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The Effect of Return on Assets, Return on Equity, Debt-to-Equity Ratio, Current Ratio, and Total Asset Turnover on Stock Returns

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ABSTRACT

Every company aims to enhance its market valuation, especially in a highly competitive and volatile market where financial performance is key to gaining investor confidence. This study aims to examine and analyze the effect of profitability (ROA, ROE), leverage (DER), liquidity (CR), and activity (TATO) on stock returns. The research focuses on companies listed in the LQ45 index during the period 2019–2023. LQ45 was selected because it represents companies with high liquidity, large market capitalization, and strong fundamentals.

The novelty of this study lies in its comprehensive analysis of five fundamental financial indicators over a five-year period across consistently high-performing companies, providing a more current and integrated perspective on their impact on stock returns. The issue addressed in this research is the year-to-year fluctuation in financial performance as seen in the financial reports of LQ45 companies, with some showing profit increases while others face declines.

This is a quantitative study using secondary data from the Indonesia Stock Exchange (www.idx.co.id). The sample consists of 45 companies selected through purposive sampling, resulting in 225 observations. Multiple linear regression analysis is used as the analytical method.

The results show that ROA has a positive but insignificant effect on stock returns; ROE has a negative and insignificant effect; DER has a negative and significant effect; CR has a negative and insignificant effect; and TATO has a negative and significant effect on stock returns. These findings indicate that leverage and activity ratios are key factors influencing stock performance. The study contributes to the existing literature by highlighting the importance of comprehensive financial performance evaluation. For investors, understanding these financial indicators is essential for making informed investment decisions, optimizing returns, and minimizing risks.

ARTICLE INFO

Keywords:
Stock Return, Return On Asset, Return On Equity, Debt Equity Ratio, Current Ratio, Total Asset Turnover

1. Introduction

Stock return refers to the rate of gain or reward received from the trading of shares. Investors can earn returns through capital gains, which occur when the selling price of a stock exceeds its purchase price, or through dividends, which represent the distribution of a company's profits to its shareholders (Habibah & Heruwanto, 2023). Understanding the percentage value of returns is essential, particularly when investing in specific stock indices. This aligns with Keynes' theory, which states, "low return, low risk; high return, high risk". The theory implies that higher expected returns come with greater risk exposure, and vice versa.

To manage risks and maximize returns, investors need to evaluate a company's financial performance. Financial statements serve as a primary tool in assessing a company's condition and future prospects. Commonly used financial indicators include: Return on Assets (ROA) and Return on Equity (ROE) as measures of profitability; Debt to Equity Ratio (DER) as a measure of leverage; Current Ratio (CR) as a measure of liquidity; and Total Asset Turnover (TATO) as a measure of activity. These variables can significantly influence investment decisions, as they reflect a firm's efficiency, financial health, and capital structure—factors that ultimately affect stock returns.

Therefore, it is crucial for investors to analyze a company's financial performance in order to generate returns that meet their expectations and to minimize potential risks in the future. One of the most commonly used tools for evaluating performance is the financial statement, which provides key insights into a company's condition and helps in making informed investment decisions. However, data shows that despite being composed of fundamentally strong companies, the LQ45 index has experienced significant return fluctuations. According to CNBC Indonesia and Kontan.co.id, the LQ45 index suffered a sharp decline in 2020 due to the COVID-19 pandemic, with revenue falling by up to 51% and net income dropping by as much as 93% year-on-year. Weak performance continued into 2021, with modest recovery observed in 2022 and 2023. Over the past five years, the LQ45 index showed notable volatility—reaching its peak in 2019 (1,014.47), declining in 2020–2021, and gradually rising again through 2023. These trends raise critical questions about the extent to which fundamental financial indicators influence stock returns, especially during unstable economic conditions.

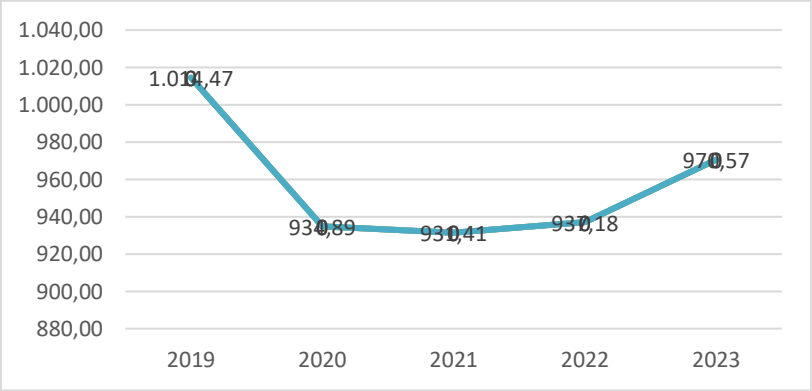

Figure 1. Stock Price Index Movement

According to signaling theory, financial information disclosed by companies serves as a signal for investors to assess the firm's future potential. However, empirical findings indicate that financial policy stability does not necessarily lead to increased shareholder welfare in the form of higher stock returns. Thus, it is crucial to examine whether signals from financial indicators such as ROA, ROE, DER, CR, and TATO have a meaningful impact on stock returns, particularly within LQ45 companies known for their high liquidity and large market capitalization.

Previous studies have examined these financial indicators individually in relation to stock returns. However, few have simultaneously analyzed the combined effect of all five variables in the context of LQ45 companies during a period of economic turbulence (2019–2023), including the impact of the pandemic. Moreover, many of these studies have not sufficiently explored the role of signaling theory in explaining how investors interpret financial information to form return expectations. This constitutes the research gap that the present study aims to address.

Therefore, this research seeks to examine and analyze the influence of ROA, ROE, DER, CR, and TATO on stock returns in companies listed in the LQ45 index during the 2019–2023 period. The study is expected to provide theoretical contributions by strengthening the application of signaling theory, and offer practical insights for investors in making more informed decisions based on company fundamentals.

2. Literature Review

Signalling Theory

According to Brigham and Houston (2018), posits that company decisions—particularly through financial disclosures—serve as signals to investors about management's expectations for the company's future. The financial report acts as a crucial medium for delivering either positive or negative signals (Nainggolan & Karunia, 2022). However, while the theory is widely acknowledged, prior studies have seldom tested how consistently these signals, especially from financial indicators like ROA, DER, or TATO, are interpreted and acted upon by the market. This is especially relevant in periods of economic uncertainty, where information asymmetry may increase.

Stock Return

Stock return representing the gain or loss realized from an investment, is commonly associated with the trade-off between risk and reward (Almira & Wiagustini, 2020). While returns may be realized or expected, their fluctuation often reflects a company's financial performance and market conditions (Brigham et al., 2001; Widyaningrum & Mahirun, 2022). However, there remains debate over which factors most strongly influence stock returns in emerging markets like Indonesia—macroeconomic conditions or firm-specific fundamentals—highlighting a lack of consensus in previous literature.

Profitability

Such as ROA and ROE, are traditionally viewed as strong predictors of stock return, signaling operational efficiency and financial strength (Alfian & Indah, 2022). Nevertheless, conflicting empirical results exist. Some studies find profitability significantly influences return, while others report insignificant effects, particularly during financial crises. This suggests that investors may weigh profitability differently depending on context, leaving room for further investigation.

Leverage

Measured through DER, indicates the proportion of assets financed by debt (Ramdiani & Iradianty, 2022). Theoretically, high leverage signals financial risk, potentially reducing investor confidence. However, findings on DER's effect on return are inconsistent—some studies report negative relationships, while others find neutral or even positive outcomes in certain industries. This inconsistency underscores the contextual nature of leverage, which has yet to be fully explored.

Liquidity

Often measured by the current ratio (CR), reflects a company's ability to meet short-term obligations (Savitri et al., 2024). A high CR is typically seen as a positive indicator. Yet, several studies have shown a negative relationship between liquidity and stock return, suggesting investors may

perceive excessive liquidity as inefficient capital use. This contradiction between theory and empirical results signals an unresolved issue in the literature.

Activity

Represented by TATO, evaluates how effectively a firm utilizes its assets to generate revenue (Pramastya & Agustin, 2023). Although high TATO suggests operational efficiency, prior research offers mixed evidence regarding its relationship with stock return. The indicator may not independently influence investor decisions unless supported by profitability or growth prospects—an interaction effect that is often overlooked.

Hypotheses for profitability on stock return

Profitability is the ability to generate profits from sales, total assets, and also own capital (firm profits). The better the profitability ratio of a firm, the better the profit the firm gets (Pioh et al., 2018). The profitability ratio is also used in providing a measure of the effectiveness of a firm's management, then the various results of the profitability ratio will be an evaluation of the firm in the future. The profitability ratio also has objectives and benefits for parties with an interest in the firm. ROA as an indicator of profitability can illustrate the higher the ROA value, the greater the level of profit achieved by the company and the better the company's position in terms of asset utilization (Balqis, 2021). The results of the study found that ROA has a positive effect on stock return (Fitroh & Fauziah, 2022), (Sutriani, 2014), (Almira & Wiagustini, 2020), (N. Sari et al., 2023).

The other indicator of profitability is ROE, can ilustrate the extent to which the company is able to manage and optimize existing equity or capital to obtain profit or profit (Kartika et al., 2022). The higher the ROE, the stronger the position of the company owner, and vice versa, the lower this ratio, the weaker the position of the company owner (Yoewono & Setiawan Tasrih, 2022). The results of the study found that ROE has a positive effect on stock return (Almira & Wiagustini, 2020), (Dawam et al., 2022), (Nurdin, 2018), (Wardani et al., 2019). Based on this desciption, the first and second hypothesis proposed is:

H1 : Return on asset ratio has a positive effect on stock return.

H2 : Return on equity has a positive effect on stock return.

Hypotheses for leverage on stock return

The debt to equity ratio (DER) measures a company's ability to meet its financial obligations in the event of liquidation. According to Brigham and Gapenski (1997) in Erari (2021), companies should aim for an optimal capital structure where the marginal cost and benefit of debt are balanced, because this is when the company's value is maximized. If the DER is high, it means the company is using more debt, which increases the risk for shareholders and may reduce expected returns, potentially lowering stock returns. The results of the study found that DER has a negative effect on stock return (Suandi et al., 2023), (Hartanti et al., 2019), (Larasati & Suhono, 2020), (Purnomo & Soekotjo, 2019). Based on this description, the third hypothesis proposed is:

H3 : Debt equity ratio has a negative effect on stock return

Hypotheses for liquidity on stock return

The Current Ratio (CR) is used to measure a company's liquidity level. It shows how well a company can meet its short-term obligations using its current assets (Erari, 2021). A higher current ratio means the company is more capable of paying its short-term debts, which reflects strong liquidity and gives confidence to investors, especially during market fluctuations. On the other hand, a low current ratio signals that the company may struggle to meet its short-term obligations, which can reduce investor interest and lead to a drop in the company's stock price. The results of the study found that CR has a

positive on stock return (A. Sari et al., 2023), (K. Chandra, 2019), (Nauli Sinaga et al., 2023). Based on this description, the fouth hypothesis proposed is:

H4 : Current ratio has a positive on stock return

Hypotheses for activity on stock return

Total Asset Turnover is a ratio used to measure how efficiently a company uses all of its assets to generate sales (Kasmir, 2010) . The higher the efficiency in using assets for sales, the greater the profit the company can earn—assuming there are no losses. This has a positive impact on the company's financial performance. When a company earns higher profits, it attracts more investor interest, increasing demand for its shares and positively affecting stock returns. The results of the study found that TATO has a positive on stock return (Sirotjudin & Meliza, 2023), (Naibaho et al., 2023), (Saragih & Tan, 2022). Based on this description, the fifth hypothesis proposed is:

H5 : Total asset turnover has a positive on stock return.

3. Method, Data, and Analysis

This study utilizes a quantitative approach by employing secondary data obtained from the official financial reports of companies listed in the LQ45 index for the period 2019 to 2023, sourced from the Indonesia Stock Exchange (IDX). The dataset is in the form of panel data, which is a combination of cross-sectional data (covering 45 companies) and time series data (over 5 years). According to Gujarati (2003), this type of data requires analytical methods that integrate both cross-sectional and time-series techniques.

To address the research objectives and test the hypotheses, the study uses multiple linear regression analysis. This method is selected because it allows the simultaneous estimation of the effect of multiple independent variables on a single dependent variable—in this case, stock return.

The population in this study consists of 45 companies listed in the LQ45 index over a five-year period, resulting in a total of 225 firm-year observations (45 companies × 5 years). The sampling technique used is purposive sampling, where companies are selected based on specific criteria such as the availability of complete financial reports for the entire period, consistent listing in the LQ45 index from 2019 to 2023, and no missing data for the required variables. After applying these criteria, all 225 data points were deemed eligible and used as the final sample.

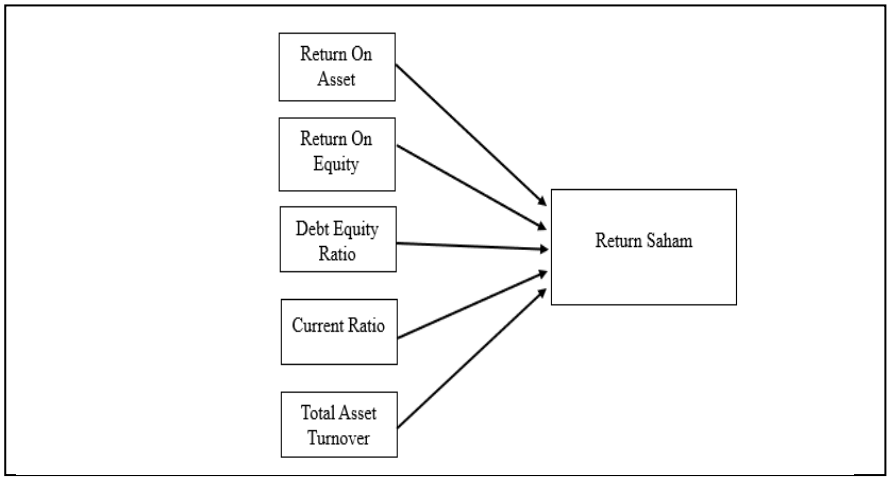

Figure. 2. Empirical Model Research

Both structures formed in figure 1 are structure states the causal relationship of variables DER, ROE, PER, PBV, EPS, DPR with Stock Return variable. In other words, based on both structures, there are structural equations formed:

$$\text{Stock Return} = \beta_1 ROA + \beta_2 ROE + \beta_3 DER + \beta_4 CR + \beta_5 TATO + \varepsilon 1$$

where:

ROA return on asset
ROE return on equity
DER debt equity ratio
CR current ratio
TATO total asset turnover

4. Result and Discussion

Descriptive Statistics

On average, the stock return data in Indonesia reaches 21% x with the highest stock return value is 137% and the lowest is 0.95% While for DER, the average 1.78x with the highest DER is 16.08x and the lowest is 0.02x (Table 1).

Table 1. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
Return on asset	-167,33	45,43	6,3769	14,17404
Return on equity	-253,41	145,09	14,6273	28,03497
Debt equity ratio	0.02	16,08	1,7807	2,40956
Current ratio	0.04	28,13	2,2029	2,79138
Total asset turnover	-0,22	3,82	0,5417	0,58407
Stock return	-0,95	1,37	0,0021	0,34434

Source: Data processed from the results of SPSS

Classical Assumption Test Results

The classical assumption test as a regression requirement (Table 2) results in a normality test of normally distributed data, there is no autocorrelation in the autocorrelation test results, there are no symptoms of multicollinearity of all variables in the multicollinearity test, and all variables do not experience heteroscedasticity disorders in the heteroscedasticity test. The author needs to report the results in sufficient detail so that the reader can see which statistical analysis was conducted and why, and later to justify their conclusions.

Table 2. Classical Assumption Test Results.

Classical Assumption Test	Result			Conclusion
Normality Test	Kolmogorov-Smirnov Z		0,774	0,588 > 0,05 (Data is normally distributed)
	Asymp. Sig. (2-tailed)		0.588	
Autocorrelation test	Run Test (Durbin-Watson)		1.965	dl : 1,7423 du : 1,8163 dw = 1,965 4 – dw > du (no autocorrelation)
Multicollinearity Test		Tolerance	VIF	VIF value < 10 and Tolerance value > 0,01 (there is no multicollinearity problem)
	Return On Asset	0,212	4,714	
	Return on Equity	0.201	4.964	

	Debt Equity Ratio	0.749	1.335	
	Current Ratio	0.896	1.116	
	Total Asset Turnover	0.794	1.259	
Heteroscedasticity Test	Rank Spearman	t	Sig.	Sig > 0,05 (all variables do not experience heteroscedasticity disorder)
	Return on asset	0.581	0.563	Sig > 0,05 (all variables do not experience heteroscedasticity disorder)
	Return on Equity	-0.294	0.769	
	Debt Equity Ratio	-1.517	0.133	
	Current Ratio	-0.310	0.757	
	Total Asset Turnover	-1.963	0.094	

Source: Data processed from the results of SPSS

Pearson correlation matrix

Table 3 shows the Pearson correlation matrix among the variables, obtain the results of all variables are not correlated. The highest correlation coefficient is 85.10% between EPS and ROE and shows a positive correlation. while the lowest correlation is minus 14.60% between DPR and PER which indicates a negative correlation.

Table 3. Pearson correlation matrix.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.055	.048		1.152	.250
	Return On Asset	.004	.004	.172	1.188	.236
	Return On Equity	-.002	.002	-.136	-.914	.362
	Debt Equity Ratio	-.009	.004	-.151	-2.085	.038
	Current Ratio	-.007	.009	-.059	-.836	.404
	Total Asset Turnover	-.087	.018	-.342	-4.876	.000

Source: Data processed from the results of SPSS

Regression Analysis Test Result

The fit model test found that all data in the study can be used to predict the dependent variable, because the significance level is below 0.05 (Table 4).

Table 4. Model Fit Test Results.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.634	5	0.127	6.367	0.000b
	Residual	4.358	219	0.020		
	Total	4.992	224			

Source: Data processed from the results of SPSS

The test results of the influence of each variable on the stock return variable using the regression test are shown in Table 5.

Table 5. Regression Analysis Test Result.

	Unstandardized Coefficients	Standardized Coefficients

Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.055	.048		1.152	.250
	Return On Asset	.004	.004	.172	1.188	.236
	Return on Equity	-.002	.002	-.136	-.914	.362
	Debt Equity Ratio	-.009	.004	-.151	-2.085	.038
	Current Ratio	-.007	.009	-.059	-.836	.404
	Total Asset Turnover	-.087	.018	-.342	-4.876	.000

Source: Data processed from the results of SPSS

The equation obtained from table 5 with the dependent variables stock return (SR) is:

Stock Return = 0.004(ROA) – 0.002 (ROE) - 0.009(DER) - 0.059(CR) - 0.342(TATO) (2)

Sig = 0.236(ROA) 0.362(ROE) 0.038(DER) 0.404(CR) 0.000(TATO) (3)

Testing the effect of return on asset on stock return

The results of this study indicate that ROA has a positive but insignificant effect on stock returns. Although ROA reflects a company's ability to generate profit from its total assets, this finding suggests that high profitability alone may not be sufficient to influence investor decisions. This is in line with signaling theory, which asserts that financial signals must be perceived as strong, credible, and relevant to the market. If the improvement in ROA is not accompanied by clear strategic moves or market validation, investors may not consider it a compelling signal for future stock performance (Brigham & Houston, 2018).

This result supports previous findings by Mangantar et al. (2020) and Ningsih & Maharani (2022), who also observed insignificant effects of ROA on stock returns. On the contrary, studies by Widyaningrum & Mahirun (2022) and Almira & Wiagustini (2020) found a significant positive influence, suggesting that market timing, investor sentiment, or industry-specific dynamics may moderate this relationship. Thus, future research should explore moderating variables such as firm size or investor perception to explain these mixed outcomes.

Testing the effect of return on equity on stock return

This study found that ROE has a negative and insignificant effect on stock returns. Theoretically, ROE measures the efficiency of equity capital in generating profit and should positively influence investor confidence. However, a high ROE does not always signal strong future performance, especially if it is driven by short-term strategies or high financial leverage, which increases financial risk.

These findings support research by Mangantar et al. (2020) and Samalam et al. (2018), which also reported a negative and insignificant influence of ROE. This challenges the traditional assumption that higher ROE directly attracts investors and highlights the importance of evaluating the source and sustainability of equity returns. Meanwhile, this contradicts studies by Gultom & Lubis (2021) and Dawam et al. (2022), which found ROE to be a strong positive predictor of stock returns. The inconsistency suggests that ROE may lose explanatory power when capital structure or risk management is not optimal, further reinforcing the need to assess underlying drivers behind profitability ratios.

Testing the effect of debt equity ratio on stock return

Our results indicate a significant negative effect of DER on stock returns. This finding is consistent with signaling theory, which posits that excessive debt signals financial risk, reducing investor confidence. High leverage increases the company's obligation to pay interest, potentially squeezing profits and decreasing dividend capacity, which directly impacts shareholder returns.

This aligns with previous studies by Suandi et al. (2023), Abdurrohaman et al. (2021), and Larasati & Suhono (2020), which found that companies with higher DER tend to experience lower stock returns. These studies emphasize that an unbalanced capital structure may hinder firm valuation in the eyes of investors. However, it contrasts with Trisnowati et al. (2022) and Listyarini et al. (2021) who observed a positive relationship, likely due to efficient debt utilization in expansion during certain periods.

Our findings reinforce the importance of prudent debt management, especially during volatile economic conditions, as excessive leverage appears to be penalized by the market.

Testing the effect of current ratio on stock return

The study found that CR has a negative but insignificant effect on stock returns, which is surprising and contrary to classical financial logic. Generally, a high CR is associated with better short-term solvency and should be perceived positively. However, investors may interpret excessive liquidity as inefficient use of assets, suggesting that the company may be holding idle resources rather than investing in productive ventures.

This is in line with studies by Andyani & Mustanda (2018) and Thrisye & Simu (2013), which also found a negative influence of CR. These studies argue that liquidity must be balanced, and over-liquidity could reflect over-conservatism or weak strategic planning. Conversely, Yanita Sanjaya & Maulida (2022) reported a positive and significant impact, highlighting the dual interpretation of liquidity in different industrial or economic contexts.

Thus, our study suggests that investors might not necessarily value liquidity unless it is coupled with growth opportunities or efficiency in asset allocation. This opens further room for investigation on the optimal liquidity threshold that maximizes shareholder value.

Testing the effect of total asset turnover on stock return

This study finds that TATO has a significant negative effect on stock returns. Although TATO is intended to measure operational efficiency, a high turnover does not always translate to profitability. In many cases, companies may increase asset turnover by lowering prices or cutting margins, which in turn reduces net income and stockholder value.

According to signaling theory, high activity without accompanying profit growth may signal operational strain or mismanagement. This result is supported by Abrar et al. (2019), who concluded that high asset turnover might indicate increased sales but not necessarily higher profit if cost control is weak. On the other hand, Saragih & Tan (2022) observed a significant positive influence, suggesting that industry type, operating model, and scale efficiency may shape how TATO is interpreted by investors.

Therefore, our finding highlights the importance of contextualizing efficiency metrics—asset utilization must be coupled with profitability to positively influence stock return.

This study aims to test and analyze the effect of return on asset, return on equity, debt equity ratio, current ratio and total asset turnover on stock returns. The objects in this study are companies incorporated in LQ45 for the period 2019 - 2023. The results of the study found that the leverage with indicators debt to equity ratio has a significant negative effect on stock return. The funding policy through debt must really be a concern by company management, because it has a real impact on reducing stock returns. The decline in stock returns must be anticipated because it will not only have

an impact on investor interest in investing in the company, but can also cause the company to experience financial difficulties due to debt. From the investor's point of view, the investment in the company must consider the level of capital structure owned. This is done to be able to minimize the risks that may arise, so as to increase the profit from the shares purchased.

Profitability with indicators return on asset have a positive and insignificant effect on stock return and return on equity have a negative significant on stock return. This explains the importance of companies having the ability to generate profits from various investments made and also looking for investment opportunities that generate positive net present value to increase shareholder prosperity. While the findings of liquidity with current ratio indicators, profitability from the investor's point of view represented by total asset turnover indicators, and dividend policy with dividend payout ratio indicators have negative and nsignificant on stock returns, this is interesting because it means that investments made by shareholders do not solely expect rewards in the form of returns, but there are other arguments that can be further examined for future research.

Our research only focuses on micro factors that exist in companies, so that further research can involve macro factors of companies that can be suspected of influencing stock returns such as inflation, interest rates, foreign exchange rates and economic conditions of the firm. On the other hand, the impact of the COVID-19 pandemic that occurred in the world and also Indonesia, can be considered
for a separate study to calculate the company's stock return, because it is signaled to have a real impact on the research results.

5. Conclusion and Suggestion

This study provides new empirical evidence that not all financial performance indicators equally influence stock returns, especially during periods of economic instability. The findings demonstrate that Debt-to-Equity Ratio (DER) and Total Asset Turnover (TATO) have a significant negative impact on stock returns, indicating that investors place greater emphasis on financial risk and operational efficiency when making investment decisions. Conversely, Return on Assets (ROA), Return on Equity (ROE), and Current Ratio (CR), though commonly regarded as strong indicators of firm performance, were found to have insignificant effects, suggesting they may be less persuasive signals during turbulent times.

What sets this study apart from existing literature is its contextual focus on LQ45 companies during the volatile period of 2019–2023, which encompasses the COVID-19 pandemic. Most prior studies have analyzed financial indicators in more stable economic periods or across broader and less selective stock indices. By focusing on LQ45—an index comprising Indonesia's most liquid and fundamentally strong companies—this research captures investor behavior in a high-quality corporate environment under market stress, offering a unique lens to observe how traditional indicators perform in times of crisis.

Additionally, this study contributes to the theoretical discourse by applying signaling theory to explain the divergence between internal financial metrics and investor responses. The results suggest that not all financial signals are interpreted equally, and that in uncertain market conditions, investors prioritize signals related to risk and operational execution rather than profitability or liquidity alone.

From a practical perspective, the findings offer valuable insights for corporate decision-makers to focus on optimizing capital structure and improving asset efficiency as strategies to maintain or enhance shareholder value during economic downturns. Likewise, investors can benefit by refining their portfolio strategies, placing greater weight on leverage and activity ratios when assessing stock potential in volatile markets.

In conclusion, by combining a focused sample (LQ45), a volatile timeframe (pandemic era), and a signaling theory framework, this study introduces a novel and timely contribution to the field of stock return analysis and provides a foundation for future research that incorporates macroeconomic variables and cross-country comparisons.

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