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Can Corporate Value be a Moderating Variable on the Effect of Financial Performance on Stock Returns?

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Abstrak

- **Tujuan:** Penelitian ini bertujuan menguji pengaruh rasio kinerja keuangan: likuiditas (CR), leverage (DER), profitabilitas (ROA), serta aktivitas (TATO) terhadap return saham, serta mengevaluasi nilai perusahaan (PBV) sebagai variabel moderasi pada perusahaan manufaktur yang terdaftar di BEI periode 2018–2022.
- **Metodologi:** Penelitian ini menggunakan desain eksplanatori dengan analisis regresi data panel. Sampel ditentukan secara purposive sebanyak 69 perusahaan (345 observasi). Model regresi terbaik ditetapkan melalui uji Chow, Hausman, dan Lagrange Multiplier.
- **Temuan:** Hasil menunjukkan bahwa CR, DER, ROA, dan TATO tidak berpengaruh signifikan terhadap return saham. PBV juga tidak terbukti memoderasi hubungan antara kinerja keuangan dan return saham. Temuan ini mencerminkan dominasi faktor eksternal, khususnya fluktuasi pasar selama kondisi krisis.
- **Batasan/Dampak:** Penelitian terbatas pada sektor manufaktur dan variabel moderasi tunggal. Selain itu, periode pengamatan mencakup waktu ketika pasar dipengaruhi oleh gejolak ekonomi global (Pandemi Covid-19). Studi lanjutan disarankan memasukkan variabel makroekonomi atau faktor non-keuangan, serta memperluas cakupan sektor dan periode.
- **Implikasi Praktis:** Investor disarankan tidak hanya mengandalkan rasio keuangan internal dalam pengambilan keputusan. Investor perlu mempertimbangkan kondisi makroekonomi, sentimen pasar, dan nilai fundamental perusahaan yang lebih luas. Perusahaan perlu meningkatkan persepsi pasar melalui penguatan nilai jangka panjang dan transparansi kinerja.
- **Keaslian/Nilai:** Penelitian ini memberikan kontribusi empiris terkait lemahnya peran rasio keuangan tradisional dalam kondisi pasar yang tidak stabil serta mengkaji efektivitas PBV sebagai variabel moderasi dalam konteks pasar modal Indonesia.
- **Jenis makalah:** Artikel penelitian

Kata Kunci: *Kinerja Keuangan; Regresi Data Panel; Nilai Perusahaan; Return Saham; Variabel Moderasi.*



Abstract

- **Purpose:** This study aims to examine the influence of financial performance ratios: liquidity (CR), leverage (DER), profitability (ROA), and activity (TATO) on stock returns, and to evaluate firm value (PBV) as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2018–2022 period.
- **Design/methodology/approach:** An explanatory research design was employed using panel data regression analysis. A purposive sampling technique was applied to select 69 companies (345 observations). The most appropriate regression model was determined through the Chow test, Hausman test, and Lagrange Multiplier test.
- **Findings:** The results indicate that CR, DER, ROA, and TATO do not significantly affect stock returns. Furthermore, PBV is not proven to moderate the relationship between financial performance and stock returns. These findings suggest that external factors, particularly market fluctuations during crisis conditions, play a more dominant role.
- **Research limitations/implications:** This research is limited to the manufacturing sector and incorporates only one moderating variable. Additionally, the observation period includes a time frame heavily influenced by global economic disruptions (Covid-19 pandemic). Future studies are recommended to incorporate macroeconomic or non-financial variables and expand the scope of sectors and time periods.
- **Practical implications:** Investors are advised not to rely solely on internal financial ratios when making investment decisions. Broader considerations, such as macroeconomic conditions, market sentiment, and fundamental firm value, should be taken into account. Companies, on the other hand, are encouraged to enhance market perception by strengthening long-term value and improving performance transparency.
- **Originality/value:** This study provides empirical insights into the limited role of traditional financial ratios under volatile market conditions and evaluates the effectiveness of PBV as a moderating variable within the context of the Indonesian capital market.
- **Paper type:** Research article.

Keywords: Financial Performance; Panel Data Regression; Firm Value; Stock Return; Moderating Variable.

Introduction

Investors aim to achieve either a high return with a certain level of risk or a moderate return with minimal risk when investing in stock securities. As a result, they typically favor companies capable of delivering higher returns (Nurmayasari et al., 2021). Numerous factors can be utilized as parameters to forecast stock returns, one of which involves analyzing the company's financial ratio. Investors who adopt a non-speculative approach will undoubtedly consider and evaluate financial performance, including financial ratios when selecting stocks (Chang et al., 2024). The importance of investor sentiment in determining the value and performance of growth stocks was very strong, especially before the crisis. This underscores the notion that investor sentiment plays a substantial role when value stocks demonstrate outstanding performance (Neves et al., 2021).

Investors engage in the capital market with the objective of obtaining returns through dividends, capital gains, and ownership. Prior to making investments, investors evaluate a stock's potential performance and the intrinsic value of a company (Cakici & Zaremba, 2021). Share prices represent the corporate value of public companies. A high share price indicates positive company's performance. Meanwhile, financial results indicate the efficiency of organization and its effectiveness in achieving its goals (Wang, 2023). Efficiency, on the other hand, concerns the relationship between input and output in which optimal output is achieved with the appropriate input. Enhancing financial performance is essential for a company to attract investors (Suhadak et al., 2019).

The financial performance that investors need to evaluate includes the financial ratio influencing stock returns. Published financial statements represent the financial performance of a company (Li et al., 2023). Financial statements represent the ultimate outcome of the accounting procedure and become a view of a company's financial status. Investors or managers rely on these reports to guide their investment decisions. Managers require actionable information, not raw data (Madison, 2024). The importance of financial reports depends on who needs them or when they are needed (Vuong et al., 2024).

According to (Brigham & Houston, 2010), to optimize company value, a management should capitalize the company's strengths while mitigating its weaknesses. Financial analysis shows differences in company performance in the same field of activity, as well as the firm's current financial standing or trends (Leonardo et al., 2022). Prior to committing to a long-term investment, investors will evaluate a company's profitability, future prospects, and investment risks. An analyst requires specific indicators to interpret and analyze a company's financial statements (Lee & Jang, 2012). The most commonly used indicator in financial analysis is the "ratio" (Ross et al., 2009) with five general categories of financial ratio including leverage, liquidity, activity, profitability, and market value ratio.

This research compares liquidity through the Current Ratio (CR) which tests the level of protection achieved by short-term lenders to finance a firms operational activities (Wang, 2023). The firm financial decision-making process is considered through a level of liquidity ratio. Companies with high liquidity can have a lower cost of capital. Company managers can use it as a tool to reduce the costs of raising capital in the capital markets (Luo, 2022).

Investors inevitably focus on the possibility of high returns. However, investors also need to consider the magnitude of stock volatility and the risks that must be born as a result of the potential of high investment returns (Violita, 2019). Companies with highly volatile stock returns face greater financial difficulties (FD). Large cap stocks with low leverage have less FD risk than small cap stocks with high leverage due to the high volatility of stock returns (Vuong et al., 2024).

Corporate financial policy constraints can explain different facts about the dynamics and cross-sectional behavior of stock returns. Current empirical evidence challenges current macroeconomic theoretical explanations of the relationship between capital structure and return on equity. Leverage adjustment improves the cross-sectional fit of capital investment pricing models (Claassen et al., 2023)

The capital structure is said to be optimal if the company's financing comes from debt to maximize earning per share (EPS) (Do et al., 2022). The maximum EPS can be obtained by maximizing the stock price. According to signaling theory, an optimal company capital structure provides a positive signal to investors in choosing a company. Conversely, a non-optimal capital structure characterized by high funding from debt sends a negative message to investors (Reboredo & Ugolini, 2022). Investors consider that high funding sourced from leverage has the potential that the company will not share profits and potentially experience bankruptcy (financial distress) (Essel, 2023). It also shows that the level of debt utilization for corporate funding has a negative effect on investment returns (Gao & Tsusaka, 2023).

Profit is the amount of money a company earns over a certain period of time. (Suleman et al., 2019) The high return on investment of a company indicates that the company's debt utilization is low. According to the pecking order theory, a company's ability to earn high profits means that the company is very good at financing its company's operational activities. Then, on business theory which considers the theory of financial pressure, companies with high profit results with good asset management are able to raise investor interest in participating in a company (Baker & Wurgler, 2002). High investor interest and investment decisions will increase investment demand (Suhadak et al., 2019). High investment demand for shares has an effect on the increase in stock prices so that the returns obtained will also increase. This statement is in accordance with the results of previous research (Yustini et al., 2018), which states that profitability can have a positive and significant effect on stock returns. There are inconsistencies in the research results of several previous researchers (Clara & Kim, 2021). (Sanusi & Wijayanti, 2022) found that profitability can have a significant effect on stock returns. Another from several previous researchers (Jasmadeti & Amrulloh, 2022); (Saputra et al., 2022) found that stock returns could not be significantly influenced by profitability.

Total asset turnover measures the efficiency of asset use in a company's business operations. The faster an asset rotates, the more preferable and efficient use of related funds. The higher ratio, the faster the return of receivables in the form of cash (Wang, 2023).

The value of a company is the main focus when investors decide whether or not to invest in a company. So, it can attract investors. The company hopes that financial managers can do what is best for the company by maximizing company value so that shareholder welfare can be achieved (Chang et al., 2024). The value of

a company not only describes its current intrinsic value but also hopes to increase the value of its assets in the future (Suhadak et al., 2019).

According to the Price Book to Value ratio, it can be seen that the firm value is good if the Price Book to Value is more than one (overvalued). The higher the PBV, the better the firm at creating value or welfare for shareholders. Firm value in this research is used as a moderating variable because in previous studies, firm's value was able to mediate CSR as one of the company's internal performance on stock returns (Noviyah, 2019). In addition, the value of the firm depends on the status and the finance of the company is, of course, reflected in financial performance. Successful companies increase their company value so that positive information received by investors regarding the company's value can provide a positive signal (Lee & Jang, 2012). In short, the activity carried out, namely short selling, is important in predicting stock returns in the investment grade group, but it is different from the speculative grade group (Lim et al., 2024).

Previous studies have examined Price to Book Value (PBV) as a moderating variable in the relationship between financial performance ratios and stock returns of Indonesian banking firms. However, the empirical evidence remains inconclusive, as PBV is found to moderate only selected financial ratios, such as Return on Assets (ROA), while failing to moderate other key internal indicators, including the Debt to Equity Ratio (DER) and Non-Performing Loans (NPL) (Zaini et al., 2018). Moreover, prior studies provide limited theoretical justification for the moderating role of Price to Book Value (PBV), as their conclusions rely primarily on empirical associations rather than a clear explanation of the underlying mechanisms. This limitation motivates the present study to re-examine whether PBV can function as a moderating variable in the relationship between firms' financial performance and stock returns in the manufacturing sector

The research examined the IDX with manufacturing companies as the sample. This is based on the belief that manufacturing companies are the companies whose development rate is very fast. The periode of 2018-2021 is taken because at this time the condition of the Indonesian economy was in the pre and during the covid-19 pandemic. This study goes beyond providing a descriptive overview of the effects of liquidity, leverage, profitability, and activity ratios on stock returns by addressing an unresolved issue in prior empirical findings. Although traditional financial ratios have been extensively examined, existing studies report inconsistent evidence regarding the moderating role of firm value, particularly when measured by Price to Book Value (PBV). By re-examining whether firm value systematically alters the relationship between financial performance ratios and stock returns, this study demonstrates that PBV does not function as a universal moderator but operates selectively across specific financial dimensions. In doing so, the study reframes firm value as a conditional moderating mechanism and provides a more nuanced understanding of how market valuation interacts with internal firm fundamentals, while offering a cleaner empirical assessment by focusing exclusively on firm-level financial indicators

Literature review and hypothesis development

Capital Structure Theories and Their Implications.

The foundation of capital structure analysis rests upon the theory introduced by Modigliani and Miller (MM), which establishes that the mix of debt and equity can influence firm value under certain assumptions (Brigham & Houston, 2010). Their framework highlights tax benefits of debt, the risk of bankruptcy from volatile earnings, and the trade-off between leverage and firm stability. Extensions of this theory, including trade-off theory and pecking order hypothesis, emphasize that firms balance tax shields against financial distress costs, and prefer internal financing before external debt or equity issuance (Baker & Wurgler, 2002; Claassen et al., 2023). In addition, signaling theory underscores the role of financial disclosure as a communication tool to reduce information asymmetry between managers and investors (Madison, 2024). These perspectives demonstrate that corporate financing decisions are not only mechanical outcomes of balance sheets but also strategic signals shaping investor responses.

Liquidity and Stock Returns.

Liquidity is a central indicator of a firm's ability to meet short-term obligations, commonly proxied by the Current Ratio (CR). Some studies suggest that low-liquidity equities tend to generate higher returns as a compensation for liquidity risk (Haugen & Baker, 1996; Rouwenhorst, 1999). However, evidence remains mixed, as certain findings indicate that liquid stocks, by reducing investor risk, may also attract greater demand and thus higher valuations. In the Indonesian context, CR is frequently examined as a predictor of stock performance, though consensus on its direction of impact is still under debate. Building on this discussion, the present study proposes the first hypothesis:

H1. The Current Ratio has a significant impact on stock returns.

The Moderating Role of Firm Value (PBV) on Liquidity and Stocks Return

Price-to-Book Value (PBV) is widely used to capture firm value, reflecting investors' perception of asset management efficiency. (Rosenberg et al., 1998) and (Wald, 1999) demonstrate that companies with high PBV ratios are more likely to deliver stronger long-term returns, while firms with PBV below one are often perceived as distressed or undervalued. Well-managed companies generally exhibit PBV values above unity, signaling their effectiveness in creating shareholder wealth (Chang et al., 2024). Thus, PBV may strengthen or weaken the influence of liquidity on returns, leading to the following hypothesis:

H2. PBV moderates the relationship between Current Ratio and stock returns.

Leverage and Stock Returns

Debt utilization remains a double-edged sword in corporate finance. On one hand, interest payments are tax-deductible, potentially enhancing shareholder returns (Brigham & Houston, 2010). On the other, excessive leverage elevates bankruptcy risk, dampens investor confidence, and increases financial distress (Reboredo & Ugolini, 2022); (Gao & Tsusaka, 2023). Empirical studies show contrasting results: while some confirm that leverage contributes positively to stock returns through tax benefits, others reveal negative associations due to heightened volatility. Accordingly, the following hypothesis is proposed:

H3. DER significantly influences stock returns.

PBV as a Moderator of Leverage and Stock Returns

PBV offers a lens to interpret how leverage translates into investor perceptions. Chang et al., (2024) argue that companies with high PBV are often perceived as efficient in resource allocation, mitigating the risks of debt. Conversely, low PBV firms may amplify the negative interpretation of high leverage. Thus, the moderating hypothesis is framed as follows:

H4. PBV moderates the relationship between Debt-to-Equity Ratio (DER) and stock returns.

Profitability and Stock Returns

Profitability, often measured through Return on Assets (ROA), represents a firm's efficiency in generating earnings relative to its assets. Signaling theory posits that strong profitability sends positive signals to investors, thereby increasing stock demand and returns (Jogiyanto, 2017); (Wibowo & Rahim, 2019). Numerous studies confirm profitability's role as a determinant of stock performance, yet conflicting results persist across markets (Sanusi & Wijayanti, 2022); (Saputra et al., 2022). Given these findings, the following hypothesis is stated:

H5. ROA significantly influences stock returns.

PBV as a Moderator of Profitability and Stock Returns

PBV is frequently considered a stabilizing measure, offering comparability across firms regardless of income fluctuations. (Saputra et al., 2022) emphasize that PBV is particularly valuable for assessing firms with negative earnings, as it reflects investor expectations of future asset value. High PBV ratios generally indicate shareholder prosperity and reinforce the positive effects of profitability. Hence, the next hypothesis is articulated:

H6. PBV moderates the relationship between ROA and stock returns.

Activity Ratios and Stock Returns

The Total Asset Turnover (TATO) ratio is an indicator of how effectively a firm utilizes its assets to generate sales. Higher TATO values signal operational efficiency and convey positive signals to investors, which in turn may increase stock demand (Widodo, 2019); (Chang et al., 2024). Prior empirical work consistently associates higher activity ratios with improved stock performance, supporting the following hypothesis:

H7. TATO significantly influences stock returns.

PBV as a Moderator of Activity-Return Relationship

PBV also contextualizes how asset efficiency translates into market valuation. Companies with PBV values above one are often seen as effective and efficient in creating shareholder wealth (Madison, 2024). This suggests PBV may strengthen the link between operational efficiency and investor returns. Thus, the final hypothesis is proposed:

H8. PBV moderates the relationship between TATO and stock returns.

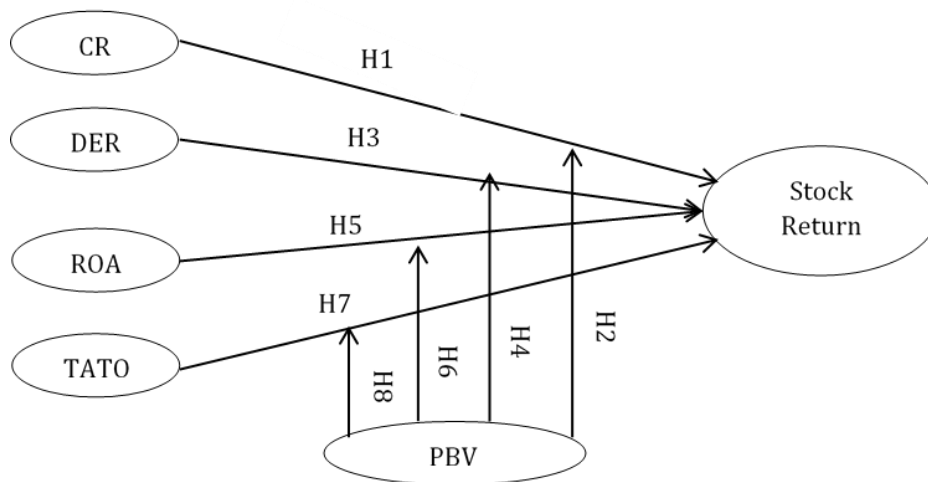


Figura 1. Hypotesis Model
Source: Results of Data Analysis 2024
Research method

In this study entails a purposeful, methodical strategy meant to address a particular issue or provide answers to a number of research inquiries. An explanatory research design was adopted in this study. The main analysis unit consists of companies listed on the Indonesia Stock Exchange in the manufacturing sector. The data used for this research was obtained from ICMD, as well as the annual and financial reports of these companies. The research location, the Indonesian Stock Exchange, was chosen because it functions as a significant trading platform for various companies in Indonesia and provides extensive financial and stock price data. 135 manufacturing companies that were listed between 2018 and 2022 on the Indonesian Stock Exchange made up the study's population. Not using Purposive sampling, where sample selection is guided by predetermined criteria, is used in addition to random sampling (Baltagi, 2021).

The criteria for sample selection included companies listed in the manufacturing company index between 2018 and 2022, as well as the firm that release their financial reports during this time. Manufacturing businesses with continuous yearly financial reports and data from ICMD that were listed on the Indonesian Stock Exchange between 2018 and 2022 made up the sample. Over the course of five years, 69 companies made up the overall sample size, yielding 345 observations.

Stock Return

Stock returns may explain firms' equity issuance. (Baker & Wurgler, 2002) presented empirical evidences that low-leverage firms tend to raise funds when their valuations were high, and conversely highleverage firms tend to raise funds when their valuations were low.

Another measure that serves a similar purpose is the stock return:

$$\text{Stock Return} = \frac{Pt - (Pt-1)}{Pt-1}$$

Current Ratio

Liquidity ratios also have some less desirable characteristics. Because short-term assets and liabilities are easily changed, measures of liquidity can rapidly become outdated.

Another measure that serves a similar purpose is the current ratio:

$$\text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

Debt to Equity Ratio

Financial leverage is usually measured by the ratio of long-term debt to total long-term capital. Total long-term capital, sometimes called total capitalization, is the sum of long-term debt and shareholders' equity.

$$\text{Long-term debt ratio} = \frac{\text{long-term debt}}{\text{long-term debt} + \text{equity}}$$

Return on Asset

Managers often measure the performance of a firm by the ratio of net income to total assets. However, because net income measures profits net of interest expense, this practice makes the apparent profitability of the firm a function of its capital structure.

$$\text{Return on assets} = \frac{\text{net income} + \text{interest}}{\text{Average total assets}}$$

Total Asset Turn Over

The asset turnover, or sales-to-assets, ratio shows how hard the firm's assets are being put to use.

$$\text{Asset Turnover Ratio} = \frac{\text{Sales}}{\text{Average total assets}}$$

Price Book Value

PBV value itself is obtained from dividing the price per share of the company by book value per share. .

$$\text{PBV} = \frac{\text{Price Per Share}}{\text{Book Value Per Share}}$$

Model specification

This study examined financial performance ratios such as liquidity (CR), leverage (DER), profitability (ROA), and activity (TATO), with the moderating variable being company value (PBV). The stock return ratio served as the study dependent variable. Regression analysis using panel data was used in this study. Descriptive statistical analysis, choosing a suitable regression model by assessing its viability, and analyzing the resultant model comprised of the analysis. Panel regression analysis can be used to combine cross-sectional and time-series data to find an appropriate regression model. This can result in the following model:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \dots + \beta_n X_{nit} + e_{it}$$

Notes:

Y_{it} = Dependent Variable

t = period- t (year)

α = Constant

X_{it} = Independent Variable

i = unit

e = error standard

According to (Baltagi, 2021), The Common Effect Model (using Ordinary Least Squares (OLS)), the Fixed Effect Model (using Least Square Dummy Variable (LSDV)), and the Random Effect Model (using Generalized Least Squares (GLS) approach) are the three ways to choose the best model based on panel data. Using the Chow test, Hausman test, and Lagrange multiplier (LM) test, these three models were determined to be the best suitable models for this study. The Chow Test determines which of the common effect and fixed effect models is the better model. Between the fixed effect model and the random effect model, the Hausman test determines which model is optimal. The random effects model and the common effects model are fitted by the LM test model.

Result and discussion

This study demonstrates the effect of financial performance indicators (CR, DER, ROA, and TATO) on stock returns, with firm value (PBV) serving as a moderating variable. The analysis begins with the selection of the appropriate model. From the analysis of the three models, the best model will be selected from the three models above. The first model selection carried out was between the CEM and FEM models with the Chow test.

Table 1. Model Selection

Test	Result	Decision
Uji Chow	Prob. > 0,05	CEM
	Prob. < 0,05	FEM
	Prob > 0,05 = 0.6991	Following a comparison between the Fixed Effect Model (FEM) and the Common Effect Model (CEM), the CEM model was chosen. The random cross-section Chi-square probability, which was 0.6991 > 0.05 in the Chow test, supported this conclusion. After choosing the CEM model for the Chow test, Next, the Lagrange multiplier (LM) test was used to choose a model between the Random Effect Model (REM) and the CEM.
Lagrange Multiplier Test	Prob. > 0,05	CEM
	Prob. < 0,05	REM
	Prob < 0,05 = 0.0157	From the comparison of the CEM and REM models, it was decided to choose the REM model. This is

predicated on the two Breusch-Pagan numbers, which in the Lagrange Multiplier (LM) test are $0.0157 < 0.05$. With regard to the model test, the traditional assumption test was not performed using the model that was utilized (the Random Effect Model) (Baltagi, 2021); (Nachrowi & Hardius Usman, 2006).

Source: Results of Data Analysis 2024

The next step taken was to test the feasibility of the model used, namely the REM model.

Table 2. Random Effect Model Uji Simultan

R-squared	0.016774
Adjusted R-squared	0.002272
F-statistic	1.156693
Prob(F-statistic)	0.330279

Source: Results of Data Analysis 2024

The regression model's appropriateness is evaluated using the F test results. As shown in Table 7, the F probability value surpasses the significance threshold ($0.330279 > 0.05$), suggesting that the four independent variables (CR, DER, ROA, and TATO) doesn't demonstrate a statistically meaningful impact on stock returns. Consequently, the model employed fails to contribute substantially to the dependent variable. Additionally, This finding is supported by the extremely low adjusted R-squared value of 0.002, or 0.2%, which shows that the model can only account for 0.2% of the variation in the dependent variable. This suggests that variables outside of the model account for 99.8% of the variability in the dependent variable. Subsequent hypothesis testing follows the formulation of the applied model, as detailed below:

The subsequent section presents the findings of the data analysis concerning the research model:

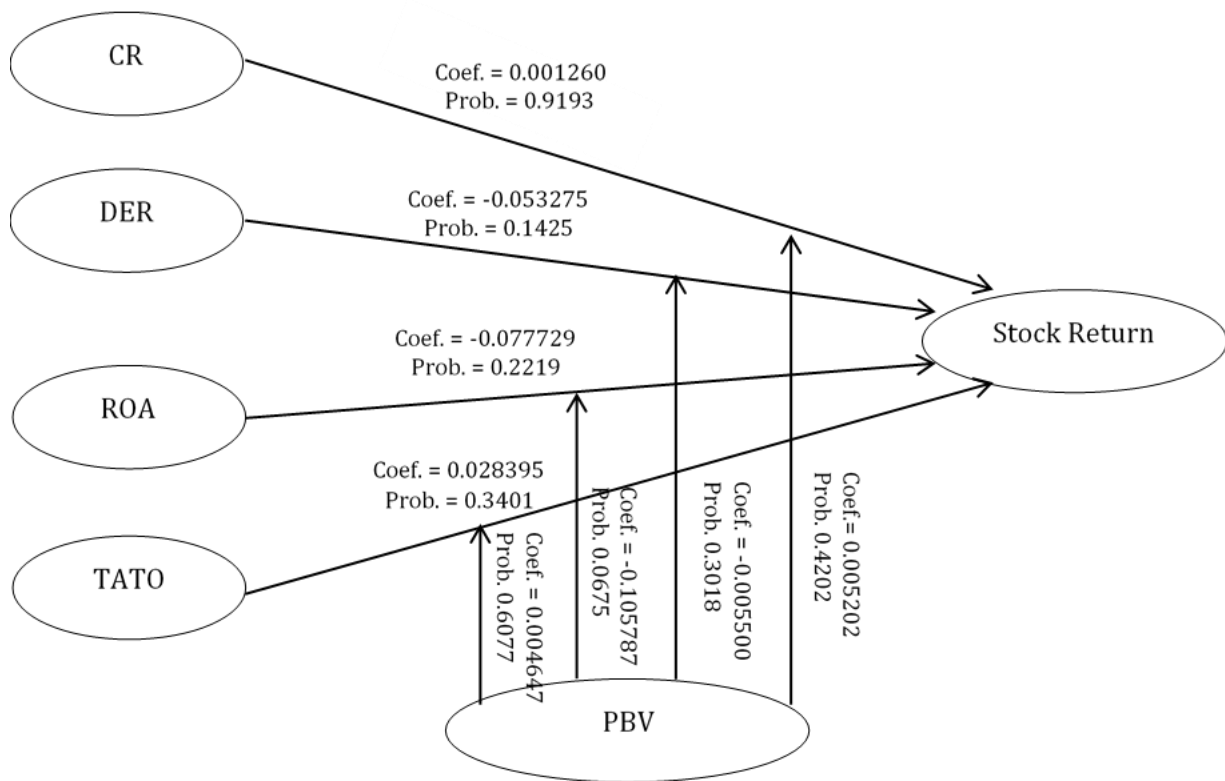


Figure 2. Hypothesis Analysis Model
Source: Results of Data Analysis 2024

Hypothesis 1 is rejected, as the regression coefficient of the current ratio (CR) is positive but statistically insignificant ($\beta = 0.001260$; $p = 0.9193$). This finding suggests that liquidity, as measured by CR, does not play a meaningful role in explaining stock returns within the observed manufacturing firms. Rather than merely contradicting prior empirical studies, this result provides an important theoretical implication by challenging the conventional assumption derived from signaling theory that higher liquidity conveys positive signals regarding firm quality and future performance.

From a theoretical perspective, the insignificant effect of CR implies that liquidity information may already be fully incorporated into market prices, thereby reducing its signaling power for investors. This finding refines signaling theory by suggesting that liquidity signals are context-dependent and may lose relevance in periods of heightened uncertainty. During the 2018–2022 period, particularly amid the COVID-19 pandemic, investors may have discounted short-term liquidity indicators in favor of more fundamental considerations such as survival capability and long-term resilience, weakening the expected liquidity–return relationship.

Moreover, the result is consistent with liquidity risk theory, which posits that higher returns are often associated with lower liquidity as compensation for liquidity risk (Haugen & Baker, 1996). Recent evidence from Southeast Asian capital markets suggests that the relationship between liquidity and stock returns is highly

context-dependent and cannot be adequately captured by accounting-based liquidity measures such as the current ratio (CR). Empirical studies on the ASEAN-6 markets during and after the COVID-19 pandemic demonstrate that liquidity dynamics were primarily driven by market-based factors, including trading volume, volatility, price movements, and their interactions within a short event window surrounding the pandemic announcement (Thi Bich et al., 2025). Using bid ask spreads, Amihud's illiquidity ratio, and return turnover measures, these studies document significant short-term liquidity disruptions with substantial cross country heterogeneity. Markets such as Singapore and Malaysia exhibited stronger shock-absorption capacity and faster recovery, while Indonesia remained among the relatively resilient markets in terms of liquidity throughout the crisis period. Complementary evidence further indicates that pandemic-related shocks exerted a more pronounced negative impact on stock liquidity in developed markets (Farooque et al., 2023), high economic policy uncertainty environments, and smaller firms, underscoring the importance of macro financial conditions and firm characteristics in mediating liquidity effects.

This interpretation is further reinforced by evidence from the value premium literature (Fama & French, 2021), which documents a decline in average value premiums over time and shows that book to market based forecasts of expected premiums are highly sensitive to volatility and parameter stability assumptions, highlighting the limited reliability of valuation-based ratios in explaining return dynamics.

Even if we anticipate a negative correlation between liquidity and stock returns, the exact cause may be obscured by other stock return-related factors. For instance, (Rouwenhorst, 1999) considered that large-cap stocks, short-term loss-making stocks, growth stocks, and small-cap and short-term blue-chip stocks are more liquid than small-cap and mid-cap stocks. It is possible that the claimed premium is just compensation for these shares.

When considering a long-term investment in shares, an investor evaluates the company's profitability in light of its prospects and hazards (Brigham & Houston, 2010). However, due to world economic conditions, especially Indonesia in the periode 2018-2022, when the Covid-19 pandemic occurred, assumptions and information related to financial performance did not have an impact on stock returns.

Aside from that, the imbalance between current assets and current liabilities on the company's financial balance sheet means that CR has little effect on stock returns (Nurmayasari et al., 2021). The liquidity ratio of the corporation has little bearing on how investors anticipate future profits (Absari, 2022). Investors only consider large companies because for investors the shares of small companies provide a significant contribution to liquidity (Cakici & Zarembo, 2021). Meanwhile, manufacturing issuers in Indonesia are widespread and dominated by small and medium companies.

Hypothesis 2 is rejected with a regression coefficient of 0.005202 and Prob. of 0.4202. The effect is going in a favorable way. The current ratio impact on stock returns is not significantly mitigated by these findings. This implies that PBV is merely a potential moderating element on the influence of current assets on stock

returns, regardless of the value of the CR asset. These results are not in line with the theory and previous research on which the hypothesis is based (Figure 2).

From a theoretical perspective, the failure of PBV to function as a moderating variable suggests that firm value is conceptually more appropriate as an outcome variable rather than as a conditioning mechanism. Recent corporate finance literature emphasizes that market-based valuation measures such as PBV primarily embody investors' aggregated expectations regarding future performance and risk, making them better suited as dependent variables that capture the results of market valuation processes, rather than as moderators interacting with internal accounting ratios. This view is consistent with financial friction frameworks (Guerron-Quintana & Jinnai, 2022), in which stock market upswings are often theoretically predicted to follow adverse liquidity shocks an implication that is inconsistent with observed empirical evidence. Such counterfactual dynamics are particularly associated with real business cycle models that assume exogenous growth, whereas allowing productivity and economic growth to be endogenous effectively resolves these pricing anomalies. Intuitively, a deterioration in growth expectations following negative liquidity shocks generates a predictable and persistent downward component in dividend growth, ultimately leading to declines in equity prices. Within this context, PBV reflects the cumulative impact of market expectations regarding long-term risk and growth under liquidity frictions, rather than serving as a mechanism that systematically amplifies or attenuates the effects of internal financial indicators such as liquidity ratios on stock returns, thereby explaining its weak moderating role in the empirical model.

Previous research demonstrating that corporate performance is reflected in company value and value increases in comparison to earlier times throughout the global financial crisis supports these findings. Value stocks actually outperformed growth stocks in six countries during the high-risk pre-crisis period; this pattern was only seen in France, Portugal, and Japan after the crisis. This pattern changed in the years after the crisis. The study's findings also demonstrate that investor mood has a significant impact on the growth and value of stock returns, the majority of which happened prior to the crisis. This demonstrates that when stock values rise, investor sentiment increases in importance (Neves et al., 2021). In addition, the risk of loss associated with operational debt successfully lowers stock return volatility and increases operational efficiency in the following years (Lim et al., 2024).

Overall, these findings contribute to a theoretical refinement by challenging the common assumption that firm value inherently functions as an effective moderating variable in models linking financial performance to stock returns. The empirical insignificance of PBV as a moderator indicates that its influence is highly contingent on market conditions and investor perceptions. This reinforces the view that firm value is more appropriately specified as an endogenous outcome shaped by financial performance and broader market dynamics, rather than as an interaction channel within return-generation mechanisms. Accordingly, future research should reconsider the positioning of firm value in asset pricing frameworks by modeling PBV as a dependent variable or by investigating alternative moderating factors such as market-based liquidity measures, investor sentiment, or macroeconomic uncertainty that may better capture conditional return effects in emerging market contexts.

Hypothesis 3 is rejected with a regression coefficient of -0.053275 and Prob. of 0.1425. The direction of influence is negative. These findings have no discernible impact on how the debt-to-equity ratio affects stock performance. This implies that the value of stock returns cannot be increased, regardless of the value of DER assets. Despite the rejection of Hypothesis 3, this outcome offers an opportunity to empirically question the explanatory power of conventional capital structure theories: recent empirical evidence suggests that the relationship between capital structure variables and stock returns may be context-specific and not universally aligned with theoretical predictions, urging a refinement of theoretical assumptions under certain market conditions (Sari et al., 2025). These findings run counter to earlier studies' findings and the theory supports the hypothesis (Figure 2).

Capital structure has a negligible negative effect on stock returns. It is claimed that investors do not need to know a company's ideal capital structure, which consistently maximizes profit distribution (EPS) with a low level of debt (Zul Bay et al., 2023). The data analysis's negative trend shows that the quantity of debt accompanied by both internal and external capital suggests that the likelihood of the business going bankrupt or experiencing financial trouble is increasing. This also shows that the level of use of debt for company funding has a negative effect on investment returns (Gao & Tsusaka, 2023), (Wibowo & Rahim, 2019). If we refer to Signaling theory, these negative effects can reduce investor interest. Moreover, these results align with recent findings highlighting that traditional signaling mechanisms may not consistently predict stock returns when firms' capital structure effects are weak or contextually muted, thus inviting further theoretical development to integrate market heterogeneity and information asymmetry nuances (Sari et al., 2025). The decline in investment interest reduces investors' decisions to buy shares so that the return obtained from purchasing shares will decrease.

Capital structure has a negligible and negative impact on stock returns. This indicates that the level of stock returns is unaffected by the size of the capital structure. The difference between the study findings and the trade-off theory shows that, because the debt is speculative, financing a business with debt can result in lower interest and tax payments.

These results indicate that manufacturing companies in this research period used debt in company funding to be unstable so that the resulting operational profits were unable to provide returns to investors. This affects the stock prices and returns obtained (Yasa et al., 2022). Previous research by (Chandra et al., 2019), (Wahyuningsih et al., 2023) supports the inability of capital structure to have a large influence on stock returns.

Hypothesis 4 is rejected with a regression coefficient of -0.005500 and Prob. of 0.3018. The effect is moving in a bad direction. The impact of the debt to equity ratio on stock returns is not significantly mitigated by these findings. This implies that PBV just serves as a potential moderating variable for the influence of DER on stock returns, regardless of PBV's value. From a theoretical perspective, the failure of PBV to function as a moderating variable may indicate that firm valuation ratios capture market perceptions as an outcome of financial structure decisions rather than acting as an interaction mechanism that alters the DER-stock return

relationship (Alghifari et al., 2022). These findings contradict the notion and earlier studies that served as the foundation for the hypothesis (Figure 2).

Demonstrates that the ratio known as leverage gauges how much of a company's assets are financed by debt. specifically, the ratio of the company's debt to its assets. Leverage is typically used in accordance with the objectives of the business. Based on the results of measuring financial leverage, the business assesses its capacity to meet its responsibilities and finds many uses for its loans and own money. Recent empirical studies suggest that valuation indicators such as PBV tend to respond to changes in capital structure and firm performance, supporting the argument that PBV is conceptually more appropriate as a dependent variable reflecting firm value rather than as a moderator within structural interaction models (Ganta, 2025)

The company's ability to fulfill its total financial obligations, good capital and management of company assets can be important points to attract investor interest. This could raise the share price of the business, increasing its value, or DER, or the debt-to-equity ratio. Thus, the insignificant moderating role of PBV in this study may reflect market efficiency conditions where stock prices already incorporate firm value information, limiting PBV's capacity to amplify or weaken the effect of leverage on stock returns.

Previous research provides support for this study (Zaini et al., 2018) It discovered that the relationship between the debt to equity ratio and stock performance has not been attenuated by price to book value.

Hypothesis 5 is rejected with a regression coefficient of -0.077729 and Prob. of 0.2219. The effect is moving in a bad direction. These findings have no discernible impact on how return on assets affects stock performance. This outcome offers an empirical opportunity to reconsider and refine the pecking order and signaling theories, as it suggests that high profitability does not universally translate into higher stock returns; contextual factors such as market conditions, investor behavior, and firm-specific risks may limit the predictive power of these theories in emerging markets (Leite et al., 2018).

Based on the company's profitability or profits over a specific time period. The profits generated in large amounts are an illustration that the firms financial performance is in good performance (Triyani et al., 2023). According to the pecking order idea, a business that has a high profitability ratio may continue to pay dividends on each share that is invested in, and it typically does not utilize significant debt to finance its operations. According to signaling theory, then, a company's state of good economic performance is indicated by its large earnings. This situation brings a positive message to investors when deciding to invest in shares in a company. High share prices will be significantly impacted by the decisions made by investors when purchasing shares. In line with this, company profits can increase. A company with good ability to earn profits can stimulate high stock returns for investors (Wibowo & Rahim, 2019). However, the insignificant effect of ROA in this study challenges the universality of these theoretical predictions and highlights the need to refine signaling and pecking order theories to account for periods of extreme market volatility or crisis events, such as the Covid-19 pandemic, which may disrupt traditional profit–return relationships (Gonçalves et al., 2023).

Profitability (ROA), which shows an insignificant effect and has a negative direction, has not had a notable impact on manufacturing businesses' high and low stock return percentages between 2018 and 2021. One of the factors causing profitability not to significantly influence stock returns is the fluctuation in net profit from 2018-2021. The very significant fluctuation in net profit during the Covid-19 pandemic in 2020 and 2021 resulted in a weakening rate of return on capital because many companies used the profits obtained to finance company operations. This condition results in low interest in investing in the company by investors. Apart from that, during this period investors were more interested in investing to efforts to increase their capital gains. These results are indicative of pecking order theory and signaling theory which illustrate that a company's ability to generate profits provides positive or negative information for investors to determine investment decisions. This condition is in accordance with the results of this study from which found that stock returns have not been able to be significantly influenced by profitability (ROA). These findings emphasize that empirical testing can meaningfully extend theoretical understanding by identifying boundary conditions or contextual limitations where traditional theories may not hold, thus providing a more nuanced perspective on the application of financial theories in practice.

Hypothesis 6 is invalidated, indicated by a regression coefficient of -0.105787 and a probability value of 0.0675. The negative direction of influence suggests that there is no significant moderating effect on the relationship between return on assets (ROA) and stock returns. Consequently, regardless of the value of Price-to-Book Value (PBV), PBV merely serves as a potential moderating variable for the impact of ROA on stock returns. This unexpected result invites a deeper theoretical reflection: PBV may be conceptually better suited as an outcome variable reflecting firm valuation rather than as a moderator that interacts with profitability to influence stock returns. The findings suggest that market perceptions captured by PBV do not amplify or attenuate the ROA to stock return relationship, highlighting the need to refine theoretical models on the moderating role of valuation ratios in emerging markets (Gao & Martin, 2021). These findings diverge from both theoretical expectations and prior research upon which the hypothesis was formulated (see Figure 2).

Assessing a company's condition often relies on its profitability which necessitates analytical tools like financial ratios. The ability of a business to turn a profit within a given time period is known as profitability (Zaini et al., 2018). The ROA ratio illustrates the contribution of assets to net profit.

Profits serve as a crucial source for companies to meet their obligations to creditors by covering interest and principal payments on loans. Conversely, investors regard profits as a pivotal factor in determining fluctuations in value. Information gleaned from stock values has the potential to enhance returns on investments in shares. However, in this study the data shows no discernible influence on the correlation between profitability (ROA) and stock performance. This indicates that traditional theories such as signaling and pecking order may require contextual adjustment, as the expected moderating influence of PBV is not observed, suggesting that external factors such as market sentiment and investor behavior, may play a more dominant role in shaping stock returns than theoretical

interaction effects (Gric et al., 2023). These findings contradict previous research conducted by (Zaini et al., 2018).

The escalation of the epidemic negatively affected the stock market. However, despite the severity of the pandemic, rising financial market sentiment supported stock market returns. This aligns with previous research showing that investor sentiment can act as a contrarian predictor of market returns across 12 Asian and European markets during 2004–2016, with short-term effects in Europe and longer-term impacts in Asia, influenced by local factors such as financial development, institutional governance, and culture (Vuong & Suzuki, 2022). In this context, the failure of PBV to function as a moderating variable between ROA and stock returns can be explained by the fact that PBV, as a measure of firm valuation, primarily reflects market perceptions and investor sentiment rather than serving as an interaction mechanism influencing the ROA–return relationship. In other words, fluctuations in sentiment and dynamic market conditions during crisis periods may limit PBV's moderating role, indicating that PBV is more appropriately treated as an outcome variable rather than a moderator. When using other proxies, our results remain robust. Additional research reveals that negative sentiment has a greater impact on stock market returns than positive sentiment. In summary, our findings confirm that negative sentiment in the financial markets exacerbates the effects of crises on stock markets, while positive sentiment in the markets can help mitigate losses resulting from these shocks (Bay et al., 2023).

Hypothesis 7 is invalidated. It is indicated by a regression coefficient of 0.028395 and a probability value of 0.3401. Although the findings indicate a favorable direction of influence, the link between total asset turnover (TATO) and stock returns is not significantly affected. Companies frequently utilize total asset turnover (TATO), which is the ratio of turnover to balance sheet, to assess their performance. This ratio describes the ability of company assets to allocate total turnover (Cakici & Zaremba, 2021).

The insignificant effect of TATO on stock returns can be interpreted through the lens of adaptive market efficiency. Previous studies across various global indices have shown that market efficiency is cyclical and changes depending on market phases, structural characteristics, and regional conditions (Mallikarjunappa et al., 2025). A higher TATO value signifies a greater level of efficiency in utilizing assets to generate net sales. In this study, while TATO exhibited a positive association with stock returns, it was not statistically significant. Consequently, the contribution of a firm's asset efficiency to stock returns is not always consistent, and TATO may not reliably predict stock performance, particularly during periods of high market volatility, fluctuating economic conditions, or structural changes such as those experienced during the 2018–2019 period and the global Covid-19 pandemic, which affected Indonesia as well.

This perspective is supported by research on cyclical return predictability, which finds that market behavior and the effectiveness of trading strategies vary over time and across regions. Factors such as local financial development, institutional governance, investor sentiment, economic fundamentals, commitment levels, information friction, and monetary policy can significantly influence realized returns, sometimes diminishing the predictive power of traditional financial ratios like TATO. Thus, the lack of a significant relationship between TATO and stock

returns highlights the importance of considering time-varying market conditions and contextual factors when evaluating the impact of operational efficiency on stock performance, explaining why these findings deviate from theoretical expectations and prior research (Madison, 2024).

Hypothesis 8 is invalidated signed by a regression coefficient of -0.105787 and a probability value of 0.0675. The results indicate that there may not be a significant moderating effect on the link between total asset turnover (TATO) and stock returns, as the direction of influence is negative. This suggests that price-to-book value (PBV) merely acts as a potential moderating variable for the effect of TATO on stock returns, independent of PBV's value. These results deviate from the theoretical expectations and previous research upon which the hypothesis is based (see Figure 2). The "bird in the hand" theory (Leonardo et al., 2022), who argue that the uncertainty of future cash flows impacts dividend policy and, therefore, it is legitimate for us to talk about how stock returns impact firm value. According to this theory, share prices typically rise with higher dividends and fall with lower dividends. The stock price of a publicly traded company reflects its corporate value, with higher share prices indicating higher company value (Yang et al., 2010).

The market price of a corporation determines its valuation. In addition, variables like risk and financial stability affect a company's worth (Lee & Jang, 2012); ((Lim et al., 2024); (Wang, 2023). The results of this study indicate that financial ratios such as current ratio (CR), return on equity (ROE), and total debt to total assets (TD/TA) can be significantly influenced by moderating factors, particularly ESG pillar scores, on corporate market value ratios such as price-to-earnings (P/E), price-to-book (P/B), and dividend payout (DIV). In this context, the finding that PBV does not function as a moderating variable between total asset turnover (TATO) and stock returns can be explained by a similar rationale: PBV primarily reflects the outcome of market perceptions, while external factors such as ESG, investor sentiment, or broader market conditions play a more dominant role than PBV as an interaction mechanism moderating the TATO to stock return relationship.

In other words, although TATO represents a company's asset efficiency, its contribution to stock returns may be more strongly shaped by external factors and investor preferences than by market valuation as represented by PBV. Previous research on 31 non-financial companies across 11 emerging EMEA markets between 2015 and 2022 showed that ESG scores could moderate the relationship between financial ratios and market value ratios, suggesting that relevant external and dynamic market factors such as ESG considerations play a more important role than PBV in moderating the impact of asset efficiency on stock returns (Torasan et al., 2026). Therefore, the insignificance of PBV as a moderator between TATO and stock returns aligns with the notion that effective moderation depends more on adaptive, context-specific external factors.

ESG factors are increasingly important in emerging markets, helping firms manage risks, attract investment, and enhance competitiveness (Rahat & Nguyen, 2024). Companies that actively implement ESG practices tend to build long-term value and resilience, with empirical evidence showing that higher ESG scores boost firm valuation while ESG controversies can reduce it. Similarly, investors show a preference for manufacturing firms that prioritize ESG, regardless of financial

performance, highlighting that a strong ESG profile can significantly influence both firm value and stock returns.

Conclusions

This study finds that financial performance ratios, including liquidity (CR), leverage (DER), profitability (ROA), and activity (TATO), as well as firm value (PBV) as a moderating variable, do not have a significant effect on stock returns in manufacturing companies listed on the Indonesia Stock Exchange during the 2018–2022 period. Theoretically, these findings suggest that traditional models relying solely on financial ratios and the moderating role of PBV are insufficient to explain stock return movements. This highlights the need to consider not only internal company factors but also dynamic external factors such as market conditions and investor sentiment to better understand and predict stock returns. Practically, investors should incorporate market conditions and non-financial attributes of firms, such as ESG performance and market sentiment, into their investment decisions, while companies should enhance transparency, adopt sustainable practices, and manage their capital structure prudently to strengthen investor confidence.

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