

## **THE EFFECT OF LIQUIDITY RATIO, PROFITABILITY AND SOLVENCY ON STOCK PRICE IN CONSTRUCTION AND BUILDING COMPANIES LISTED ON INDONESIA STOCK EXCHANGE PERIOD 2014-2018**

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### **ABSTRACT**

*The development of infrastructure will certainly have a positive impact on shareholders, it is reflected by government support by raising funds for infrastructure development. These opportunities will certainly affect the price of shares in the property sector including financial performance. Financial performance can be seen from several financial ratios: liquidityratio, profitability, and solvency. Sample in this study as many as 8 companies for 5 years so that in 40 samples. The results of this study simultaneously all variables in this study were affected by the stock price. Partial liquidity variables (CR) do not affect the stock price, profitability (ROA) and (ROE) do not affect the stock price, solvability (EPS) affects the stock price, while DER does not affect the stock price.*

*Keywords: liquidity, profitability, solvency, the stock price*

### **1. INTRODUCTION**

The development of the stock sector property is currently growing rapidly this is certainly not separated from the support of the Government is concentrating on infrastructure development in Indonesia. The study was followed by an increase in funds given by the Government on infrastructure development. The development will certainly affect the price of the stock. In investing, investors will certainly also see the company's financial performance reflected in the company's financial statements by carrying out financial indicators such as liquidity ratios, profitability, and solvency. The capital market is a platform for investors to invest funds in hopes of profiting from the buying and selling of stocks. The activity of an *investor should consider* some considerations by analyzing the history of the stock price movement and estimate the price of the stock will occur. Stock prices are an important factor in determining the returns and risks that will occur. *The ups and downs of stocks depend on consideration and bidding, the demand for stocks is influenced by the information that investors have, one*

of them is the financial statement. Financial statements contain some analyzed information that reflects the position of the company's state. Some of the ratios that are used in use are liquidity ratios, profitability, and solvency. The purpose of this research is: (1) to prove that there is a link between liquidity to the stock price. (2) Proving that there is profitability related to the stock price. (3) Proving that there is a solvency relationship to the stock price.

### **2. LITERATURE REVIEW**

#### **Signal Theory**

The signal theory explains that financial statements are a signal for investors as the basis of investment decision making. The lack of information by the investor makes the stock price go down, this is because investors tend to protect themselves from investment mistakes. Asymmetrical information is because investors only know the financial performance through financial statements presented not from the actual state of the company.

#### **Stock Price**

The stock price is the price that is

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determined by the supply and demand for the same circulating in the capital market. The value of shares is reflected in the stock price traded, this is because the higher the demand for stocks will increase the stock price of Dalimunthe, (2015) [1]. Several factors affect the stock price according to Satria and Adnan (2018). These factors are fluctuations in the level of income and dividend and income level of investment.

### Liquidity

Liquidity is an indicator that measures the company's ability to fulfill its short-term obligations. With increasing liquidity ratio will reflect the higher the ability of the company to better. The high Current ratio will help investors to buy stocks, if it offers the best demand, then the stock price will increase. This research uses the current ratio to measure the company's liquidity, the

$$\frac{\text{Current Assets}}{\text{Current Debt}} \times 100\%$$

current formula ratio as follows:

### Profitability

Profitability is an indicator that measures the company's ability to generate profit. The company's main objective is to obtain the maximum profit to meet the welfare of the owner and employees. The profitability ratio is a measure showing the effectiveness of the company's management reflected in the proceeds of the sale of Kashmir, (2008:196) [6]. The ratios in the profitability ratio are Return on asset (ROA), Return on equity (ROE), Earning per share (EPS), Net profit Margin (NPM), Return on Investment (ROI). The study used the Return on Asset (ROA) ratio to measure the effectiveness of the company generating profit from the company's assets. The rise of ROA will attract investors to buy stocks because the company can make a profit to minimize the risk and increase

$$\frac{\text{Net Profit}}{\text{Assets}} \times 100\%$$

the profit of the company if the demand is high then the stock price will come up. Formula to calculate ROA:

Return on Equity (ROE) to measure the company's progress in managing existing capital. ROE reflects the company's capital management to generate profit. Good management becomes a good indicator for investors so that it will raise the interest of investors to invest their shares, with the increase of interest will certainly increase the demand and the inclusion of the stock so that the price of stocks will increase.

$$\frac{\text{Net Profit}}{\text{Equity}} \times 100\%$$

Formula to calculate ROE:

Earning per share (EPS) is the ratio to know a substantial profit per share sheet. The higher the EPS value then the more profitable the trainees will influence the decision that will be taken by the investor. High EPS values make bidding on stocks as well as rising to raise the stock price. Formula to calculate EPS:

### Solvency

$$\frac{\text{Net Profit}}{\text{Number of shares outstanding}} \times 100\%$$

Solvency is an indicator that measures the ability of the company to pay its long-term obligations. Companies with high solvable levels will reduce the interest of investors to invest their shares due to the high risk of bankruptcy. Some ratios can be used to measure the solvency level of Debt to equity ratio (DER). According to Wild and Subramanyam, (2010:42-47) [14] DER ratios compare all company debts to total company assets. The formula of Debt to equity ratio is:

$$\frac{\text{Total debt}}{\text{Equity}} \times 100\%$$

**3. DATA AND RESEARCH  
 TECHNIQUE ANALYSYS**

The data source on this research is from financial statement through the site www.idx.co.id and population on this research is the construction and building companies listed on Indonesia Stock Exchange period 2014 – 2018. The technique of sampling is done through the method of purposive sampled so that it can be 40. The data analysis techniques used in this study are as follows:

Descriptive Statistic can be used to discredit variables in this study.

A double linier regression analysis is a technique through a parameter coefficient to know the magnitude of the influence of variables independent of the dependent variables.

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**4. RESULT AND DISCUSSION**

1) Descriptive Statistic

Descriptive statistics aim to be Test Normality. The normality test is performed to determine whether in a free variable model has a normal distribution or detects a normal distribution.

- 2) Autocorrelation Test  
 Autocorrelation is a correlation that occurs among members of a series of observations that are arranged in a series of times.
- 3) Multicoloniarity Test  
 The multicoloniarity test aims to test whether a regression model is found whether a regression model is found in correlation between independent variables.
- 4) Heteroskedastisity Test  
 The heteroskedastisity test aims to test if a regression model occurs a variance inequality from the residual of another observation.
- 5) Test Hypotesis  
 Tests carried out include: F Test, T test, coefficient of determination test able to synchronize the kakteristics which include the average value, minimum value, maximum and standard deviation.

Tabel 1: Statistic Descriptive

Variabel	N	Minimum	Maksimum	Mean	Std Devetiation
CR	40	100.23	207.09	145.9870	25.6155
ROA	40	.24	15.06	4.7475	3
ROE	40	1.50	27.96	13.6283	3.10113
EPS	40	8.10	291.95	125.5828	6.58414
DER	40	68.85	526.35	222.5757	76.82838
Harga Saham	40	330	3875	1793.88	1111.335

Source: Data processed by authors

According to table 1 above, it can be concluded that the CR variable data has a minimum value of 100.23, maximum value 207.09, mean value 145.9870 and STD. Deviation 25.61553. ROA has a minimum value of 0.24, the maximum value of 15.06, mean value 4.7475 and STD. Deviation of 3.10113. ROE has a minimum value of 1.50, the maximum value of 27.96, mean value 13.6283 and STD. Deviation of 6.58414.

EPS has a minimum value of 8.10, the maximum value of 291.95, a mean value 125.5828 and STD. Deviation 76.82838. DER has a minimum value of 68.85, the maximum value of 526.35, mean value 222.5757 and STD. Deviation 119.69320. The stock price has a minimum value of 330, the maximum value of 3875, a mean value of 1793.88 and STD. Deviation 1,111,335.

**Test result double linear regression analysis**

Table 2: test result double linear regression analysis

	B	Std. Error
(Constant)	2156,791	1564,903
CR	-6,046	8,712
ROA	-134,885	144,181
ROE	21,29	60,159
EPS	5,991	2,018
DER	0,529	2,174

Source: Data processed by authors

Based on the results of multiple linear regression analysis in Table 2 above, it can be concluded that the following regression equations are

obtained:  $Y = 2156,7 - 6,046CR - 134,885ROA + 21,29ROE + 5,991EPS + 0,529DER + e$

**Classic assumption test result**

**Test Normality**

Test results normality aimed at the table below:

Table 3: One Sample Kolmogrov-Smirnov test

Variabel	Sig.	Std	Keterangan
Unstandardized Residual	0,248	0,05	Data Berdistribusi Normal

Source: Data processed by authors

Based on the table. 3 above shows that the significant value of Kolmogrov-Smirnov is obtained from 0.248. The

value of Asym. Sig is far above 0.05 or 5%. This indicates that the data is normal distribution.

**Multicollinearity Test**

Multicollinearity test results can

be shown in the table below:

Table 4: Multicollinearity Test

Variabel	Tolerance	Std	VIF	Std	Keterangan
CR	0,442	>0,10	2,177	<10	No multic earity olin
ROA	0,11	>0,10	2,047	<10	No multic earity olin
ROE	0,14	>0,10	1,248	<10	No multic earity olin
EPS	0,916	>0,10	1,091	<10	No multic earity olin
DER	0,325	>0,10	3,075	<10	No multic earity olin

Source: Data processed by authors

Based on table 4 above, the value tolerance all variables are above 0.1 and the VIF value is Test less than 10, so it

can be inferred there is no multicholinerarity between variables.

**Heterokedastisitas**

The results of Heterokedastisitas test can

be shown the table in this bellow:

Table 5: Heterokedastisitas Test

Variabel	Sig.	Std	Keterangan
CR	0,951	>0,05	No Heterokedasity
ROA	0,178	>0,05	No Heterokedasity
ROE	0,134	>0,05	No Heterokedasity
EPS	0,113	>0,05	No Heterokedasity
DER	0,402	>0,05	No Heterokedasity

Source: Data processed by authors

Based on table 5 above it can be concluded that a statistically significant CR, ROA, ROE, EPS, and DER variables affect the dependent

variable/stock price. It can be seen from its significant probability above 0.05. So inconclusive regression model does not occur heterooskedastisity symptoms.

**Autocorrelation Test**

The autocorrelation test results can

be seen in the table below:

Table 6: Autocorrelation Test

Variabel	Sig.	Std	Keterangan
Unstandardized Residual	0,423	0,05	No Autocorrelation

Source: Data processed by authors

Based on the results of the autocorrelation test in table 6 above done with the run test, it can be concluded that the value of ASYMP. GIS of the output obtained 0,423 is greater than 0.05 which

means in a regression equation does not occur autocorrelation. Thus the data is worth to be researched and carried out the next test.

**Results of feasibility Test Model regression**

The results of due diligence model regression can be seen in the following table:

Table 7: Result of feasibility Test Model regression

Fhitung	Sig.	F tabel	Kesimpulan
4,417	0,003	2,65	Diterima

Source: Data processed by authors

Based on the table obtained that the value F count 4.417 with a significant rate of 0.03. Based on significance values can be seen that the value significance is < 0.05 (0.03 < 0.05). Can be concluded

that the linear equations of double regression in the study deserve to be researched and carried out subsequent testing.

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### Hasil Uji Hipotesis

The hypothesis test results can be seen

in the following table:

Table 7: Result of Hypothesis Test

Variabel	thitung	ttabel	Sig.	Keterangan
CR	-0,694	2,032	.492	H1 Rejected
ROA	-0,936	2,032	.356	H2 Rejected
ROE	0,354	2,032	.726	H3 Rejected
EPS	2,969	2,032	.005	H4 Accepted
DER	0,243	2.032	.809	H5 Rejected

Source: Data processed by authors

The results of this study indicate:

- 1) Liquidity rejected due to T-count value-0.694 less than T-table 2.032 and sig 0.492 value greater than 0.05 so hypothesized rejected
- 2) Profitability (ROA) rejected due to T-count value-0.936 less than T-table 2.032 and sig 0.356 value greater than 0.05 so hypothesized rejected
- 3) Profitability (ROE) is rejected due to the T-count value of 0.354 less than T-table

2.032 and SIG 0.726 value Coefficient test Result determination greater than 0.05 so that the hypothesis is rejected

- 4) Profitability (EPS) received due to T-count value of 2.969 less than T-table 2.032 and sig 0.005 value smaller than 0.05 so hypothesized accepted
- 5) Solvency (DER) is rejected due to the T-count value of 0.243 less than T-table 2.032 and sig 0.809 value greater than 0.05 so that the hypothesis is rejected.

The coefficient of determination test

results can be seen in the table below:

Table 8: Coefficient test Result determination

Model	Adjusted R Square	Keterangan
CR, ROA, ROE, EPS dan DER	0,305	Independent variables can affect dependent variables

Source: Data processed by authors

Based on the coefficient of determination in table 10, it can be concluded that the linear equation in this study was 0.305. This means that the research 30.5% of stock prices are influenced by the Current ratio, Return on Asset, Return on equity, Earning per share and Debt to equity ratio. As of 69.5% of the stock price is influenced by other variables not incorporated into the study.

## 5. CONCLUSION

This research aims to know the company's liquidity measured with the current ratio, the company's profitability

measured by return on asset, return on equity and earning per share, as well as the company's solvency measured by debt to equity ratio to the stock price of the construction company and registered building on IDX period 2014 – 2018. There are 16 construction companies and buildings listed on the IDX. Of the 16 companies listed in IDX only 8 companies are used as samples and meet the requirements of research. After the classical assumption test is known that data is normal distribution, data does not occur Autokolerasi, data does not occur multicollinearity and does not occur heteroskedasticity.

Based on a partial test (Test T) it is known that the current ratio has a greater significance value compared to the level of significant of  $0.492 > 0.05$  and the calculated T value of -0.694 is smaller than that of the table T value of 1,690. This means individual shows the CR variable has no influence on the price of the stock and has a negative relationship to the stock price. The results of this study were not in line with research conducted by Muhammad et.al (2015) and Fitriyaningsih et.al (2018) stating that the Current Ratio (CR) affects the stock price. And Return on asset (ROA) is known that partial has a greater significance value compared to the level of significant of  $0.356 < 0.05$  and the calculated T value of -0.936 is smaller than that of the table T value of 1,690. This means that individually indicating a variable ROA has no influence on the price of the stock and has a negative relationship to the stock price. The results of this study were not in line with the research conducted by Octaviani et.al (2017) and Cahyaningrum et.al (2017) that Return on Asset (ROA) has an effect on the stock price. Return on equity (ROE) is known that partial has a greater significance value compared to the level of significant of  $0.726 < 0.05$  and the calculated T value of 0.354 is less than that of the table T value of 1,690. This means that individually indicating the ROE variable has no influence on the price of the stock and has a positive relationship to the price. The results of the study were not in line with the research done by Mudlofir et.al (2016) and Vireyto & Sulasmiyati (2017) stating that Return on Equity (ROE) has an effect on the stock price. Earning per share (EPS) is known to be that partial has a greater significance value compared to the level of significant of  $0.05 < 0.05$  and the calculated T value of 2,969 is greater than that of the table T value of 1,690. This means that individual shows variable EPS affect the price of the stock and have a positive relationship to the stock price. The results of this study supported the research of Ginsu et.al (2017) and Efrizon (2019) stating that Earning Per Share had significant effect on the share price. Meanwhile, Debt to Equity ratio (DER) is known that it has a partial significance

value compared to the level of significant, namely  $0.809 > 0.05$  and the calculated t value of 0.243 is smaller than the table T value of 1.690. This means individually indicating the DER variable has no influence on the stock price and has a positive relationship to the stock price. The results of the study were not in line with the research conducted by Munira et.al (2018) and Nainggolan (2019) stating DER has an effect on the stock price.

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