts. Instead, sector-specific and market-specific analyses are necessary to better capture how investors interpret financial information. This study responds to this gap by focusing on food and beverage companies in an emerging market setting, thereby providing further empirical evidence on the role of capital structure and profitability in stock price determination.

The objective of this study is to examine the firm's ability to meet its debt obligations through generated profits and to analyze how debt policy influences stock price fluctuations. Based on the foregoing background, this study aims to investigate the effect of debt policy and profitability on stock prices in food and beverage companies listed on the Indonesia Stock Exchange.

## RESEARCH METHOD

The population of this study consists of food and beverage companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period. In total, there were 36 food and beverage firms listed on the IDX within this timeframe. However, the sample of this study comprises 10 companies. The sample selection was based on purposive sampling criteria, where the selected companies had complete financial statements for the observed period and were among those

with the highest stock prices during the 2020–2023 period.

This study employs a quantitative research approach. Quantitative research is defined as a systematic process of generating knowledge that utilizes numerical data as a primary tool for analyzing and interpreting the phenomena under investigation (Kasiram, 2008). The data used in this study are secondary data, which refer to data that have been previously collected, processed, and published by other parties. The research data were obtained from corporate financial statements accessed through the official Indonesia Stock Exchange website ([www.idx.co.id](http://www.idx.co.id)) and the IDN Financials platform ([www.idnfinancials.com](http://www.idnfinancials.com)).

The data analysis method in this study involves identifying and examining the research variables using appropriate statistical techniques. The analysis is conducted using secondary data methods to assess the relationship between debt policy, profitability, and stock prices. Data collection in this study was conducted through a review of academic journals, scholarly articles, and official websites.

### Descriptive Analysis

Descriptive statistical analysis is used to provide an overview of the data by describing its main characteristics, including the mean, standard deviation, variance, maximum, minimum, sum, range, kurtosis, and skewness. However, this study focuses only on descriptive statistics such as the mean, minimum value, maximum value, and standard deviation to summarize the data distribution (Ghozali, 2018).

### Classical Assumption Tests

Normality was tested using the One-Sample Kolmogorov–Smirnov test, with data considered normally distributed when the Asymp. Sig. (2-

tailed) value exceeded 0.05 (Ghozali, 2018). Outliers were identified using standardized z-scores, where values greater than 2.5 were classified as outliers due to the relatively small sample size (Hair, 1998; Ghozali, 2018).

Multicollinearity was examined using tolerance and Variance Inflation Factor (VIF) values. Multicollinearity was considered absent when tolerance values exceeded 0.10 and VIF values were below 10 (Ghozali, 2018).

Heteroscedasticity was assessed using scatterplot analysis. The regression model was deemed free from heteroscedasticity when residuals were randomly distributed without a discernible pattern (Syandra, 2017).

Autocorrelation was tested using the Durbin–Watson statistic. The model was considered free from autocorrelation when the Durbin–Watson value fell between DU and 4 – DU (Ghozali, 2018).

### Regression Model

Multiple linear regression analysis was employed to examine the effect of debt policy and profitability on stock prices, using the following model:

$$Y = X_1 + X_2 + e$$

Where  $Y$  represents stock price,  $X_1$  denotes debt policy (Debt to Equity Ratio),  $X_2$  represents profitability (Return on Assets), and  $e$  is the error term.

### Hypothesis Testing

Partial effects were tested using the t-test, while the joint effect of independent variables was examined using the F-test at a 5% significance level. The explanatory power of the model was evaluated using the coefficient of determination ( $R^2$ ) (Ghozali, 2018).

### Data Analysis Tool

All statistical analyses were conducted using SPSS version 29.

## RESULTS AND DISCUSSION

### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Zscore: DER	29	-1.29299	1.81849	-0.0208113	1.01106721
Zscore: ROA	29	-0.96504	1.35787	-0.1206329	0.76390677
Zscore: HS	29	-0.99892	1.96618	0.0255722	1.00766834
Valid N (listwise)	29				

Table 1 Descriptive Statistics

Table 1 presents the descriptive statistics of Debt to Equity Ratio (DER), Return on Assets (ROA), and stock prices for the 2020–2022 period. The analysis is based on 29 observations. The mean value of DER is  $-0.0208$  with a standard deviation of 1.0111, indicating moderate variability in firms' debt policies. The average ROA is  $-0.1206$  with a standard deviation of 0.7639, suggesting relatively low profitability across the sampled firms. Meanwhile, the mean stock price is 0.0256 with a standard deviation of 1.0077, reflecting fluctuations in market valuation.

The minimum and maximum values further illustrate data dispersion. DER ranges from  $-1.2930$  to 1.8185, while ROA varies between  $-0.9650$  and 1.3579. Stock prices show a minimum value of  $-0.9989$  and a maximum of 1.9662. These results indicate substantial variation in financial performance and stock price movements among food and beverage companies during the observed period.

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		29
Normal Parameters <sup>a,b</sup>	Mean	0.0000000
	Std. Deviation	2.39031533
Most Extreme Differences	Absolute	0.139
	Positive	0.139
	Negative	-0.080
Test Statistic		0.139
Asymp. Sig. (2-tailed) <sup>c</sup>		0.160
Monte Carlo Sig. (2-tailed) <sup>d</sup>	Sig.	0.154
	99% Confidence Interval	Lower Bound 0.144 Upper Bound 0.163

Table 2. Uji normalitas

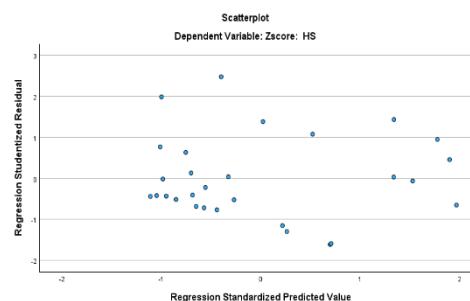
The results of the normality test using the One-Sample Kolmogorov-Smirnov test indicate an Asymp. Sig. (2-tailed) value of 0.160, which exceeds the 0.05 significance level. This result confirms that the residuals are normally distributed, satisfying the normality assumption.

### Coefficients<sup>a</sup>

Model	Collinearity Statistics Tolerance	VIF
1 Zscore: DER	0.720	1.388
Zscore: ROA	0.720	1.388

Table 3 Uji multikolinearitas

Multicollinearity was examined using tolerance and Variance Inflation Factor (VIF) values. Both DER and ROA show tolerance values of 0.720 and VIF values of 1.388. Since the tolerance values are greater than 0.10 and the VIF values are below 10, the model is free from multicollinearity, indicating no strong linear correlation between the independent variables.



Picture 4 Uji heteroskedastisitas

Heteroscedasticity was assessed using scatterplot analysis. The residuals are randomly dispersed above and below the zero line on the Y-axis without forming a specific pattern, indicating the absence of heteroscedasticity in the regression model.

### Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.146 <sup>a</sup>	0.021	0.054	0.43844	1.901

Table 5 uji autokorelasi

Autocorrelation was tested using the Durbin–Watson statistic. The Durbin–Watson value of 1.901 falls between the lower bound ( $DU = 1.5631$ ) and the upper bound ( $4 - DU = 2.4369$ ), indicating that the regression model does not suffer from autocorrelation.

Overall, the results of the classical assumption tests confirm that the regression model meets the required assumptions and is suitable for further regression analysis.

### Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
(Constant)	0.118	0.157		0.753	0.458
Zscore: DER	0.045	0.184	0.045	0.245	0.808
Zscore: ROA	0.762	0.243	0.578	3.133	0.004

### Multiple Linear Regression Results

The multiple linear regression analysis yields the following equation:

$$Y = 0.118 + 0.045 \text{ DER} + 0.764 \text{ ROA} + e$$

where  $Y$  represents stock price,  $DER$  denotes the Debt to Equity Ratio, and  $ROA$  refers to Return on Assets.

The constant value of 0.118 indicates that when  $DER$  and  $ROA$  are held constant at zero, stock prices increase by 0.118 units. The coefficient of  $DER$  is positive (0.045), suggesting that a one-unit increase in  $DER$  is associated with a 0.045 increase in stock prices, *ceteris paribus*. This finding implies that moderate use of debt may be perceived positively by investors, consistent with the trade-off theory, which argues that debt can enhance firm value up to an optimal level due to tax benefits.

The  $ROA$  coefficient is positive and relatively large (0.764), indicating that a one-unit increase in profitability leads to a 0.764 increase in stock prices, holding other variables constant. This result supports signaling theory, which posits that higher profitability serves as a positive signal to investors regarding firm performance and future prospects, thereby increasing stock demand and market valuation.

Overall, the regression results suggest that both debt policy and profitability have a positive relationship with stock prices, with profitability exhibiting a stronger influence. This indicates that investors in the food and beverage sector place greater emphasis on firms' ability to generate profits than on their capital structure decisions.

### Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
(Constant)	.118	.157		.753	.458
Zscore:	.045	.184	.045	.245	.808
DER					
Zscore:	.762	.243	.578	3.133	.004
ROA					

The partial t-test results reveal heterogeneous effects of debt policy and profitability on stock prices. The Debt to Equity Ratio (DER) exhibits a significance value of 0.808, which exceeds the 0.05 threshold, indicating that debt policy does not have a statistically significant effect on stock prices. Accordingly, the null hypothesis ( $H_0$ ) is accepted. This finding suggests that leverage levels are not a decisive factor in investor valuation of food and beverage firms. Similar results were reported by Latifah and Suryani (2020), who found no significant relationship between debt policy and stock prices. From a theoretical perspective, this outcome is consistent with the capital structure irrelevance view, which argues that financing decisions may have limited influence on firm value when debt is maintained at manageable levels and operational performance remains stable.

In contrast, Return on Assets (ROA) demonstrates a significance

value of 0.004, indicating a statistically significant effect on stock prices. Therefore, the alternative hypothesis ( $H_a$ ) is accepted. This result supports the notion that profitability plays a critical role in shaping investor perceptions.

Consistent with signaling theory, higher profitability serves as a positive signal regarding firm efficiency and future earnings potential, leading to increased investor demand and higher stock prices. This finding aligns with previous studies by Manurung (2014) and Sambora et al. (2014), which emphasize that financial performance is a key determinant of stock price movements. Moreover, similar evidence was documented by Alfianti and Andarini (2017), who reported a significant relationship between ROA and stock prices.

Overall, the results indicate that profitability is a more influential factor than debt policy in explaining stock price variations in the food and beverage sector, highlighting the importance of operational performance over capital structure decisions.

### ANOVA<sup>a</sup>

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	10.330	2	5.165	7.419	.003 <sup>b</sup>
	18.101	26	.696		
	28.431	28			

Table 8 Uji F Simultan

The results of the F-test indicate that the regression model is statistically significant. The F-statistic value is 7.419 with a significance level of 0.003, which is below the 0.05 threshold. This result

leads to the rejection of the null hypothesis ( $H_0$ ) and acceptance of the alternative hypothesis ( $H_a$ ), indicating that Debt to Equity Ratio (DER) and Return on Assets (ROA) jointly have a significant effect on stock prices.

This finding suggests that, although debt policy does not exhibit a significant effect when examined individually, the combination of capital structure and profitability provides a more comprehensive explanation of stock price variation. From a theoretical perspective, this result supports the view that investor valuation is influenced by an interaction between financial risk (represented by leverage) and operational performance (represented by profitability). Investors may evaluate firm value by simultaneously considering a firm's ability to generate profits and its financial obligations.

This result is consistent with prior studies that emphasize the joint role of financial structure and performance in determining stock prices (Manurung, 2014; Sambora et al., 2014). While some studies report mixed results regarding the individual impact of leverage, the significant F-test result indicates that debt policy remains relevant when assessed together with profitability, particularly in explaining overall market valuation.

Overall, the simultaneous test reinforces the robustness of the regression model and highlights that stock prices in the food and beverage sector are influenced by a combination of financial performance and financing

decisions rather than by a single financial indicator.

Although the Debt to Equity Ratio (DER) does not show a statistically significant effect on stock prices in the partial test, the F-test results indicate that DER and Return on Assets (ROA) jointly have a significant effect on stock prices. This finding suggests that debt policy may not independently influence investor valuation but becomes relevant when evaluated alongside firm profitability.

From a theoretical perspective, investors tend to assess capital structure decisions in conjunction with a firm's ability to generate profits. In this context, leverage is not viewed as a standalone signal but as part of a broader assessment of financial performance and risk. Firms with higher profitability may utilize debt more effectively, thereby mitigating perceived financial risk and enhancing firm value.

Statistically, this result indicates that while DER does not contribute significantly on an individual basis, it complements profitability in explaining stock price variation. Similar patterns have been observed in prior studies, which report that leverage variables often become significant when analyzed within a multivariate framework rather than in isolation. Therefore, the simultaneous significance of DER and ROA reinforces the importance of evaluating financial indicators collectively when analyzing stock price behavior.

<b>Model Summary<sup>b</sup></b>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.146 <sup>a</sup>	0.021	0.054	0.43844	1.901

Table 9 coefficient of determination (R<sup>2</sup>)

The results of the coefficient of determination analysis indicate that the Adjusted R<sup>2</sup> value is 0.054. This finding suggests that Debt to Equity Ratio (DER) and Return on Assets (ROA) jointly explain 5.4% of the variation in stock prices. The remaining 94.6% is influenced by other factors not included in the model, such as macroeconomic conditions, market sentiment, firm size, growth opportunities, liquidity, and external shocks.

Although the explanatory power of the model is relatively modest, this result is not uncommon in stock price studies, where market-based variables are often influenced by a wide range of financial and non-financial factors. The significant F-test result indicates that, despite the low Adjusted R<sup>2</sup>, the model remains statistically valid and provides meaningful insights into the relationship between financial performance, capital structure, and stock prices.

These findings suggest that DER and ROA contribute to stock price determination but should be interpreted as part of a broader set of determinants affecting investor behavior and market valuation.

## CONCLUSION

This study examines the effect of debt policy and profitability on stock prices of food and beverage companies listed on the Indonesia Stock Exchange. The empirical results indicate that profitability, as measured by Return on Assets (ROA), has a significant effect on stock prices,

highlighting the importance of firms' ability to generate profits in shaping investor valuation. In contrast, debt policy, proxied by the Debt to Equity Ratio (DER), does not have a significant effect when assessed individually, suggesting that leverage is not a primary consideration for investors in this sector.

However, the simultaneous test results demonstrate that debt policy and profitability jointly have a significant effect on stock prices, indicating that investor assessments are based on a combination of financial performance and capital structure rather than on a single financial indicator. These findings support the view that profitability plays a more dominant role than debt policy in explaining stock price movements, while leverage remains relevant when evaluated within a broader financial context.

Although the explanatory power of the model is relatively modest, this outcome is consistent with the nature of stock price behavior, which is influenced by various internal and external factors beyond firm-level financial ratios. Overall, the findings suggest that managers should prioritize improving operational efficiency and profitability to enhance firm value, while maintaining prudent debt management to support sustainable growth. Future research may incorporate additional financial and macroeconomic variables or extend the observation period to provide a more comprehensive understanding of stock price determinants.

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