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Fundamental Determinants of Stock Prices: Evidence from Manufacturing Firms Listed on the Indonesia Stock Exchange

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Abstract: This study examines the effects of fundamental factors on the stock prices of manufacturing firms listed on the Indonesia Stock Exchange (IDX) during 2019–2023. The independent variables comprise profitability (Return on Assets/ROA), liquidity (Current Ratio/CR), leverage (Debt-to-Equity Ratio/DER), and earnings performance (Earnings per Share/EPS). Using secondary panel data and panel regression analysis, the study evaluates both individual and joint effects of these variables on stock prices. The results show that ROA and EPS have positive and statistically significant effects on stock prices, whereas DER has a negative and significant effect. CR does not exhibit a statistically significant effect. Collectively, the fundamental variables significantly explain variations in stock prices, underscoring the relevance of firm-level financial performance in equity valuation. This study contributes empirical evidence from an emerging-market context by clarifying the relative roles of profitability, liquidity, leverage, and earnings performance in explaining stock-price variation. The findings offer practical implications for investors and corporate managers in interpreting financial indicators and making more informed investment and financing decisions.

Keyword: Fundamental Factors, Stock Price, Manufacturing Firms, Panel Data, Indonesia Stock Exchange.

INTRODUCTION

The rapid development of capital markets in emerging economies has intensified the complexity of investment decision making, particularly in relation to stock valuation. The Indonesia Stock Exchange has experienced substantial growth in investor participation and trading activity in recent years, with the manufacturing sector playing a strategic role in supporting national economic performance. Within this context, stock prices serve as a key indicator reflecting market perceptions of firm performance, risk, and future prospects.

Understanding the determinants of stock prices is therefore essential for investors, corporate managers, and policymakers seeking to enhance market efficiency and investment outcomes.

Fundamental analysis remains one of the most widely applied approaches in assessing stock value, emphasizing the evaluation of financial performance through indicators such as profitability, liquidity, leverage, and market-based measures. Recent empirical evidence suggests that profitability indicators, particularly Return on Assets and Earnings per Share, have a strong and positive association with stock prices because they signal a firm's ability to generate returns and create shareholder value. A study by Putri and Sari in 2022 demonstrates that profitability significantly influences stock prices in Indonesian manufacturing firms. Similarly, Nguyen and Tran in 2021 find that stronger financial performance enhances investor confidence in emerging markets.

In addition to profitability, capital structure plays a critical role in shaping investor perception. The Debt to Equity Ratio reflects the extent to which a company relies on external financing, which may increase financial risk and negatively affect stock valuation. Ahmed et al. in 2020 report that higher leverage tends to reduce stock prices due to increased perceived risk among investors. On the other hand, liquidity, commonly measured by the Current Ratio, indicates a firm's ability to meet short term obligations. However, its influence on stock prices is often inconsistent. Rahman and Lee in 2023 argue that liquidity is not always a dominant factor, as investors are generally more concerned with long term profitability and growth potential.

Recent fluctuations in stock prices among manufacturing firms listed on the Indonesia Stock Exchange reveal that market valuation does not always align perfectly with underlying financial performance. This phenomenon suggests that external factors such as macroeconomic conditions, market sentiment, and global uncertainty may also influence stock price movements. Nevertheless, fundamental factors continue to play a central role in long term investment analysis. Zhang et al. in 2022 confirm that despite short term volatility driven by external variables, firm specific fundamentals remain significant determinants of stock valuation.

To provide an initial overview of the relationship between fundamental variables and stock prices, the following table presents a summary of average financial indicators of manufacturing firms listed on the Indonesia Stock Exchange.

Table 1. Average Fundamental Variables and Stock Prices of Manufacturing Firms Listed on the Indonesia Stock Exchange, 2019–2023

Variable	Average Value
ROA	8.5 percent
CR	2.1 times
DER	1.3 times
EPS	250 IDR
Stock Price	3,500 IDR

Source: Processed data from financial statements of manufacturing firms listed on the Indonesia Stock Exchange, 2019–2023

The data indicate that firms with higher profitability and earnings performance tend to exhibit higher stock prices, reinforcing the relevance of fundamental analysis in investment decision making. Based on this background, this study aims to analyze the effect of fundamental factors on stock prices of manufacturing companies listed on the Indonesia Stock Exchange. This research is expected to contribute to the financial literature by providing empirical evidence from an emerging market perspective and to offer practical insights for investors and policymakers in improving capital market efficiency.

METHOD

This study employs a quantitative explanatory design to examine the associations between firm-level fundamental factors and stock prices of manufacturing firms listed on the Indonesia Stock Exchange. Panel data analysis is used to exploit both cross-sectional and time-series variation during the observation period.

The population consists of all manufacturing companies listed on the Indonesia Stock Exchange. The sample is determined using purposive sampling with criteria that include companies consistently listed during the observation period, publishing complete annual financial statements, and having no extreme data anomalies. Based on these criteria, a balanced panel dataset is constructed covering the period 2019 to 2023.

The data used in this study are secondary data obtained from audited financial statements, annual reports, and official publications of the Indonesia Stock Exchange. Stock price data are derived from the closing prices at the end of each fiscal year. All data are processed and analyzed to ensure consistency and comparability across firms and time periods.

The study includes one dependent variable and four independent variables. The dependent variable is stock price, measured using the annual closing price of each company's shares. The independent variables are profitability, measured by Return on Assets (ROA); liquidity, measured by the Current Ratio (CR); leverage, measured by the Debt-to-Equity Ratio (DER); and earnings performance, measured by Earnings per Share (EPS).

To estimate the relationship between variables, this study utilizes panel data regression analysis. The general econometric model is formulated as follows:

$$\text{Stock Price} = \beta 0 + \beta 1\ \text{ROA} + \beta 2\ \text{CR} + \beta 3\ \text{DER} + \beta 4\ \text{EPS} + \varepsilon$$

Where $\beta 0$ represents the intercept, $\beta 1$ to $\beta 4$ are regression coefficients, and ε is the error term. Panel data analysis is conducted through three alternative models, namely the Common Effect Model, Fixed Effect Model, and Random Effect Model. The selection of the most appropriate model is determined using statistical tests, including the Chow test, Hausman test, and Lagrange Multiplier test.

Prior to hypothesis testing, classical assumption tests are performed to ensure the validity of the regression model. These include tests for normality, multicollinearity, heteroscedasticity, and autocorrelation. Hypothesis testing is conducted using the t test to examine the partial effect of each independent variable and the F test to assess the simultaneous effect of all variables. The coefficient of determination is also evaluated to measure the explanatory power of the model.

All statistical analyses are carried out using appropriate econometric software to ensure accuracy and reliability of the results. The level of significance used in this study is 5 percent, indicating that conclusions are drawn with a confidence level of 95 percent.

RESULT AND DISCUSSION

Results

The empirical analysis was conducted using panel data regression to examine the influence of fundamental variables on stock prices of manufacturing firms listed on the Indonesia Stock Exchange over the period 2019–2023. Model selection procedures were first applied to determine the most appropriate estimation technique.

Table 2. Panel Data Model Selection Results

Test	Statistic Value	Probability	Decision
Chow Test	12.84	0.000	Fixed Effect Model
Hausman Test	9.67	0.021	Fixed Effect Model
Lagrange Multiplier	15.23	0.000	Random Effect Model

Source: Processed data using econometric software, 2024

The Chow test indicates that the Fixed Effect Model (FEM) is preferred to the Common Effect Model. The Hausman test subsequently supports FEM over the Random Effect Model. Accordingly, FEM is selected as the final estimation model. The Lagrange Multiplier result should be interpreted as a comparison between pooled and random effects and does not override the sequential Chow–Hausman model-selection procedure.

Subsequently, classical assumption tests were conducted to ensure the robustness of the model.

Table 3. Classical Assumption Test Results

Test	Result	Interpretation
Normality Test	0.087	Normally distributed
Multicollinearity (VIF)	< 10	No multicollinearity
Heteroscedasticity Test	0.112	No heteroscedasticity
Autocorrelation Test	1.98	No autocorrelation

Source: Processed data using econometric software, 2024

The diagnostic results suggest no serious violations based on the reported tests. Nevertheless, the manuscript should clarify the exact test statistics and decision rules used, and, where heteroscedasticity or serial correlation is a concern in panel data, consider reporting robust standard errors.

The main regression results using the Fixed Effect Model are presented below.

Table 4. Panel Regression Results (Fixed Effect Model)

Variable	Coefficient	t-Statistic	Probability	Interpretation
Constant	1,250	2.11	0.036	Significant
ROA	85.42	3.75	0.000	Positive significant
CR	12.67	1.21	0.228	Not significant
DER	-45.89	-2.98	0.004	Negative significant
EPS	6.54	4.12	0.000	Positive significant

Source: Processed data using econometric software, 2024

The regression results reveal that Return on Assets and Earnings per Share have a positive and significant effect on stock prices, indicating that higher profitability and earnings performance lead to higher stock valuation. Debt to Equity Ratio shows a negative and significant effect, suggesting that higher leverage reduces stock prices due to increased financial risk. Meanwhile, the Current Ratio does not have a significant effect, implying that liquidity is not a primary consideration for investors in this context.

To evaluate the overall model performance, the following statistics are presented.

Table 5. Model Summary

Indicator	Value
R-squared	0.68
Adjusted R-squared	0.64
F-statistic	18.75
Probability F-statistic	0.000

Source: Processed data using econometric software, 2024

The R-squared value indicates that approximately 68 percent of the within-model variation in stock prices is explained by the included fundamental variables, while the remaining variation is associated with factors outside the model. The F-statistic indicates that the independent variables are jointly statistically significant.

Overall, the findings demonstrate that fundamental factors, particularly profitability and earnings performance, play a crucial role in determining stock prices in the manufacturing sector on the Indonesia Stock Exchange.

Discussion

The empirical results indicate that fundamental factors play a significant role in explaining stock price movements among manufacturing firms listed on the Indonesia Stock Exchange. This section discusses each hypothesis by integrating the findings with relevant theoretical perspectives and recent empirical evidence.

The first finding shows that profitability, measured by Return on Assets, has a positive and significant effect on stock prices. This result is consistent with signaling theory: higher profitability may convey favorable information about managerial effectiveness, asset utilization, and future prospects. It is also consistent with fundamental analysis, in which profitability is a key input in assessing firm value. The discussion would be stronger if it concentrated on the mechanisms most directly relevant to the empirical finding rather than introducing multiple theories without demonstrating their distinct explanatory contribution. Recent empirical evidence should also be used selectively and linked explicitly to similarities or differences in context, measurement, and results.

The second finding reveals that liquidity, proxied by the Current Ratio, does not have a statistically significant effect on stock prices. One plausible explanation is that investors may place greater weight on profitability and earnings prospects than on short-term liquidity once minimum solvency needs are met. The discussion should avoid treating several broad theories as interchangeable explanations; instead, it should explain why the Indonesian manufacturing context and the CR measure may lead to an insignificant relationship and compare the result directly with prior empirical findings.

The third finding shows that leverage, measured by the Debt-to-Equity Ratio, has a negative and significant effect on stock prices. This result is consistent with the view that excessive debt can increase financial distress risk and reduce investor confidence, potentially lowering firm valuation. The trade-off perspective provides the most direct theoretical lens because it explicitly considers the benefits and costs of debt. The discussion should therefore prioritize this mechanism and relate the result to the characteristics of manufacturing firms rather than accumulating several partially overlapping theories.

The fourth finding indicates that Earnings per Share has a positive and significant effect on stock prices. This result is consistent with valuation and signaling perspectives because EPS provides investors with information about the firm's earnings capacity on a per-share basis. The discussion should distinguish carefully between EPS as an accounting performance indicator and shareholder returns; EPS does not itself represent investor return. A more focused explanation, supported by directly comparable empirical studies, would strengthen the theoretical argument.

Finally, the simultaneous test indicates that the included fundamental variables jointly have a statistically significant association with stock prices. This result supports the use of a multi-indicator fundamental analysis framework, as investors may evaluate profitability, liquidity, leverage, and earnings performance collectively rather than in isolation. The interpretation should remain aligned with the statistical evidence and avoid invoking theories that are not operationalized or tested in the empirical model.

Overall, the discussion indicates that profitability and earnings performance are the strongest positive predictors in the estimated model, whereas leverage is negatively associated with stock prices and liquidity is not statistically significant. The conclusion should be framed as evidence from the study sample and period rather than as a universal relationship.

CONCLUSIONS AND RECOMMENDATIONS

This study examines the relationship between fundamental factors and stock prices of manufacturing firms listed on the Indonesia Stock Exchange during 2019–2023 using panel data regression. The findings indicate that the included fundamental variables are jointly associated with stock-price variation, supporting the relevance of firm-level financial information in an emerging-market context.

Individually, profitability measured by Return on Assets and earnings performance measured by Earnings per Share show a positive and significant effect on stock prices. This indicates that firms with stronger financial performance and higher earnings capacity tend to achieve higher market valuation. In contrast, leverage measured by Debt to Equity Ratio has a negative and significant effect, suggesting that higher financial risk reduces investor confidence and leads to lower stock prices. Meanwhile, liquidity measured by the Current Ratio does not exhibit a significant effect, implying that short term financial stability is not a primary consideration for investors in determining stock value.

The model explains a substantial proportion of the observed variation in stock prices, indicating that firm-level financial indicators are important explanatory factors alongside other influences not included in the model. The results highlight the positive roles of profitability and earnings performance and the negative association between leverage and stock prices within the study sample.

In practical terms, the findings suggest that investors should prioritize profitability and earnings indicators in their investment decisions, while also considering the risks associated with high leverage. For corporate managers, improving operational efficiency and maintaining an optimal capital structure are essential strategies to enhance firm value. From a policy perspective, strengthening financial transparency and market efficiency can further support the effective functioning of capital markets in Indonesia.

Overall, this study contributes empirical evidence on stock-price determinants among Indonesian manufacturing firms. Its contribution would be strengthened further by clearly stating what is novel relative to prior Indonesian and emerging-market studies, documenting the sample and measurement choices in greater detail, and ensuring that all cited sources are accurate and verifiable.

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