

The Role Of Capital Structure In Mediating Profitability On Stock Price

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ABSTRACT

This research aims to determine the role of capital structure in mediating the influence of profitability on stock prices in companies included in the IDX BUMN20 index on the Indonesia Stock Exchange (IDX) for the 2018-2022 period. Based on the 26 companies in the research population, 16 companies met the criteria for determining the research sample using purposive sampling techniques. The data analysis technique uses path analysis with data processing using SPSS program version 26. The research results show that profitability has a significant positive effect on stock prices, profitability has a significant negative effect on capital. structure, capital structure has no effect on stock prices, capital structure has no role in mediating the effect of profitability on stock prices, and is not significant. Companies consistently need to pay attention to financial performance through financial ratios and investors are advised to analyze the company's financial performance before making investment decisions.

ABSTRAK

Penelitian ini bertujuan untuk mengetahui peran struktur modal dalam memediasi pengaruh profitabilitas terhadap harga saham pada perusahaan yang termasuk dalam indeks IDX BUMN20 di Bursa Efek Indonesia (BEI) periode 2018-2022. Berdasarkan 26 perusahaan yang menjadi populasi penelitian, terdapat 16

perusahaan yang memenuhi kriteria penetapan sampel penelitian dengan teknik purposive sampling. Teknik analisis data menggunakan analisis jalur dengan pengolahan data menggunakan SPSS versi 26. Hasil penelitian diperoleh bahwa profitabilitas berpengaruh positif signifikan terhadap harga saham, profitabilitas berpengaruh negatif signifikan terhadap struktur modal, struktur modal tidak berpengaruh terhadap harga saham, struktur modal tidak berperan dalam memediasi pengaruh profitabilitas terhadap harga saham dan tidak signifikan. Perusahaan secara konsisten perlu memperhatikan kinerja keuangan melalui rasio-rasio keuangan dan investor disarankan untuk melakukan analisis terhadap kinerja keuangan perusahaan sebelum melakukan pengambilan keputusan berinvestasi.

INTRODUCTION

The capital market has become an important instrument for supporting economic development and an indicator of a country's economic progress. Up until 2022, the development and performance of the Indonesian capital market have demonstrated a stable and positive trend. The presence of the capital market provides benefits for companies and parties who desire to invest. Before deciding to invest, investors first look for company information. Stock price movement is one of the pieces of information that reflects the performance of a company (Rahayu, 2021).

Stock prices can be stable or fluctuate at any time, depending on the stock supply and demand. A rising stock price indicates that the issuing company's shares are in high demand. When investor demand for company shares increases, the share price also increases. High and low stock prices can reflect a company's financial performance, whether the company is in good condition or not (Rahayu, 2021).

Companies with high profits reflect the company's financial performance in good condition and open up opportunities for investors to invest (Buntu, 2023). As described in the signal theory, companies must send signals to users of their financial statements. If the company's profit increases, it can be considered a positive signal because it indicates that the company's situation is in good condition. Conversely, if the company's profit decreases, it indicates that it is in bad condition and is considered a negative signal (Mariani & Suryani, 2018).

Profitability refers to a company's ability to generate profit in a given period. According to Hery (2017, p. 8), return on asset (ROA) is a proxy for profitability that is commonly used to measure how much assets contribute to net income. Return on Asset (ROA): the higher the return in a company, the higher the profit, and the better the company is at asset utilization. Investors will be interested in investing in companies with a high rate of return.

According to Hery (2017, p. 8), the rise and fall of the company's profitability

affect the stock price. This statement is in accordance with research conducted by Jayanti & Lestari (2020), Mustikasari & Situngkir (2021), Fitriani & Indra (2022) and Fajrina et al. (2023) which stated that profitability has a positive effect on stock prices. However, research conducted by Barus & Sudjiman (2021), Romadhoni et al. (2022) and Budastra (2023) did not succeed in proving that profitability has a positive effect on stock prices.

Companies with high profitability often use loans to obtain tax benefits, so it is necessary to analyze the capital structure of the company (Kamaliyah et al., 2018). Capital structure refers to the combination of funding sources used by a company to finance its operations. According to Kasmir (2019, pp. 159–160), this combination is known as the solvency ratio, and one of the proxies for this ratio is the debt-to-equity ratio (DER).

According to the pecking order theory, companies prefer to use internal funds rather than external funds to obtain profits (Myers, 1984). Research conducted by Prasetyo (2016) and Sukarno et al. (2016) profitability has an indirect effect on stock price via capital structure. However, research conducted by Al Umar et al. (2020) and Mukaromah & Subadriyah (2019) shows that profitability has no indirect effect on stock price through capital structure.

Previous research shows different results regarding the role of capital structure in mediating profitability and stock price. Based on the research context, both the company object and the research observation period are unique. The company object used is the BUMN20 index company listed on the Indonesia Stock Exchange (IDX) as the object of research with an observation period from 2018 to 2022. In BUMN20 index companies, there has been no research on the role of capital structure in mediating profitability and stock prices.

So the object of research that will be used is the IDX BUMN20 company on the Indonesia Stock Exchange (IDX), an index that measures the performance of 20 BUMN companies, BUMDs, and their affiliates listed in Indonesia. BUMN shares are issuers targeted by investors in the capital market, according to Imam Rachman, Director of the Indonesia Stock Exchange (Aprilia, 2023). Since the start of 2023, the share price performance of BUMN Karya companies has been observed to continue to decline (Setiawati, 2023). The following picture is presented in the form of information on the company performance of BUMN Karya companies in the first quarter of 2023 based on data processed by Setiawati (2023).

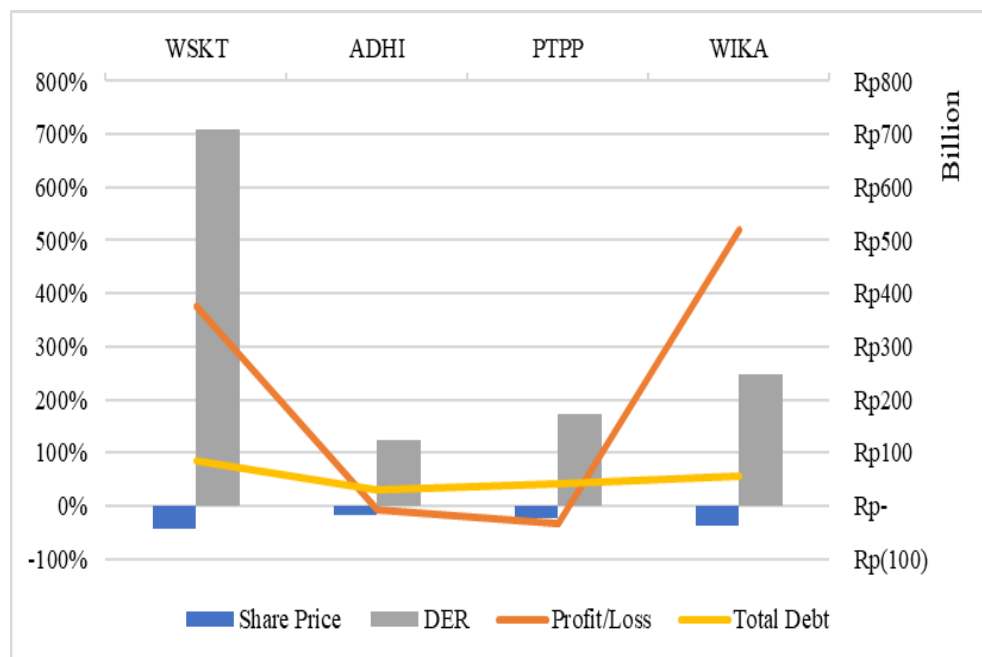


Figure 1. Performance Information of BUMN Karya Companies

Figure 1.1 shows that in the first quarter of 2023, all BUMN Karya companies experienced a decline in stock price performance year to date. There were 2 companies experiencing profits, namely WSKT and WIKA, then 2 other companies experienced losses, namely ADHI and PTPP, and the Debt to Equity Ratio (DER) of the four companies was above 100%, indicating that the total debt was much greater than the total equity.

WSKT share price performance decreased by 44.51%, resulting in loss of Rp374.93 billion and a DER of 708%. ADHI share price performance decreased 19.01%, resulting in a profit of Rp8.45 billion and a DER of 123%. PTPP share price performance decreased by 22.22%, resulting in a profit of Rp34.22 billion and a DER of 172%. WIKA share price performance decreased 36.65%, resulting in a loss of Rp521.2 billion and a DER of 249%.

Performance information, encompassing stock prices, profitability, and capital structure, in BUMN Karya companies during the first quarter of 2023 reveals a phenomenon that deviates from theoretical expectations. Based on the described phenomenon and the inconsistent results of various research studies examining the indirect relationship between capital structure and the impact of profitability on stock prices, This study will examine the role of capital structure in mediating profitability on stock prices in companies listed on the IDX BUMN20 index for the 2018–2022 period.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Signalling Theory

According to signal theory, the company's internal party (management) must provide relevant information to external parties (investors) so that there is no information asymmetry between the two parties. Publication of financial statements communicates company information to owners and interested parties, and it can contain positive or negative signals. An increase in company profits will be considered a positive signal, while a decrease in company profits will be considered a negative signal by external parties.

Pecking Order Theory

According to the pecking order theory, there is an order of funding for companies. Companies tend to prefer internal funding over external funding. Generally, companies with high profits have relatively low debt because they are able to finance their operational activities and do not need to borrow funds from outside. However, a company with a large amount of debt will be considered good news, whereas the issuance of shares will be considered bad news by investors.

Share Price

The share price reflects the company's wealth when issuing shares. Changes in stock prices are caused by the supply and demand for shares in the secondary market cause changes in stock prices. Stock price conditions can be overvalued or undervalued. Stock price categories are classified into high price, low price, and close price. Investors consider the company's share price when making investment decisions. Stock price movements can be estimated through two analyses, namely technical analysis and fundamental analysis.

Profitability

Profitability indicates that a company's success is reflected in its ability to earn profits. Profitability is also used to evaluate company performance. Measurement of profitability ratios can be carried out over different periods or within a certain period of time. The proxy used to measure profitability in this study is return on asset (ROA), or a ratio that measures the extent to which assets contribute to net income.

Capital Structure

The capital structure is used by companies to finance their operational activities. Managers are responsible for determining the right source and amount of funds so that they do not overburden the company. There is a need for funding

decisions with the goal of achieving the company's optimal capital structure. In this study, the debt-to-equity ratio (DER), or the ratio that measures the proportion between the company's liabilities and the amount of its own capital, is the proxy used to measure the capital structure.

Research Hypothesis

When making an investment, an investor must pay attention to a company's profitability. High company profitability tends to attract a positive response from investors. This positive response will lead to an increase in the company's share price. The company's profit serves as a signal that must be understood by investors, because increased profits are seen as a positive indication of the company's overall health and performance.

Research conducted by Kurnianingrum et al. (2021), Kosasih & Setyawan (2022), and Sandiawati & Hidayati (2023) stated that profitability has a significant positive effect on stock prices. These studies prove that any increase in profitability can increase stock prices and affect future stock prices. Based on theoretical studies and previous research descriptions, the following hypothesis is developed:

H1 : Profitability has a positive effect on stock prices.

Companies with high profits use more internal funds than external funds, resulting in a lower debt ratio. Companies prioritize retained earnings as a quick source of funding. Profitable companies have less debt, in accordance with the pecking order principle. These companies do not need external loans; hence, their debt levels are not too high. Their profits can fulfill the company's needs.

Research conducted by Hidayat et al. (2021), Saputri et al. (2022), and Agustinus & Mulyani (2023) stated that profitability has a significant negative effect on capital structure. These studies prove that the higher the company's profitability, the lower its capital structure. Based on theoretical studies and previous research descriptions, the following hypothesis is developed:

H2 : Profitability negatively affects capital structure.

Companies must choose the most efficient source of funds to support investment activities and company operations. Investors will prefer debt issuance over stock issuance. However, the level of debt does not always indicate a company's success, and changes in capital structure do not directly affect stock prices. High debt can slow down the company's growth and make shareholders reconsider investing.

Research conducted by Hidayat & Azib (2021), Enrico & Sunarto (2022), and Sari et al. (2023) stated that capital structure has a significant negative effect on stock prices. These studies prove that an increase in debt does not cause an increase in the

company's share price. Based on theoretical studies and previous research descriptions, the following hypothesis is developed:

H3 : Capital structure negatively affects stock price.

The company's capital structure will grow, resulting in a higher level of profitability, which in turn will increase the company's stock price. The main focus in evaluating the company's performance lies in the profitability reflected in the financial statements. The company's main goal is to optimise profits to ensure its long-term survival. A high share price indicates an improvement in the company's performance. The aim is to attract investors by offering the potential for a significant return on investment.

Research conducted by Faidah & Wismar'ain (2021) S. A. Putri (2017) and Kamaliyah et al. (2018) stated that capital structure can mediate the effect of profitability on stock prices. These studies prove that an increase in company debt will indirectly affect profitability and stock prices. Based on theoretical studies and previous research descriptions, the following hypothesis is developed:

H4 : Capital structure is able to mediate the effect of profitability on stock price.

Research Conceptual Framework

The following conceptual framework illustrates the direct effect of profitability on stock price, the direct effect of profitability on capital structure, the direct effect of capital structure on stock price and the indirect effect of profitability on stock price through capital structure.

RESEARCH METHODOLOGY

Research Design

This research design employs a quantitative approach. Research with a quantitative approach is research based on the philosophy of positivism. This method is used to examine a group of populations or certain samples. Research instruments are used in the use of research data. Data analysis is quantitative, which intends to test a hypothesis that has been previously set (Sugiyono, 2019, p. 16).

Determination of Population and Sample

The population in this study are companies listed on the IDX BUMN20 index on the Indonesia Stock Exchange (IDX) for the period 2018–2022. In this study, 26 companies were included in the population. In this study, purposive sampling was the sampling technique used. Based on the 26 companies in the population, there are

16 companies that meet the criteria for determining the research sample.

Variable Operational Definition

Independent Variable

In this study, the independent variable is stock price, and the variable measurement scale is a ratio scale. According to Listiyowati (2020) the closing stock price or closing price are proxies used to measure stock prices. The closing price refers to the final price that occurs at the end of a stock exchange session (Fadila & Nuswandari, 2022).

Dependent Variable

In this study, the dependent variable is profitability, and the measurement scale is a ratio scale. A profitability ratio is a ratio to assess the company's ability to seek profit (Kasmir, 2019, p. 212). The proxy used to measure profitability is the return on asset (ROA) ratio, which calculates the net profit earned from each rupiah of total assets (Hery, 2017, p. 8). The formula for calculating profitability using the return on asset (ROA) is:

$$ROA = \frac{\text{Net Income}}{\text{Total Asset}} \dots\dots\dots 1$$

Intervening Variable

In this study, the intervening variable is capital structure, and the variable measurement scale is a ratio scale. The capital structure will compare foreign capital with equity capital (Kasmir, 2019, p. 167). The proxy used to measure capital structure is the Debt to Equity Ratio (DER), which is the ratio used to assess debt to equity (Kasmir, 2019, p. 159). The formula for calculating the capital structure uses the solvency ratio in the form of the debt-to-ratio (DER):

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}} \dots\dots\dots 2$$

Data Collection Technique

The research uses quantitative data, namely data in the form of certain numbers, which can be operated systematically (Sugiyono, 2019, p. 9). The data source utilizes secondary data and data retrieval techniques, specifically in the form of published company financial reports.

Data Analysis Technique

Data analysis uses a quantitative data analysis approach because it analyses data in the form of numbers or numbers. SPSS version 26 is the software used in data

processing.

Data Analysis Technique

Descriptive Statistics

Descriptive statistics are used to analyse data by describing the collected data as it is, without intending to make general conclusions or generalisations (Sugiyono, 2019, p. 206).

Classical Assumption Test

The classical assumption test is the first step before conducting multiple linear regression analysis, with the goal of ensuring that the regression coefficient is unbiased, consistent, and accurate in estimation. The classic assumption test, according to Ghozali (2021, pp. 157–202) includes the normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

The normality test aims to test whether, in the regression model, confounding or residual variables have a normal distribution. The multicollinearity test aims to test whether the regression model finds a correlation between independent variables. The autocorrelation test aims to determine whether, in the linear regression model, there is a correlation between confounding errors in period t and confounding errors in period $t-1$ (previous). The heteroscedasticity test aims to test whether, in the regression model, there is an inequality of variance from the residuals of one observation to another.

Path Analysis

Path analysis is an extension of multiple linear regression analysis. Path analysis uses regression analysis to estimate the causal relationship between variables that have previously been determined based on theory. A direct relationship occurs if one variable affects another without a third variable mediating (intervening) the relationship between the two variables. An indirect relationship is one in which a third variable mediates the relationship between the two variables (Ghozali, 2021, pp. 277–278).

Coefficient of Determination (R^2)

The coefficient of determination measures how much the percentage of the ability of the independent variables as a whole explains the dependent variable, while the rest is influenced by other variables that are not included in the model (Ghozali, 2021, p. 148).

Hypothesis Test

Hypothesis testing in this study uses the partial parameter significance test (t test)

and the Sobel test. The t test is used to determine the effect of the independent variable on the dependent variable individually or partially. The sobel test is used to determine the indirect effect of the independent variable on the dependent variable through the intervening variable.

ANALYSIS AND DISCUSSION

Descriptive Statistics

ELSA in 2021 and a maximum value of 12,475, namely SMGR in 2020. The average value is 3,274.76 and the standard deviation value of 2,832.300 is greater than the average value, which means that the distribution of data varies.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Share Price (Closing Price)	80	276	12475	3274.76	2832.300
Profitability (ROA)	80	-.0899	.2817	.036756	.0562013
Capital Structure (DER)	80	.0844	16.0786	3.845257	3.7005351
Valid N (listwise)	80				

Source : data processed (2024)

ELSA in 2021 and a maximum value of 12,475, namely SMGR in 2020. The average value is 3,274.76 and the standard deviation value of 2,832.300 is greater than the average value, which means that the distribution of data varies.

Profitability with ROA proxy has a minimum value of -0.0899, namely WSKT 2020 and a maximum value of 0.2817, namely PTBA in 2022. The average value is 0.036756 and the standard deviation value of 0.0562013 is greater than the average value, which means that the distribution of data varies.

Capital structure with DER proxy has a minimum value of 0.0844, namely TLKM in 2022 and a maximum value of 16.0786, namely BBTN in 2020. The average value is 3.845257 and the standard deviation value of 3.7005351 is smaller than the average value, which means that the data distribution is less varied.

Classical Assumption Test

The classic assumption test includes normality test, multicollinearity test, autocorrelation test and heteroscedasticity test.

Normality Test

Based on the output obtained significant value of equations (1) and (2) using Kolmogorov-Smirnov (K-S) of 0.200, the data is normally distributed because the significance value is > 0.05 .

Table 2. Normality Test

		Unstandardized Residual	
N		80	80
Normal Parameters ^{a,b}	Mean	.0000000	.0000000
	Std. Deviation	2.99072080	2628.61326618
Most Extreme Differences	Absolute	.073	.054
	Positive	.073	.054
	Negative	-.045	-.052
Test Statistic		.073	.054
Asymp. Sig. (2-tailed)		.200 ^{c,d}	.200 ^{c,d}
a. Test distribution is Normal.			
b. Calculated from data.			
c. Lilliefors Significance Correction.			
d. This is a lower bound of the true significance.			

Source : data processed (2024)

Multicollinearity Test

Based on the output, the tolerance value is 0.719, which means the tolerance value ≥ 0.10 and the Variance Inflation Factor (VIF) value is 1.390, which means the VIF value ≤ 10 , so there is no multicollinearity between the independent variables.

Table 3. Multicollinearity Test

		Coefficients ^a	
		Collinearity Statistics	
Model		Tolerance	VIF
1	(Constant)		
	Profitability (ROA)	.719	1.390
	Capital Structure (DER)	.719	1.390

a. Dependent Variable: Share Price (Closing Price)

Source : data processed (2024)

Autocorrelation Test

Based on the output, the DW value of 2.009 will be compared with the table value. Referring to the table, dl is 1.5859 and du is 1.6882. So it is obtained that $du < d < 4 - du$ or $1.6882 < 2.009 < 2.3118$, so there is no positive or negative autocorrelation.

Table 4. Autocorrelation Test

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.090 ^a	.008	-.018	2666.01312	2.009
a. Predictors: (Constant), Capital Structure (DER), Profitability (ROA)					

b. Dependent Variable: Share Price (Closing Price)

Source : data processed (2024)

Heteroscedasticity Test

Based on the output, the points on the scatterplot graph do not form a certain regular pattern or there is no clear pattern and the points spread above and below the number 0 on the Y axis, so there is no heteroscedasticity.

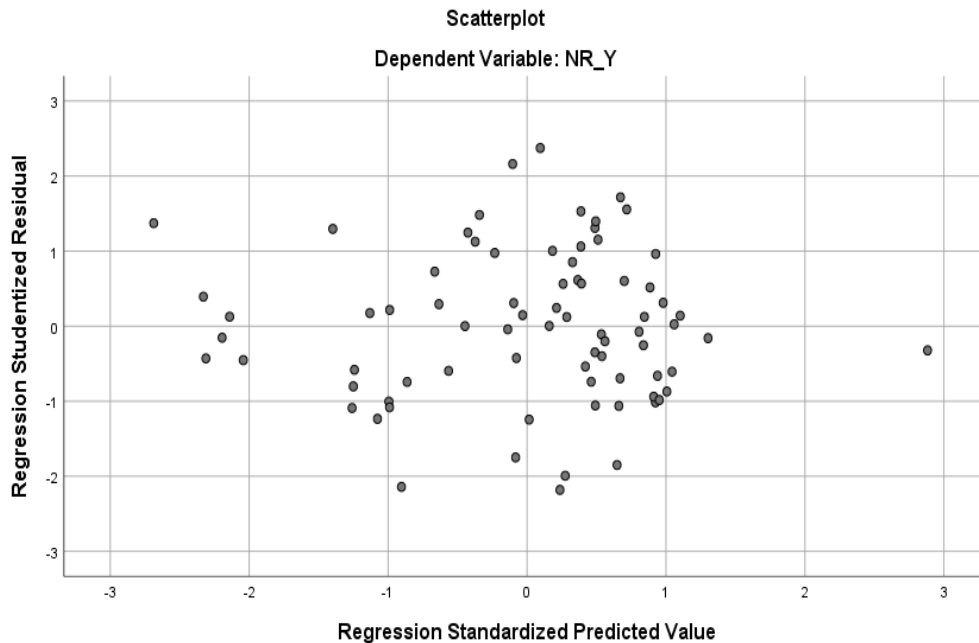


Figure 3. Heteroscedasticity Test

Path Analysis

Based on the output, the standardized coefficients beta value of profitability (ROA) on capital structure (DER) in equation (1) is -0.531, which means that profitability (ROA) does not affect capital structure (DER) and this value is the path value or path ρ_2 .

Table 5. Path Analysis Equation (1)

		Coefficients ^a			
		Unstandardized Coefficients	Standardized Coefficients		
Model		B	Std. Error	Beta	t
1	(Constant)	5.212	.416		12.518
	Profitability (ROA)	-34.817	6.374	-.531	-5.462

a. Dependent Variable: Capital Structure (DER)

Source : data processed (2024)

Table 6. Path Analysis Equation (2)

		Coefficients ^a		t	Sig.
		Unstandardized Coefficients	Standardized Coefficients		
Model		B	Std. Error	Beta	
1	(Constant)	1882.430	646.136		2.913 .005
	Profitability (ROA)	16685.421	6658.201	.329	2.506 .014
	Capital Structure (DER)	195.604	101.574	.253	1.926 .058

a. Dependent Variable: Share Price (Closing Price)

Source : data processed (2024)

Based on the output, the standardized coefficients beta value of profitability (ROA) on share price (closing price) in equation (2) is 0.329, which means that profitability (ROA) affects share price (closing price) and this value is the path value or path ρ_1 .

Based on the output, the standardized coefficients beta value of capital structure (DER) on share price (closing price) in equation (2) is 0.253, which means that capital structure (DER) affects share price (closing price) and this value is the path value or path ρ_3 .

The direct effect can be seen in the path value or path ρ_1 so that the value of the direct effect of profitability (ROA) on share price (closing price) is 0.329. The indirect effect is calculated by multiplying the path value or path ρ_2 by the path value or path ρ_3 which is -0.531 and 0.253 obtained the value of the indirect effect of profitability (ROA) on share price (closing price) through capital structure (DER) of -0.134.

So it is obtained that the value of the indirect effect < the value of the direct effect or $-0.134 < 0.329$ then capital structure (DER) does not play a role in mediating the effect of profitability (ROA) on share price (closing price) because the value of the indirect effect is smaller than the direct effect.

Coefficient of Determination (R^2)

Based on the output, the adjusted R square value is 0.272, which means that profitability (ROA) can explain the relationship to capital structure (DER) by 27.2% and the remaining 72.8% is explained by other factors outside the model.

Table 7. Coefficient of Determination (R^2) Equation (1)

Model Summary					Std. Error of the Estimate
Model	R	R Square	Adjusted R Square		
1	.531 ^a	.282	.272		3.010332
a. Predictors: (Constant), Profitability (ROA)					
b. Dependent Variable: Capital Structure (DER)					

Source : data processed (2024)

Table 8. Coefficient of Determination (R^2) Equation (2)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.290 ^a	.084	.059	2663.89824
a. Predictors: (Constant), Capital Structure (DER), Profitability (ROA)				
b. Dependent Variable: Share Price (Closing Price)				

Source : data processed (2024)

Based on the output, the adjusted R square value is 0.059, which means that profitability (ROA) and capital structure (DER) can explain the relationship to share price (closing price) by 5.9% and the remaining 94.1% is explained by other factors outside the model.

Hypothesis Test

Hypothesis testing includes partial parameter significance test (t test) and sobel test.

Partial Parameter Significance Test (t-test)

Table 9. Partial Parameter Significance Test (t-test) Equation (1)

		Coefficients ^a			t	Sig.
		Unstandardized Coefficients	Std. Error	Standardized Coefficients		
Model		B		Beta		
1	(Constant)	5.212	.416		12.518	.000
	Profitability (ROA)	-34.817	6.374	-.531	-5.462	.000
a. Dependent Variable: Capital Structure (DER)						

Source : data processed (2024)

Based on the output, a significant value of 0.000 is obtained, which means that the regression of profitability (ROA) on capital structure (DER) is significant because the significance value is < 0.05 .

Table 10. Partial Parameter Significance Test (t-test) Equation (2)

		Coefficients ^a			t	Sig.
		Unstandardized Coefficients	Std. Error	Standardized Coefficients		
Model		B		Beta		
1	(Constant)	1882.430	646.136		2.913	.005
	Profitability (ROA)	16685.421	6658.201	.329	2.506	.014

Capital Structure (DER)	195.604	101.574	.253	1.926	.058
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a. Dependent Variable: Share Price (Closing Price)

Source : data processed (2024)

Based on the output, a significant value of 0.014 is obtained, which means that the regression of profitability (ROA) on share price (closing price) is significant because the significance value is < 0.05 and the calculation result of a significant value of 0.058, which means that the regression of capital structure (DER) on share price (closing price) is not significant because the significance value is > 0.05 .

Sobel Test

The first step is to calculate the standard error of the indirect effect coefficient (Sp_{2p3}) which can be formulated and calculated.

$$\begin{aligned}
 Sp_{2p3} &= \sqrt{\rho_{32}^2 Sp_{22}^2 + \rho_{23}^2 Sp_{33}^2 + Sp_{22}^2 Sp_{33}^2} \\
 &= \sqrt{(195,604)^2 (6,374)^2 + (-34,817)^2 (101,574)^2 + (6,374)^2 (101,574)^2} \\
 &= \sqrt{(1.554.460,109) + (12.506.846,099) + (419.169,070)} \\
 &= \sqrt{14.480.475,278} \\
 &= 3.805,322
 \end{aligned}$$

The second step is to find the t value. To calculate the t value of the effect of mediation can be formulated as and calculated.

$$\begin{aligned}
 t &= \frac{\rho_{2p3}}{Sp_{2p3}} \\
 &= \frac{(-34,817)(195,604)}{3.805,322} \\
 &= \frac{-6.227,336}{3.606,018} \\
 &= -1,799
 \end{aligned}$$

Based on the output, the t value is -1.799, which means that the indirect effect of profitability (ROA) on share price (closing price) through capital structure (DER) is not significant because the t value < 1.96 .

Effect of Profitability on Stock Price

Based on the output, it is known that the path value or the value that shows the direction of the direct relationship between profitability and stock price is 0.329 with a significance value of 0.014 smaller than 0.05, it can be concluded that profitability has a significant positive effect on stock prices, so hypothesis 1 in this study is accepted. The significance of the effect of profitability on stock prices shows

that investors pay attention to profitability in their investment decisions.

This aligns with the signal theory, which delineates that the signals companies emit about their condition can either be positive or negative. If the company's profit increases, it can be considered a positive signal because it indicates that the company's situation is in good condition. Conversely, if the company's profit decreases, it indicates that it is in bad condition and is considered a negative signal (Mariani & Suryani, 2018). When the return on assets (ROA) is positive, it reflects the company's efficiency in using assets to generate profits. Earnings will make investors interested in investing, and investors' desire for the company will show a positive signal that the company's share price will increase.

The results of this study aligns with research conducted by Natalina & Junardi (2022), Elshinta & Suselo (2023) and Sari et al. (2024) which stated that profitability has a significant positive effect on stock prices. When making an investment, an investor must pay attention to a company's profitability. High company profitability tends to attract a positive response from investors. This positive response will lead to an increase in the company's share price. The profit generated by the company serves as a signal that must be understood by investors, because an increase in profit is seen as a positive indication of the company's overall health and performance.

Effect of Profitability on Capital Structure

Based on the output, it is known that the path value or the value that shows the direction of the relationship between profitability and capital structure is -0.531 with a significance value of 0.000 smaller than 0.05, so it can be concluded that profitability has a significant negative effect on capital structure, so hypothesis 2 in this study is accepted. The significance of the effect of profitability on capital structure shows that company management pays attention to profitability in determining the combination of funding sources.

This aligns with the pecking order theory, demonstrating an inverse relationship between corporate profitability and the amount of corporate debt. The low level of corporate debt is due to the company's independence, not a deliberate strategy to reduce loans. This is because the company's profit is sufficient to fulfill its operational needs (Melinia & Priyadi, 2021). When the return on assets (ROA) is positive, it indicates the company's efficiency in using assets to generate profits. Earnings will allow the company to carry out its operational activities with internal funds, resulting in less debt than equity.

The results of this study aligns with research conducted by Astuty (2022), Wibawa et al. (2023) and Destianti et al. (2024) which stated that profitability has a negative and insignificant effect on capital structure. Companies with high profits

use more internal funds than external funds, resulting in a lower debt ratio. The company prioritizes retained earnings as a quick source of funding. Profitable companies have less debt. These companies do not need external loans; therefore, the level of corporate debt is not too high. The profits earned by the company can be used to meet its needs.

Effect of Capital Structure on Stock Price

Based on the output, it is known that the path value or the value that shows the direction of the relationship between capital structure and stock price is 0.253 with a significance value of 0.058 greater than 0.05, it can be concluded that capital structure has no effect on stock price, so hypothesis 3 in this study is rejected. The no effect of capital structure on stock price indicates that investors do not pay attention to capital structure in their investment decisions. Increasing and decreasing capital structure has no effect on increasing and decreasing stock prices.

According to the pecking order theory, corporate funding decisions follow a hierarchy. The company will prioritize the use of internal funding compared to external funding (Myers, 1984). A company's capital structure is a description of how it combines various funding sources to meet its financial needs while running its operations. Each company has a different strategy for determining the appropriate combination of funding sources and how the company will manage the funding efficiently.

The results of this study are aligns with research conducted by Margaretha et al. (2022), Meirista & Santoso (2023) and Oktarianti et al. (2024) which stated that capital structure has a positive and insignificant effect on stock prices. The combination of corporate funding sources and the level of debt do not fully affect investor interest in investing. The size of the company's debt does not indicate whether it is performing well or poorly, so changes in capital structure do not affect stock prices. Investors see more clearly how the company's management uses these funds effectively.

The Role of Capital Structure in Mediating the Effect of Profitability on Stock Price

Based on the output, it is known that the path value or the value that shows the direction of the indirect relationship of profitability to stock price through capital structure is -0.134 while the path value or the value that shows the direction of the direct relationship of profitability to stock price is 0.329 which means that the value of indirect effect is smaller than the value of direct effect. The calculation result of sobel test obtained t value -1.727 is smaller than absolute t 1.96. So it can be concluded that capital structure does not play a role in mediating the effect of

profitability on stock prices and is not significant.

The effect of profitability on stock price tends to be more effective without involving capital structure considerations, in line with signal theory and pecking order theory. According to the signaling theory, profitability information can directly influence investors' perceptions of stock prices, indicating the company's prospects without involving capital structure details. The pecking order theory also outlines that although high profitability provides a positive signal, firms may choose a more flexible funding hierarchy and consider less capital structure in conveying the positive signal. Both theories emphasize that profitability can have a more efficient positive impact on stock prices if it does not include capital structure considerations.

The results of this study aligns with research conducted by Astuti et al. (2022), Ichwanudin et al. (2023) and Oktarianti et al. (2024) which stated that capital structure does not play a role in mediating the effect of profitability on stock prices. A company's capital structure is a description of how it combines various sources of funding to meet its financial needs while carrying out company operations. Each company has a different strategy for determining the appropriate combination of funding sources and how the company will manage the funding efficiently.

Although capital structure has an important role in financial decisions, investors tend to pay more attention to directly visible financial performance, such as profitability, compared to complex capital structures. Investors will give a positive assessment of the company's health and performance if it is able to generate consistent and high profits. The positive assessment indicates that investors are interested in investing; investors' desire for the company will show a positive signal that the company's share price will increase.

CONCLUSIONS, LIMITATIONS AND SUGGESTIONS

Based on the results of research and discussion, it can be concluded that profitability has a significant positive effect on stock prices, profitability has a significant negative effect on capital structure, capital structure has no effect on stock prices, and capital structure does not play a role in mediating the effect of profitability on stock prices and is not significant.

Companies consistently need to pay attention to financial performance through financial ratios in all aspects to increase the company's share price. Investors and potential investors are advised to analyze the company's financial performance before making decisions about investing in a company or in the capital market.

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