The Impact of Liquidity, Solvency, and Profitability on Stock Prices in Indonesia's Property Sector

Ika Ninda Agustin [1], Joni Hendra [2*], Siti Masluha [3]
Fakultas Ekonomi dan Bisnis, Universitas Panca Marga [123]
Email : jonihendra@upm.ac.id [2*]

ABSTRACT

This study explores the influence of liquidity, solvency, and profitability on stock prices in property and real estate companies listed on the Indonesia Stock Exchange. Using a quantitative research approach with data from financial statements, the study investigates the relationships between key financial ratios and stock prices over a three-year period. The results indicate that liquidity, measured by the current ratio, negatively affects stock prices, suggesting that excess liquidity may be seen as inefficient by investors. Solvency, represented by the debt-to-equity ratio, has a positive impact on stock prices, reflecting the market's preference for companies with higher leverage for growth. Profitability, measured by return on assets, also positively influences stock prices, highlighting the importance of operational efficiency in attracting investors. This study contributes to the understanding of financial factors driving stock prices in the property sector, offering insights for investors and analysts in navigating this dynamic market. Future research could extend the analysis to include macroeconomic factors, providing a broader perspective on stock price determinants.

Keywords: liquidity, solvency, profitability, stock prices, property sector.

1. INTRODUCTION

The property and real estate sector in Indonesia has been a focal point of significant economic development and investment opportunities, particularly in the context of the Indonesia Stock Exchange (IDX). The market for property and real estate has been growing rapidly, fueled by the increasing demand for residential, commercial, and industrial spaces. The sector is perceived as a strategic area for investments due to its contribution to national economic growth and its potential for high returns. This industry is also becoming increasingly competitive as developers and real estate companies vie for investor attention. The surge in infrastructure projects, coupled with the rising population, limited land availability, and ever-increasing consumer demand, has further exacerbated the appeal of property investments. However, while the sector presents lucrative opportunities, it also carries substantial risks. Stock prices of property and real estate companies listed on the IDX are influenced by both internal and external factors, which require careful examination and understanding by investors and analysts alike.

Financial ratios—liquidity, solvency, and profitability—serve as key indicators for assessing the financial health of companies in this sector. These ratios are important tools for investors to gauge the ability of companies to meet short-term and long-term obligations, as well as to evaluate their operational efficiency. The influence of liquidity, solvency, and profitability on stock prices has been widely studied in various sectors, but limited research has been done on the property and real estate sector, especially during the post-pandemic period of 2021–2023. This study aims to fill

this gap by investigating how these financial indicators specifically affect the stock prices of property and real estate companies listed on the IDX during this period.

Literature Review and Previous Research. Liquidity, as measured by the current ratio, is an essential financial metric for understanding a company's ability to cover its short-term obligations. The current ratio is defined as the ratio of a company's current assets to its current liabilities. A higher current ratio generally suggests a company's better ability to manage its short-term liabilities (Kasmir, 2019). In the context of property and real estate companies, liquidity is crucial because it provides insights into the company's capacity to manage its operations smoothly amidst the cyclical nature of the industry. Previous studies have shown mixed results regarding the relationship between liquidity and stock prices. For instance, Filia et al. (2023) found a positive relationship, indicating that higher liquidity leads to higher stock prices. However, Aviantoro et al. (2021) suggested that higher liquidity does not necessarily enhance stock performance, especially if it indicates inefficient asset utilization. This inconsistency highlights the need for further exploration in the property and real estate sector, particularly in the context of the IDX.

Solvency, often measured by the debt-to-equity ratio (DER), reflects a company's long-term financial stability and its ability to meet long-term obligations. Companies with higher DER may be perceived as taking on more financial risk, but they may also be seen as capable of financing large-scale projects with external capital, which is essential in capital-intensive industries like property and real estate (Kasmir, 2019). Studies have highlighted varying effects of solvency on stock prices. Some research, such as that by Aviantoro et al. (2021), indicates that a higher DER is associated with better stock performance, as investors view it as a signal of strategic financial management. However, other studies suggest that excessive debt may deter investors due to perceived risk (Arifaturrohmah et al., 2022). The impact of DER on stock prices remains a topic of debate and warrants further investigation within the context of IDX-listed property firms.

Profitability, measured by the return on assets (ROA), is a key performance indicator that evaluates a company's ability to generate profits from its assets. In general, higher ROA is seen as a positive indicator of management efficiency and operational effectiveness. Previous research, such as the work of Arifaturrohmah et al. (2022), demonstrates a significant positive relationship between ROA and stock prices. However, some studies, like those by Aviantoro et al. (2021), argue that ROA does not always correlate with stock price movements, as external factors may overshadow the profitability metrics in some instances. The ongoing debate in existing literature underscores the need to revisit this relationship in the context of the property and real estate sector.

Gap Analysis and Novelty Statement. A notable gap exists in the current literature regarding the influence of liquidity, solvency, and profitability on stock prices within Indonesia's property and real estate sector, especially in the 2021–2023 post-pandemic period. Most of the previous studies have focused on broader sectors or have not utilized data from this specific time frame, which is particularly relevant due to the economic recovery and changes post-pandemic. Additionally, many studies have used different methodologies or focused on different sample sizes, making direct comparisons challenging. Therefore, this study introduces a novel contribution by specifically targeting property and real estate companies listed on the IDX during this critical period. This research employs a robust multiple regression analysis to examine the relationships between financial ratios and stock prices, providing clearer insights into the dynamics of this sector.

The novelty of this study lies in its focus on a specific, contemporary time period and sector, offering a unique perspective on how financial ratios influence stock prices in a highly competitive and rapidly evolving industry. By using up-to-date data and applying advanced statistical methods, this research aims to provide more accurate and relevant conclusions for investors, policymakers, and academics. The results will enhance understanding of the financial determinants of stock price

movements in property and real estate companies, thereby contributing valuable insights to the literature.

Research Objectives. The primary objective of this research is to analyze the effects of liquidity (current ratio), solvency (debt to equity ratio), and profitability (return on assets) on the stock prices of property and real estate companies listed on the Indonesia Stock Exchange (IDX) during the period 2021–2023. This study aims to provide valuable insights for investors and analysts by examining the key financial ratios that drive stock price fluctuations within this sector.

Hypothesis. This study hypothesizes that liquidity, solvency, and profitability have a significant impact on stock prices in property and real estate companies listed on the IDX. Specifically, it is expected that higher liquidity (current ratio) will negatively influence stock prices, higher solvency (debt to equity ratio) will positively affect stock prices, and higher profitability (return on assets) will lead to higher stock prices. The study will test these hypotheses using multiple regression analysis to determine the strength and direction of the relationships between the financial ratios and stock prices.

2.   METHOD

This study employs a quantitative research design with a causal associative approach, aimed at analyzing the relationships between liquidity, solvency, and profitability with stock prices in property and real estate companies listed on the Indonesia Stock Exchange (IDX) during the period 2021–2023 (Dhany et al., 2025; Hudzafidah, Rahmansyah, et al., 2023; Rahmansyah, Dhany, et al., 2024; Rahmansyah & Dhany, 2023). The population for this study consists of all property and real estate companies registered on the IDX within the specified period, totaling 93 companies (Sugiyono, 2020). A purposive sampling technique was employed to select 29 companies that met specific inclusion criteria, ensuring that the sample was relevant to the research objectives (Dhany & Rahmansyah, 2022; Hudzafidah, Dhany, et al., 2023; Rahmansyah, Hudzafidah, et al., 2024). Data for this study were collected from secondary sources, specifically the publicly available financial statements of the sampled companies, including their stock prices, current ratios, debt to equity ratios, and return on assets figures, which are all key indicators for liquidity, solvency, and profitability (Kasmir, 2019). The data collection process involved retrieving financial data from reputable sources, including IDX listings and company reports published on their official websites. For data analysis, this study uses multiple regression analysis to examine the relationship between the independent variables (current ratio, debt to equity ratio, and return on assets) and the dependent variable (stock prices). Multiple regression analysis was selected due to its ability to evaluate the influence of several independent variables on a single dependent variable while controlling for other variables (Rahmansyah et al., 2021, 2022). The analysis also involves classical assumption tests, such as multicollinearity, autocorrelation, and normality tests, to ensure the validity and reliability of the regression model (Ghozali, 2021). This comprehensive approach allows for a detailed understanding of how liquidity, solvency, and profitability affect stock prices in Indonesia's property and real estate sector, contributing to a more nuanced understanding of the market dynamics in this particular context.

3.   RESULTS AND DISCUSSION
RESULTS

Table 1. Multicollinearity Test Results

Variable	VIF Value	Provision	Description
Current Ratio (X1)	1.153	<10	No Multicollinearity

Variable	VIF Value	Provision	Description
Debt to Equity Ratio (X2)	1.336	<10	No Multicollinearity
Return on Assets (X3)	1.172	<10	No Multicollinearity

Table 1 displays the multicollinearity test results using Variance Inflation Factor (VIF) values for all independent variables. The current ratio recorded a VIF of 1.153, debt to equity ratio showed 1.336, and return on assets demonstrated 1.172, all substantially below the critical threshold of 10. These results confirm the absence of multicollinearity among the independent variables, indicating that each variable provides unique information and does not exhibit problematic correlation with others. This validates the appropriateness of using all three variables simultaneously in the multiple regression analysis.

Table 2. Autocorrelation Test Results

Durbin-Watson	Lower Critical (dU)	Upper Critical (4-dU)	Interpretation
1.892	17.232	22.768	No Autocorrelation

Table 2 presents the autocorrelation test results using the Durbin-Watson statistic. The calculated Durbin-Watson value of 1.892 falls between the lower critical value (dU = 1.7232) and upper critical value (4-dU = 2.2768), confirming the absence of autocorrelation in the regression model. This result indicates that the residuals are independent and do not exhibit systematic patterns over time, satisfying a key assumption for valid regression analysis. The absence of autocorrelation ensures that the standard errors of the regression coefficients are reliable for hypothesis testing.

Table 3. Normality Test Results

Variable	Asymp. Sig. (2-tailed)	Provision	Description
Unstandardized Residual	0.243	0.05	Normal

Table 3 shows the normality test results using the Kolmogorov-Smirnov test for the unstandardized residuals. The Asymp. Sig. (2-tailed) value of 0.243 exceeds the significance level of 0.05, indicating that the residuals follow a normal distribution. This finding confirms that the normality assumption for multiple regression analysis is satisfied, ensuring the validity of statistical inferences and hypothesis testing. The normal distribution of residuals supports the reliability of confidence intervals and significance tests for the regression coefficients.

Table 4. Multiple Regression Results

Variable	Unstandardized Coefficient B	Description
Constant	-292.039	
Current Ratio (X1)	-3.542	Negative Result
Debt to Equity Ratio (X2)	86.487	Positive Result
Return on Assets (X3)	86.071	Positive Result

Table 4 presents the multiple regression analysis results, generating the equation: Y = -292.039 - 3.542X1 + 86.487X2 + 86.071X3. The constant term of -292.039 represents the expected stock price when all independent variables equal zero. The current ratio coefficient of -3.542 indicates that each unit increase in current ratio leads to a 3.542 decrease in stock price, suggesting a negative relationship. Conversely, the debt to equity ratio coefficient of 86.487 and return on assets coefficient of 86.071 demonstrate positive relationships, where unit increases in these variables correspond to increases of 86.487 and 86.071 in stock price, respectively.

Table 5. Coefficient of Determination

R	R Square
0.887	0.788

Table 5 displays the coefficient of determination results with an R value of 0.887 and R Square of 0.788. The R Square value indicates that 78.8% of the variation in stock prices can be explained by the combined influence of current ratio, debt to equity ratio, and return on assets. This high explanatory power suggests that the selected financial ratios are strong predictors of stock price movements in property and real estate companies. The remaining 21.2% of variation is attributed to other factors not included in this model, such as market conditions, economic policies, or company-specific variables beyond the scope of this research.

Table 6. Hypothesis Testing Results

Variable	Sig.	Terms of Sig.	Description
Current Ratio (X1)	0.008	0.05	Significant
Debt to Equity Ratio (X2)	0.000	0.05	Significant
Return on Assets (X3)	0.003	0.05	Significant

Table 7 summarizes the hypothesis testing results for each independent variable's effect on stock price. The current ratio shows a significance value of 0.008, the debt to equity ratio demonstrates 0.000, and return on assets records 0.003, all below the critical threshold of 0.05. These results confirm that each financial ratio has a statistically significant influence on stock prices of property and real estate companies listed on the Indonesia Stock Exchange during 2021-2023. The significance of all three variables validates the research hypotheses and establishes the importance of liquidity, solvency, and profitability ratios in determining stock price movements in this sector.

DISCUSSION

The Effect of Liquidity on Stock Prices. The first hypothesis in this study posits that liquidity, as measured by the current ratio, has a significant impact on stock prices. The findings from the regression analysis indicate that the current ratio has a significant negative effect on stock prices of property and real estate companies listed on the Indonesia Stock Exchange (IDX), with a coefficient value of -3.542 (Table 4). This negative relationship suggests that higher liquidity, in this case, may not be perceived favorably by investors. A high current ratio indicates that a company holds a substantial amount of liquid assets, such as cash or receivables, which may suggest inefficiency in utilizing resources for growth and investment (Kasmir, 2019). In the property sector, excessive liquidity could imply that the company is not utilizing its available capital effectively, potentially missing opportunities for higher-return investments. This finding aligns with Alfiyati and Santoso (2021), who argue that a higher current ratio may reflect inefficient asset management, leading to a lack of investor confidence. In this regard, investors may view excess liquidity as a signal that the company is not adequately converting its assets into profitable ventures, which could dampen stock price performance.

Furthermore, while liquidity is essential for meeting short-term obligations and ensuring operational stability, an excessive accumulation of liquid assets could be seen as a missed opportunity for more strategic investments (Arifaturrohmah et al., 2022). In the property and real estate industry, companies that fail to invest efficiently or aggressively enough in development projects may fail to generate sufficient returns, leading to a negative perception from investors. This study's findings are consistent with those of Aviantoro et al. (2021), who found that liquidity does not always lead to higher stock prices, particularly in capital-intensive industries such as property. It is important to note that the relationship between liquidity and stock price may vary across industries and market conditions. For property companies, where growth is heavily tied to project investments, liquidity must be balanced with long-term investment strategies to avoid signals of inefficiency. Therefore, it is not simply the amount of liquidity that matters, but how it is managed and deployed to generate value that influences stock prices.

The Effect of Solvency on Stock Prices. The second hypothesis suggests that solvency, measured by the debt-to-equity ratio (DER), has a significant positive effect on stock prices. The results from this study indicate that the DER significantly influences stock prices, with a coefficient value of 86.487 (Table 4). This positive relationship suggests that investors view companies with higher leverage—reflected in higher DER—as more likely to achieve higher returns, particularly in a capital-intensive sector like property and real estate. Solvency, as captured by the DER, reveals a company's capacity to use debt to finance its operations and expansion projects, which is critical in industries such as property development (Kasmir, 2019). Higher levels of debt financing signal that the company is able to leverage external capital for growth, which, in turn, attracts investors looking for high-growth opportunities. This finding aligns with the research of Fitriana and Manaf (2019), who demonstrated that higher leverage is often perceived positively by investors as it indicates the company's ability to scale and undertake large projects, a key factor in property development.

However, the interpretation of solvency's effect on stock prices requires nuance, as excessive leverage can also introduce significant risks, particularly if the company struggles to service its debt (Arifaturrohmah et al., 2022). This study's positive result for DER suggests that, within the property sector, investors are more likely to favor companies that are effectively utilizing debt to fund their expansion, as long as the leverage is manageable and contributes to long-term growth. This is in line with Aviantoro et al. (2021), who found that strategic use of debt could improve stock prices, provided the company maintains its ability to meet debt obligations. In capital-heavy industries such as property, where upfront investments are crucial for future profitability, the ability to use debt as a tool for financing development projects enhances the perceived value of a company. This study, therefore, suggests that solvency, within reasonable limits, acts as a positive signal to investors about the company's capacity for growth and stability in the competitive property market.

The Effect of Profitability on Stock Prices. The third hypothesis in this study posits that profitability, as measured by the return on assets (ROA), has a significant positive effect on stock prices. The regression results show a significant positive relationship between ROA and stock prices, with a coefficient value of 86.071 (Table 4). This finding confirms that higher profitability, as measured by the ability of a company to generate returns from its assets, is associated with higher stock prices. The property and real estate sector, being capital-intensive, places significant importance on profitability as an indicator of how well a company is utilizing its resources to generate value. Companies that demonstrate high ROA are often viewed by investors as being efficient in managing their assets and generating returns, which in turn boosts investor confidence and drives stock prices higher (Kasmir, 2019). This result aligns with the findings of Arifaturrohmah et al. (2022), who observed a positive relationship between profitability and stock prices, highlighting that investors are more likely to invest in companies that efficiently manage their assets and generate sustainable profits.

Additionally, profitability ratios such as ROA are crucial for assessing the overall operational effectiveness of property and real estate companies. These companies are often judged by their ability to complete profitable projects that deliver returns to shareholders. Higher ROA indicates that a company is successfully converting its assets into profitable ventures, which is a key consideration for investors in the property sector. This finding is consistent with Fitriana and Manaf (2019), who noted that higher profitability is directly linked to higher stock prices, particularly in industries where long-term growth and development are central. However, some studies, such as those by Aviantoro et al. (2021), have pointed out that profitability may not always lead to higher stock prices if other external factors, such as market conditions or macroeconomic policies, overshadow the company's profitability metrics. Nonetheless, the findings of this study underscore

the importance of profitability as a key factor that investors rely on when evaluating property companies, further emphasizing its significance in driving stock price movements in the IDX-listed property sector.

4.   CONCLUSION

The results of this study confirm that liquidity, solvency, and profitability have significant effects on stock prices in property and real estate companies listed on the Indonesia Stock Exchange (IDX) during the period 2021–2023. Specifically, the current ratio negatively affects stock prices, indicating that higher liquidity may signal inefficiency in resource utilization. The debt-to-equity ratio, on the other hand, positively influences stock prices, as higher leverage is perceived favorably by investors seeking growth opportunities. Lastly, return on assets has a positive impact on stock prices, highlighting the importance of profitability in attracting investor interest. For future research, it is recommended to include macroeconomic factors, such as inflation and interest rates, to provide a more comprehensive analysis of stock price movements in the property sector.

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