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Testing Signalling Theory: The Mediating Role of Profitability in the Relationship between Liquidity, Solvency, and Stock Prices

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Abstract

Guided by Signaling Theory, this study examines the effects of liquidity and solvency on stock prices and investigates the mediating role of profitability. Using a quantitative approach, secondary data from 12 building construction companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2025 period were analyzed via Structural Equation Modeling–Partial Least Squares (SEM-PLS). The findings reveal that liquidity has no significant direct effect on stock prices, whereas solvency and profitability positively and significantly impact them. Furthermore, liquidity significantly boosts profitability, while solvency does not. Crucially, the mediation analysis demonstrates that profitability significantly mediates the relationship between liquidity and stock prices, acting as a key transmission mechanism, but fails to mediate the solvency-stock price link. This study provides empirical novelty by uncovering this mediating mechanism within a capital-intensive industry. Practically, these insights offer valuable guidance for managers in optimizing financial performance, for investors in evaluating market valuation, and for regulators in enhancing financial transparency.

Keywords: stock price, liquidity, solvency, profitability, signaling theory

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INTRODUCTION

The capital market plays an important role in facilitating investment activities and supporting economic growth. Stocks are among the most widely traded financial instruments because they provide investors with opportunities to earn returns through capital gains and dividends. However, stock prices tend to fluctuate as they reflect market reactions to information related to a company's financial condition and future prospects. Under signalling theory, financial information serves as a signal that helps investors assess firm value and reduce information asymmetry. Therefore, financial performance indicators such as liquidity, solvency, and profitability are important considerations in investment decision-making. Positive financial signals are expected to increase investor confidence and market valuation, which may ultimately be reflected in higher stock prices (Ross, 1977; Brigham & Houston, 2022).

This study focuses on building construction sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2025 period. The selection of this sub-sector is based on its strategic role in supporting infrastructure development and promoting national economic growth. The construction sector is recognized as one of the key contributors to Indonesia's economy through value creation, employment generation, and the enhancement of regional connectivity. According to data published by the Statistics Indonesia (BPS), the construction sector has consistently contributed significantly to Indonesia's Gross Domestic Product (GDP), despite experiencing fluctuations in its growth rate over time. These conditions indicate that the construction sector plays a vital role in stimulating economic activity and supporting sustainable national development. However, the growth of the construction sector is not always accompanied by an improvement in the market performance of construction companies, as reflected in their stock price movements. Building construction companies face various challenges, including rising construction costs, intense industry competition, changes in government policies, and economic uncertainty, all of which may affect their financial performance and investors' perceptions. Consequently, firm value within the building construction sub-sector has shown considerable fluctuations during the observation period. This discrepancy between sectoral growth and firm value performance presents an important research phenomenon that warrants further investigation. Therefore, this study aims to examine the determinants of firm value in building construction companies, particularly those related to the companies' financial characteristics. The findings are expected to contribute to the development of corporate finance literature and provide useful insights for investors, corporate managers, and other stakeholders in making strategic and investment decisions.

Stock price is widely recognized as one of the most important indicators of a company's market performance and firm value. A high and stable stock price generally reflects positive investor perceptions regarding management's ability to utilize company resources effectively, generate

sustainable profits, and create long-term value for shareholders. As a market-based measure, stock price incorporates investors' assessments of a company's financial condition, growth opportunities, risk exposure, and future prospects. Therefore, companies that consistently maintain or increase their stock prices are often perceived as having strong managerial performance and favorable business prospects. Furthermore, firm value is closely associated with shareholder wealth maximization and is commonly reflected in the company's stock price in the capital market. Consequently, fluctuations in stock prices provide valuable information regarding changes in investor confidence and market expectations toward a company's future performance. For this reason, stock price remains one of the primary indicators used by investors and other stakeholders to evaluate corporate performance and determine investment decisions. (Gani et al., 2025), (Seroja & Juliarsa, 2025)

Financial performance is one of the key factors influencing a company's stock price and overall firm value. Investors rely on financial performance information to evaluate a company's ability to generate profits, manage its resources efficiently, and sustain future growth. Financial statements provide essential information regarding a company's profitability, liquidity, solvency, and operational efficiency, which are important considerations in investment decision-making. Strong financial performance generally signals a company's ability to create value and meet its financial obligations, thereby increasing investor confidence and attracting investment in the capital market. Conversely, poor financial performance may raise concerns about the company's future prospects and lead to a decline in investor interest. Therefore, financial performance serves as a critical basis for investors in assessing potential returns, estimating investment risks, and evaluating the long-term sustainability of a company. As a result, companies with strong financial performance are more likely to experience higher market valuations and favorable stock price movements.

This perspective is consistent with Signaling Theory, which suggests that companies have an obligation to disclose relevant information to external stakeholders through financial reporting. Financial reports serve as an important communication mechanism that enables investors to assess a company's current condition, operational performance, and future prospects. According to signaling theory, corporate managers possess superior information regarding the firm's actual performance and future opportunities compared to outside investors, resulting in information asymmetry. To reduce this asymmetry, managers provide signals through the disclosure of financial information that is accurate, reliable, relevant, and timely. Such information assists investors in evaluating the company's financial health and making informed investment decisions. The market's response to these signals is often reflected in stock price movements, as investors interpret favorable financial information as an indication of strong future performance and value creation. In analyzing a company's financial condition, investors commonly utilize financial ratios, including liquidity, solvency, and profitability ratios, to assess the firm's ability to meet its obligations, manage financial risk, and generate returns.

Consequently, financial ratio analysis plays a crucial role in reducing uncertainty and supporting investment decision-making in the capital market.(world Bank, 2024)

Liquidity is an important indicator of a company's ability to fulfill its short-term financial obligations as they become due. A company with a strong liquidity position demonstrates its capacity to manage working capital efficiently and maintain operational stability, thereby reducing the risk of financial distress. From an investor's perspective, adequate liquidity reflects sound financial management and enhances confidence in the company's ability to sustain its business activities and meet its commitments. Consequently, firms with higher liquidity levels are generally perceived more favorably by investors, as they indicate lower financial risk and greater financial flexibility. This positive perception can increase investor demand for the company's shares, which may ultimately contribute to an increase in stock prices and firm value. Therefore, liquidity plays a crucial role in shaping investor confidence and influencing market assessments of a company's financial health and future prospects.

Solvency is an important measure of a company's ability to meet both its short-term and long-term financial obligations. A strong solvency position indicates that a company has adequate financial resources to manage its debt commitments and sustain its operations over the long term. From an investment perspective, solvency reflects the level of financial risk faced by a company. Companies with lower debt risk and stronger solvency are generally viewed more favorably by investors because they are considered more capable of maintaining financial stability and generating sustainable growth. Consequently, a sound solvency position can enhance investor confidence, increase demand for the company's shares, and ultimately contribute to higher stock prices and firm value.

In addition, profitability is one of the most critical indicators of a company's financial performance and value creation capability. Profitability ratios measure the efficiency with which a company utilizes its assets, equity, and other resources to generate earnings. Higher profitability signals effective management performance and demonstrates the company's ability to create returns for shareholders. According to signaling theory, strong profitability serves as a positive signal to investors regarding the company's future prospects and growth potential. As a result, companies with higher profitability tend to attract greater investor interest, which can increase market demand for their shares and positively influence stock prices and firm value. Therefore, profitability is widely recognized as a key determinant of investor confidence and corporate valuation in the capital market.

Based on Signaling Theory, financial ratios serve as important signals that communicate a company's financial condition and future prospects to investors. Through the analysis of financial information, investors can assess the level of risk, financial stability, and growth potential of a company, which may ultimately influence stock price movements. Consequently, numerous studies have examined the relationship between financial ratios and stock prices, particularly liquidity and

solvency ratios. However, previous empirical findings remain inconclusive, indicating the existence of a research gap.

Regarding liquidity, several studies have reported that liquidity ratios positively influence stock prices. Ramadhani and Zannati (2018), Muhammad and Rahim (2015), and Amanah et al. (2014) found that the Current Ratio significantly affects stock prices. Similarly, Amanah et al. (2014) reported a significant relationship between the Quick Ratio and stock prices. More recent studies also provide evidence of the importance of liquidity in determining stock prices. Sari et al. (2024) found that liquidity has a significant influence on stock prices in industrial sector companies listed on the Indonesia Stock Exchange. However, other studies have reported contradictory findings. Sukma et al. (2019), Octaviani and Komalasarai (2017), Azmy and Lestari (2019), and Manullang et al. (2019) found that liquidity ratios do not significantly affect stock prices. Likewise, Kholiza et al. (2025) reported that although liquidity significantly influences stock prices, excessively high liquidity may be interpreted as inefficient asset utilization by investors, resulting in a negative relationship. These mixed findings suggest that the effect of liquidity on stock prices may differ across industries, economic conditions, and observation periods.

Similar inconsistencies are observed in studies examining solvency ratios. Hendri (2015) found that the Debt to Asset Ratio had a negative and significant effect on stock prices, whereas Ramadhana et al. (2018) reported a positive and significant relationship. More recently, Putri et al. (2026) found that the Debt to Asset Ratio positively and significantly affected stock prices, while the Debt to Equity Ratio had a negative and significant effect. In contrast, research conducted by Syahril (2019) found that the Long-Term Debt to Equity Ratio positively and significantly influenced stock prices, whereas Hendri (2015) found no significant relationship. Furthermore, a study by Jurnal Manajemen dan Bisnis Digital (2025) reported that both the Debt to Asset Ratio and Debt to Equity Ratio had no significant effect on stock prices of LQ45 companies. These inconsistent findings indicate that the relationship between solvency and stock prices remains inconclusive and requires further investigation.

The existence of these contradictory empirical findings demonstrates that the effects of liquidity and solvency on stock prices are still open to debate. Therefore, further research is necessary to provide more comprehensive evidence regarding the influence of liquidity and solvency on stock prices, particularly in building construction companies listed on the Indonesia Stock Exchange during the 2019–2025 period.

Based on the business phenomenon and research gaps identified in previous studies, this research is motivated by the fluctuation and declining trend of stock prices of building construction sub-sector companies during the 2019–2025 period, as well as the inconsistent findings regarding the effects of

liquidity and solvency on stock prices. These inconsistencies indicate that the relationship between financial ratios and stock prices remains inconclusive and warrants further investigation.

To address this issue, this study adopts Signaling Theory as its underlying theoretical framework. Signaling Theory suggests that companies convey information to investors through financial disclosures, which serve as signals regarding the company's current condition and future prospects. Investors use these signals to assess investment opportunities and make informed decisions in the capital market. Accordingly, financial information that reflects a company's financial health may influence investor perceptions and subsequently affect stock prices.

Although liquidity and solvency are important indicators of a company's financial condition, previous empirical studies have produced mixed results regarding their impact on stock prices. This suggests that investors may not directly interpret liquidity and solvency as positive signals capable of increasing firm value. From the perspective of Signaling Theory, the positive effect of liquidity and solvency may be realized when these financial conditions contribute to higher profitability. Profitability reflects management's effectiveness in utilizing company resources to generate earnings and is often regarded as a strong signal of future business prospects. Higher profitability can increase investor confidence, stimulate demand for shares, and ultimately lead to an increase in stock prices. Therefore, profitability may play a mediating role in explaining how liquidity and solvency influence stock prices.

Based on the foregoing discussion, this study aims to examine the direct effects of liquidity, solvency, and profitability on stock prices, as well as the indirect effects of liquidity and solvency on stock prices through profitability as a mediating variable in building construction companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2025 period. Specifically, this study investigates the relationships among liquidity, solvency, profitability, and stock prices to determine whether liquidity and solvency contribute to improving corporate profitability and whether profitability serves as a transmission mechanism through which financial performance influences stock market valuation. By integrating these variables into a single conceptual framework grounded in Signaling Theory, this study seeks to provide a more comprehensive understanding of the direct and indirect determinants of stock prices.

LITERATURE REVIEW

Signalling Theory

Signaling Theory was initially introduced by Spence (1973), who argued that information asymmetry exists when one party possesses more information than another. To reduce this asymmetry, the party holding superior information sends signals that can be interpreted by the receiving party in making decisions. In the context of corporate finance, Signaling Theory was further

developed by Ross (1977), who proposed that managers possess more complete information regarding the company's current condition and future prospects than external investors. Consequently, managers are encouraged to disclose relevant information to the market through various forms of corporate reporting in order to reduce information asymmetry and enhance investor confidence.

According to Signaling Theory, financial information disclosed by companies serves as a signal that can influence investor perceptions and investment decisions. Financial statements provide valuable information regarding a company's financial condition, operational performance, and future prospects. Investors use this information to evaluate the company's ability to generate returns and create value. Positive signals, such as strong liquidity, prudent solvency levels, and high profitability, may increase investor confidence and stimulate demand for the company's shares, thereby contributing to higher stock prices. Conversely, negative financial signals may reduce investor confidence and adversely affect market valuation.

Recent empirical studies continue to support the relevance of Signaling Theory in explaining stock price movements. Research by Purbasari (2024) found that profitability and solvency significantly affect stock prices, indicating that investors respond to financial information as a signal of corporate performance and future prospects. Similarly, Sari et al. (2024) reported that liquidity and profitability provide important information for investors in evaluating stock prices. Furthermore, Simbolon (2025) found that profitability has a positive and significant effect on stock prices, while solvency has a negative and significant effect, suggesting that investors interpret profitability and debt levels as important signals in assessing firm value. Recent evidence by Lisdiana et al. (2025) also demonstrates that liquidity positively influences profitability and stock prices, whereas excessive solvency levels may negatively affect market valuation. These findings indicate that financial ratios remain important signals used by investors in the capital market to assess corporate performance and future growth potential.

In this study, Signaling Theory provides the theoretical foundation for explaining the relationship between liquidity, solvency, profitability, and stock prices. Liquidity and solvency ratios reflect a company's financial strength and risk profile, while profitability indicates management's effectiveness in generating earnings. These financial indicators act as signals to investors regarding the company's future prospects. Therefore, investors' responses to these signals are expected to be reflected in stock price movements in the capital market.

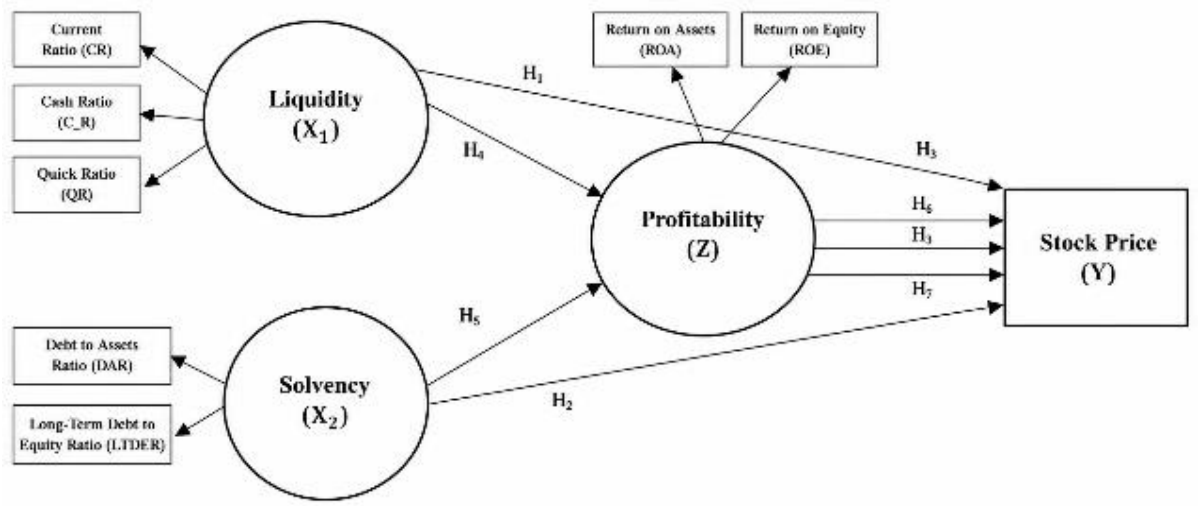

Figure 1. Research Model

HYPOTHESIS DEVELOPMENT

Based on Signaling Theory and the empirical evidence presented in previous studies, the hypotheses of this study are formulated as follows:

H1: Liquidity has a positive and significant effect on stock prices.

H2: Solvency has a negative and significant effect on stock prices.

H3: Profitability has a positive and significant effect on stock prices.

H4: Liquidity has a positive and significant effect on profitability.

H5: Solvency has a negative and significant effect on profitability.

H6: Profitability mediates the relationship between liquidity and stock prices.

H7: Profitability mediates the relationship between solvency and stock prices.

RESEARCH METHODS

This research uses secondary data sources. Where the data source in this research is a summary of shares and financial reports of building construction sub-sector companies listed on the Indonesia Stock Exchange (BEI) for the 2015-2021 period which are accessed via the website www.idx.co.id as well as other supporting sources such as journals, news, and the websites of these companies.

The population of this study comprises all building construction sub-sector companies listed on the Indonesia Stock Exchange during the 2019–2025 period. The sampling technique employed is non-probability sampling using a saturated sampling (census) approach, whereby all members of the population that meet the research criteria are included as research samples. Saturated sampling is considered appropriate when the population size is relatively small and allows researchers to obtain comprehensive information from all available observations. Based on the established criteria, the study includes twelve building construction companies as the research sample. With an observation

period of seven years (2019–2025), the total number of panel data observations amounts to eighty four firm-year observations.

This study employs the Structural Equation Modeling–Partial Least Squares (PLS-SEM) approach using SmartPLS version 3 software to analyze the relationships among the research variables. PLS-SEM is a variance-based structural equation modeling technique that is widely used to examine complex relationships involving direct and indirect effects among variables. This method is particularly suitable for predictive research models and studies that incorporate mediating variables. In addition, PLS-SEM is capable of handling relatively small sample sizes and does not require strict assumptions regarding data normality, making it appropriate for financial and business research.

The operationalization of variables in this study is based on widely accepted financial ratios used in the corporate finance literature. Liquidity is measured using the Current Ratio (CR), calculated as current assets divided by current liabilities, which reflects the company's ability to meet its short-term obligations. Solvency is measured by the Debt to Asset Ratio (DAR), representing the proportion of total assets financed through debt and indicating the company's long-term financial risk. Profitability is proxied by Return on Assets (ROA), calculated as net income divided by total assets, which reflects the efficiency of management in generating profits from the company's assets. Stock price is measured using the annual closing stock price of each company, representing the market valuation of the firm's shares at the end of the fiscal year. These measurement indicators were selected because they are commonly employed in previous studies and provide reliable information for assessing the relationships among liquidity, solvency, profitability, and stock prices.

The use of PLS-SEM in this study is justified by its ability to simultaneously assess both the measurement model and the structural model. The measurement model evaluation is conducted to examine the validity and reliability of the research constructs, while the structural model evaluation is used to test the proposed hypotheses and assess the predictive relationships among liquidity, solvency, profitability, and stock prices. Furthermore, the mediation effect of profitability is analyzed through the indirect effect testing procedure provided by the PLS-SEM approach.

Table 1. The Operationalization of Variables

Variable	Proxy	Measurement Formula	Source
Liquidity	Current Ratio (CR)	Current Assets/Current Liabilities	Brigham & Houston (2022)
Solvency	Debt to Asset Ratio (DAR)	Total Debt/Total Assets	Ross et al.(2022)
Profitability	Return on Assets	Net Income/Total Assets	Brigham & Houston (2022)
Stock Price	Clossing Price	Annual Clossing Stock Price	IDX (2025)

The analysis process consists of two stages. The first stage involves evaluating the outer model through convergent validity, discriminant validity, and reliability tests. The second stage involves evaluating the inner model by examining the coefficient of determination (R^2), predictive relevance (Q^2), path coefficients, effect sizes (f^2), and hypothesis testing through the bootstrapping procedure. The results of these analyses provide empirical evidence regarding both the direct and indirect effects among the variables investigated in this study. (Hair Jr et al.,2022)

RESULTS, DISCUSSION AND MANAGERIAL IMPLICATION

Descriptive Statistical Analysis

Descriptive statistics are used to provide an overview of the characteristics and distribution of the research data. This analysis summarizes the data through several statistical measures, including the mean, median, minimum value, maximum value, and standard deviation. The mean indicates the average value of the observations, while the median represents the middle value of the data distribution. The minimum and maximum values describe the range of the data, whereas the standard deviation measures the degree of variation or dispersion from the mean. Therefore, descriptive statistical analysis enables researchers to obtain a comprehensive understanding of the data characteristics before conducting further analysis and hypothesis testing.(Ghozali, 2021)

In this study, descriptive statistical analysis was performed using SmartPLS version 3 software to examine the characteristics of the research variables, namely liquidity, solvency, profitability, and stock prices. The results of the descriptive statistical analysis are presented in the table 2.

Descriptive statistical analysis was conducted to provide an overview of the characteristics of the research variables. The analysis includes the mean, median, minimum value, maximum value, and standard deviation for each variable observed during the 2019–2025 period.

Table 2. Descriptive Statistics Results

	Mean	Median	Min	Max	Std Dev
CR	148.995	142.221	69.567	315.825	45.101
Cash Ratio	33.543	33.344	0.767	98.788	21.663
QR	132.001	128.557	48.401	291.005	45.233
DAR	59.778	57.775	29.003	98.105	17.524
LTDER	42.112	24.831	2.905	278.532	47.772
ROA	1.557	3.007	-44.107	17.011	9.023
ROE	-4.989	9.223	-423.226	29.337	65.332
HS	1108.273	843	52	3925	875.211

Source: Output SmartPLS Versi 3 (processed data)

The liquidity variables are represented by the Current Ratio (CR), Cash Ratio (CashR), and Quick Ratio (QR). The Current Ratio has a mean value of 148.995 with a minimum value of 69.567 and a maximum value of 315.825. The Quick Ratio records an average value of 132.001, ranging from 48.401 to 291.005. Meanwhile, the Cash Ratio has a mean value of 33.543, indicating that, on average, companies possess sufficient cash and cash equivalents to meet their short-term obligations. The relatively moderate standard deviation values of these liquidity indicators suggest that the liquidity conditions of the sampled companies do not vary excessively across observations.

The solvency variables are measured using the Debt to Asset Ratio (DAR) and Long-Term Debt to Equity Ratio (LTDER). DAR has an average value of 59.778, with values ranging from 29.003 to 98.105. This finding indicates that, on average, approximately 59.78% of the companies' assets are financed through debt. The LTDER shows a mean value of 42.112, with a minimum value of 2.905 and a maximum value of 278.532, suggesting substantial variation in long-term debt financing among the observed companies.

Profitability is proxied by Return on Assets (ROA) and Return on Equity (ROE). The average ROA is 1.557, with values ranging from -44.107 to 17.011, indicating that several companies experienced losses during the observation period. Similarly, ROE records a mean value of -4.989, with a minimum value of -423.226 and a maximum value of 29.337. The negative average ROE suggests that a number of companies faced financial difficulties, resulting in negative returns to shareholders. Furthermore, the high standard deviation of ROE (65.332) indicates considerable variation in profitability performance among the sampled firms.

Stock price (HS) has an average value of 1,108.273, with a minimum value of 52 and a maximum value of 3.925. The standard deviation of 875.211 indicates substantial fluctuations in stock prices among building construction companies during the observation period. This finding suggests that investors responded differently to the financial performance and business prospects of the companies, resulting in varying market valuations across firms.

Overall, the descriptive statistics indicate that building construction companies experienced considerable variation in liquidity, solvency, profitability, and stock price performance during the observation period. Such variation provides sufficient evidence for further analysis of the relationships among the variables examined in this study.

Inferential Statistical Analysis

R-Square

The evaluation of the structural model was conducted by examining the coefficient of determination (R-Square) for each endogenous variable. The R-Square value indicates the extent to which the variance

Table 3. R-Square Results

	R Square	**Adjusted R-Square**
Stock Price	0.287	0.260
Profitability	0.121	0.095

Source: Output SmartPLS Versi 3 (processed data)

of an endogenous variable can be explained by the exogenous variables included in the research model.

Based on Table 3, the R-Square value for Stock Price is 0.287, while the adjusted R-Square is 0.260. This result indicates that liquidity, solvency, and profitability are able to explain 28.7% of the variation in stock prices. The remaining 71.3% is explained by other factors outside the research model, such as market conditions, macroeconomic factors, investor sentiment, corporate governance, dividend policy, and other firm-specific characteristics. According to the criteria proposed by Hair et al. (2022), this value can be categorized as weak to moderate explanatory power.

Furthermore, the R-Square value for Profitability is 0.121, with an adjusted R-Square of 0.095. This finding indicates that liquidity and solvency explain 12.1% of the variation in profitability, while the remaining 87.9% is influenced by other variables not included in this study. The relatively low R-Square value suggests that profitability is affected by numerous internal and external factors beyond liquidity and solvency, including operational efficiency, sales growth, asset utilization, company size, and management effectiveness.

Overall, the results indicate that the proposed model has limited explanatory power in predicting profitability and stock prices. Nevertheless, the model remains appropriate for hypothesis testing because PLS-SEM primarily emphasizes the prediction of relationships among variables rather than maximizing the coefficient of determination. (Hair Jr. et al,2022), (Ghozali, 2021)

Q-Square

In addition to evaluating the coefficient of determination (R-Square), the predictive relevance of the structural model was assessed using the Stone-Geisser Q^2 value obtained through the blindfolding procedure. The Q^2 statistic measures the model's predictive capability by evaluating how well the observed values are reconstructed by the model and its parameter estimates. According to Hair et al. (2022), a Q^2 value greater than zero indicates that the model has predictive relevance for a particular endogenous construct.

Table 4. Q-Square Results

	SSO	SSE	Q^2 (= 1- SSE/SSO)
Stock Price	85.000	64.955	0.236
Liquidty	255.000	255.000	
Profitability	171.000	157.227	0.081
Solvability	171.000	171.000	

Sumber: Output SmartPLS Versi 3 (data processed)

Based on Table 4, the Q^2 value for Stock Price is 0.236, indicating that the structural model has predictive relevance for explaining stock price variations. According to the classification proposed by Hair et al. (2022), a Q^2 value under 0.25 can be considered to have moderate predictive relevance. This finding suggests that the variables included in the model, namely liquidity, solvency, and profitability, possess a satisfactory ability to predict stock price movements.

Furthermore, the Q^2 value for Profitability is 0.081. Since the value is greater than zero, the model also demonstrates predictive relevance for profitability. However, the predictive power can be categorized as relatively weak, indicating that liquidity and solvency explain only a limited portion of the variation in profitability. This result implies that profitability is influenced by additional factors not incorporated into the research model, such as operational efficiency, revenue growth, firm size, asset utilization, and macroeconomic conditions.

Overall, all endogenous variables exhibit Q^2 values greater than zero, indicating that the proposed structural model possesses predictive relevance and is capable of predicting the endogenous constructs examined in this study. Therefore, the model can be considered acceptable for further hypothesis testing and mediation analysis.

Direct Effects

Hypothesis testing was conducted using the bootstrapping procedure in SmartPLS. The significance of the relationships among variables was determined based on the t-statistics and p-values. A hypothesis is accepted if the t-statistic exceeds 1.96 and the p-value is less than 0.05 at the 5% significance level.

Table 5. Direct Effect Results

	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
Likuiditas -> Harga Saham	-0.004	-0.015	0.104	0.038	**0.975**
Likuiditas -> Profitabilitas	0.271	0.285	0.115	2.387	**0.018**
Profitabilitas -> Harga Saham	0.343	0.343	0.055	6.347	**0.000**
Solvabilitas -> Harga Saham	0.503	0.515	0.083	5.929	**0.000**
Solvabilitas -> Profitabilitas	-0.105	-0.089	0.143	0.736	**0.478**

Sumber: Output SmartPLS Versi 3 (processed data)

The results indicate that liquidity does not have a significant effect on stock prices (β = -0.004; t = 0.038; p = 0.975). Therefore, H1 is rejected. This finding suggests that investors do not consider liquidity as a primary factor when evaluating the stock prices of building construction companies. Although liquidity reflects a company's ability to meet short-term obligations, investors may place greater emphasis on other factors such as profitability, growth prospects, and project performance.

Liquidity has a positive and significant effect on profitability (β = 0.271; t = 2.387; p = 0.018). Thus, H4 is accepted. This result indicates that companies with stronger liquidity positions tend to generate higher profitability. Adequate liquidity enables firms to finance operational activities efficiently, reduce financial constraints, and support profit generation.

Profitability has a positive and significant effect on stock prices (β = 0.343; t = 6.347; p < 0.001). Therefore, H3 is accepted. This finding supports Signaling Theory, which suggests that higher profitability serves as a positive signal regarding the company's performance and future prospects. Investors tend to respond favorably to profitable firms, resulting in higher demand for shares and increased stock prices.

Furthermore, solvency has a positive and significant effect on stock prices (β = 0.503; t = 5.929; p < 0.001). Therefore, H2 is accepted. This result indicates that the market perceives the use of debt in building construction companies as a positive signal. Given the capital-intensive nature of the construction industry, investors may interpret higher leverage as an indication of expansion opportunities and the company's ability to secure financing for large-scale projects.

However, solvency does not significantly affect profitability (β = -0.105; t = 0.736; p = 0.478). Consequently, H5 is rejected. This finding implies that the level of debt utilization does not necessarily contribute to profit generation in the sampled companies. The ability to generate profits may depend more on operational efficiency, project management, and revenue growth rather than on financing decisions alone.

Indirect Effect

The mediating role of profitability in the relationship between liquidity, solvency, and stock prices was examined using the bootstrapping procedure in SmartPLS. The significance of the indirect effects was evaluated based on the t-statistics and p-values. An indirect effect is considered significant when the p-value is less than 0.05.

Table 6. Indirect Effect Results

	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
Likuiditas -> Profitabilitas -> Harga Saham	0.092	0.099	0.042	2.283	**0.024**
Solvabilitas -> Profitabilitas -> Harga Saham	-0.036	-0.033	0.053	0.687	**0.493**

Sumber: Output SmartPLS Versi 3 (processed data)

The results indicate that profitability significantly mediates the relationship between liquidity and stock prices (β = 0.092; t = 2.283; p = 0.024). Therefore, H6 is accepted. This finding suggests that liquidity indirectly influences stock prices through profitability. Companies with stronger liquidity positions are better able to support their operational activities and working capital requirements, which in turn contributes to higher profitability. Increased profitability serves as a positive signal to investors regarding the firm's future prospects, leading to greater investor confidence and higher stock prices.

Furthermore, profitability does not significantly mediate the relationship between solvency and stock prices (β = -0.036; t = 0.687; p = 0.493). Therefore, H7 is rejected. This result indicates that the effect of solvency on stock prices does not occur through profitability. The insignificant relationship between solvency and profitability suggests that debt utilization in building construction companies does not necessarily improve profit generation. Consequently, profitability is unable to function as an intervening variable in explaining the relationship between solvency and stock prices.

Based on the mediation analysis, profitability acts as a significant mediating variable only in the relationship between liquidity and stock prices. These findings support the argument of Signaling Theory that profitability serves as an important signal through which investors interpret the financial condition of a company. However, profitability does not mediate the relationship between solvency and stock prices, indicating that investors may respond directly to solvency information without considering its impact on profitability.

DISCUSSION

The Effect of Liquidity on Stock Prices

The results of the hypothesis testing indicate that liquidity does not have a significant effect on stock prices. This finding suggests that the ability of building construction companies to meet their short-term obligations is not a primary consideration for investors when making investment decisions. In other words, the level of liquidity does not provide sufficient information to influence investor perceptions regarding the value and future prospects of the company. Consequently, variations in liquidity are not directly reflected in stock price movements within the building construction sub-sector.

This finding implies that investors may place greater emphasis on other financial indicators, such as profitability, growth opportunities, project performance, and long-term business sustainability, rather than on short-term liquidity conditions. Given the capital-intensive nature of the construction industry, investors tend to focus on a company's ability to generate profits and secure future projects rather than its short-term financial position. Therefore, a high level of liquidity is not necessarily interpreted as a positive signal that can increase market demand for the company's shares.

Furthermore, the findings do not support Signaling Theory, which suggests that strong liquidity should serve as a positive signal regarding a company's financial health and its ability to fulfill short-term obligations. According to the theory, a liquid company is expected to be perceived as less risky and more financially stable, thereby attracting investor interest and increasing stock prices. However, the empirical evidence from this study indicates that investors in the building construction sector do not appear to consider liquidity information as a decisive factor in determining investment decisions.

The insignificant effect of liquidity on stock prices may also be associated with the characteristics of the construction industry during the 2019–2025 period. Construction companies generally require substantial working capital and often maintain high levels of current assets to support ongoing projects. As a result, investors may perceive liquidity as a normal operational requirement rather than as an indicator of superior performance. Consequently, liquidity information alone is insufficient to influence stock price movements in the capital market.

The results of this study are consistent with those reported by Candra and Wardani (2021), Sha (2015), Octaviani and Komalasarai (2017), and Sinaga et al. (2022), who found that liquidity does not significantly affect stock prices. However, the findings contradict those of Husain (2021), Meidiyustiani and Niazi (2021), Priliyastuti and Stella (2017), and Raj and Putri (2021), which reported a positive and significant relationship between liquidity and stock prices. These differences may be attributed to variations in industry characteristics, observation periods, economic conditions, and investor behavior across different research settings.

The Effect of Solvency on Stock Prices

The results of the hypothesis testing indicate that solvency has a positive and significant effect on stock prices. This finding suggests that investors perceive the use of debt by building construction companies as a positive signal, particularly when the debt is utilized to finance productive investments and support business expansion. In the construction industry, which is characterized by high capital requirements and long-term project financing, debt is often considered a strategic source of funding that enables companies to undertake large-scale projects and generate future revenues. Consequently, higher solvency levels may reflect greater growth opportunities and stronger business prospects, which can enhance investor confidence and contribute to higher stock prices.

The positive relationship between solvency and stock prices also indicates that investors do not necessarily view debt as a negative factor. Instead, investors may interpret a company's ability to obtain external financing as evidence of creditor confidence in the firm's financial condition and future performance. As long as the company is capable of managing its debt effectively and generating sufficient returns from its investments, higher leverage can create value for shareholders

and increase market valuation. Therefore, the market may perceive debt financing as an indication of management's confidence in the company's future growth and profitability.

These findings support Signaling Theory, which posits that financial information disclosed by companies serves as a signal to investors regarding the firm's condition and future prospects. In this context, solvency acts as a positive signal when debt is used efficiently to support operational activities, project development, and business expansion. The ability of a company to secure financing and manage its financial obligations effectively may strengthen investor perceptions regarding the firm's long-term sustainability and growth potential, thereby increasing demand for its shares and ultimately raising stock prices.

The results of this study are consistent with the findings of Alam and Nuramal (2023), Ramadhana et al. (2018), and Syahril (2019), who reported that solvency has a positive and significant effect on stock prices. These studies suggest that investors tend to perceive leverage as a mechanism for enhancing business growth and shareholder value, particularly in industries that require substantial capital investment. Therefore, the positive effect of solvency on stock prices observed in this study reflects the market's confidence in the ability of building construction companies to utilize debt productively and generate future economic benefits.

Investors appear to respond directly to solvency information rather than through its impact on profitability. This suggests that the market values the firm's financing capacity and growth potential associated with debt utilization, even though such debt does not necessarily translate into higher profitability.

The Effect of Profitability on Stock Prices

The results of the hypothesis testing indicate that profitability has a positive and significant effect on stock prices. This finding suggests that companies with higher profitability tend to experience higher stock prices in the capital market. Profitability reflects a company's ability to generate earnings from its assets and business operations, making it one of the most important indicators considered by investors when evaluating corporate performance. A high level of profitability demonstrates management's effectiveness in utilizing company resources to create value for shareholders, thereby attracting investor interest and increasing demand for the company's shares.

Conversely, low profitability may reduce investor confidence because it signals limited earnings potential and weaker financial performance. As a result, investors may be less willing to invest in companies with poor profitability and instead allocate their funds to firms offering higher expected returns. This behavior can reduce demand for the company's shares and subsequently exert downward pressure on stock prices. Therefore, profitability serves as an important determinant of market valuation and investor decision-making.

The findings of this study support Signaling Theory, which posits that financial information disclosed by a company acts as a signal to investors regarding its current performance and future prospects. High profitability represents a positive signal because it indicates that the company is operating efficiently and has the capability to generate sustainable earnings. Such information reduces information asymmetry between management and investors and enhances investor confidence in the firm's future growth potential. Consequently, investors tend to respond positively to increases in profitability by purchasing the company's shares, leading to higher stock prices.

The positive and significant relationship between profitability and stock prices observed in this study is particularly relevant in the building construction industry, where investors closely monitor a company's ability to generate profits from large-scale projects and capital-intensive operations. Strong profitability signals the successful management of projects, efficient utilization of resources, and the potential for future business expansion. As a result, profitable companies are more likely to attract investment and achieve higher market valuations.

Profitability is the most important internal performance indicator influencing investor decisions in building construction companies. The significant positive effect confirms that investors place greater emphasis on earnings-generating capability than on liquidity conditions when assessing company value and future prospects.

The results of this study are consistent with the findings of Idris (2021), Muhammad and Rahim (2015), Sukma et al. (2019), and Nasution et al. (2022), who reported that profitability has a positive and significant effect on stock prices. These studies suggest that profitability remains one of the most influential financial indicators in determining investor perceptions and stock market performance. Therefore, improving profitability can be considered an important strategy for enhancing shareholder value and increasing stock prices in the capital market.

The Effect of Liquidity on Profitability

The results of the hypothesis testing indicate that liquidity has a positive and significant effect on profitability. This finding suggests that companies with higher liquidity levels tend to achieve better profitability performance. Liquidity reflects a company's ability to meet its short-term obligations using its current assets. A strong liquidity position indicates the availability of sufficient working capital to support day-to-day operations, finance project activities, and meet operational requirements without experiencing financial distress. Consequently, companies with adequate liquidity are more capable of maintaining operational efficiency and generating higher profits.

The positive relationship between liquidity and profitability implies that effective management of current assets and liabilities can contribute to improved financial performance. Sufficient liquidity enables companies to fulfill their short-term obligations on time, maintain smooth business

operations, and avoid disruptions that could negatively affect profitability. In contrast, low liquidity may constrain operational activities, increase financing costs, and limit the company's ability to exploit profitable investment opportunities, ultimately reducing profitability.

These findings support Signaling Theory, which suggests that strong liquidity serves as a positive signal regarding a company's financial stability and operational capability. A liquid company is generally perceived as having a lower risk of financial distress and a greater capacity to sustain its business activities. Such conditions can enhance stakeholder confidence and support the company's ability to generate profits. Therefore, liquidity can be considered an important financial indicator that contributes to improved profitability.

The positive and significant effect of liquidity on profitability is particularly relevant in the building construction industry, where companies require substantial working capital to finance ongoing projects, procure construction materials, and cover operational expenses. Adequate liquidity allows construction firms to manage project cash flows effectively and avoid delays in project execution, thereby contributing to higher profitability.

The findings suggest that liquidity does not directly influence stock prices; however, it contributes indirectly through profitability. This indicates that investors do not value liquidity itself, but rather the company's ability to transform its liquid resources into profitable business outcomes. Therefore, profitability serves as an important mechanism through which liquidity affects market valuation.

The findings of this study are consistent with those reported by Hutabarat (2022), Naupal et al. (2023), Pradnyaswari and Dana (2022), and Setiawan and Suwaidi (2022), who found that liquidity has a positive and significant effect on profitability. These studies indicate that maintaining an appropriate level of liquidity is essential for supporting operational efficiency and enhancing a company's ability to generate sustainable profits.

The Effect of Solvency on Profitability

The results of the hypothesis testing indicate that solvency does not have a significant effect on profitability. This finding suggests that the level of debt utilization in building construction companies does not significantly influence their ability to generate profits. Although the relationship between solvency and profitability is negative, the effect is statistically insignificant, indicating that variations in solvency levels are not sufficient to explain changes in profitability during the observation period.

The negative coefficient implies that an increase in debt financing may lead to higher financial obligations, including interest expenses and principal repayments, which can reduce the amount of profit available to the company. Excessive reliance on debt may increase financial risk and place additional pressure on company earnings. Conversely, companies that rely more heavily on internal sources of financing may face lower financing costs, allowing them to retain a larger portion of their

earnings and potentially improve profitability. However, the insignificant relationship found in this study suggests that the impact of debt on profitability is not substantial enough to influence overall financial performance.

The findings also indicate that profitability in building construction companies is likely influenced by factors other than solvency. Variables such as project management efficiency, revenue growth, operational effectiveness, contract acquisition, asset utilization, and macroeconomic conditions may play a more important role in determining profitability than financing decisions alone. As a result, the level of solvency is not a dominant determinant of profitability within the sampled companies.

Furthermore, the results do not support the prediction of Signaling Theory that debt utilization may serve as a positive signal of management's confidence in future growth opportunities and profit generation. In the context of this study, investors and stakeholders may not perceive higher debt levels as an indication of improved profitability. Instead, debt appears to be viewed as a financing mechanism that does not necessarily translate into higher earnings.

The findings of this study are inconsistent with those reported by Ashari and Sampurno (2017), Setiawan and Suwaidi (2022), and Yulsiati (2016), who found that solvency has a positive and significant effect on profitability. However, the results are consistent with the studies conducted by Cantona and Maulina (2022) and Widiyanti and Elfina (2015), which concluded that solvency does not significantly affect profitability. These differences may be attributed to variations in industrial characteristics, observation periods, economic conditions, and the financial structures of the companies examined.

The insignificant relationship between solvency and profitability also helps explain why profitability is unable to mediate the effect of solvency on stock prices in this study. Since solvency does not significantly contribute to profitability, the indirect effect of solvency on stock prices through profitability is likewise insignificant. This finding suggests that investors respond directly to solvency information rather than through its influence on corporate profitability.

The Effect of Profitability in Mediating the Relationship between Liquidity and Stock Prices

The results of the mediation analysis indicate that profitability significantly mediates the relationship between liquidity and stock prices. This finding suggests that liquidity does not directly influence stock prices; instead, its effect is transmitted through profitability. In other words, a company's liquidity position contributes to higher stock prices only when it enhances the company's ability to generate profits.

This finding supports Signaling Theory, which posits that financial information serves as a signal that influences investor perceptions and investment decisions. A high level of liquidity reflects the company's ability to meet its short-term obligations and maintain smooth operational activities.

Adequate liquidity ensures the availability of working capital required to support business operations, finance ongoing projects, and avoid financial constraints. As a result, efficient liquidity management can contribute to improved profitability.

Furthermore, increased profitability serves as a strong positive signal to investors regarding the company's operational efficiency and future growth prospects. Investors tend to interpret higher profitability as evidence of effective management performance and the company's ability to generate sustainable returns. Consequently, profitable companies are more likely to attract investor interest, leading to increased demand for shares and higher stock prices.

The findings indicate that liquidity alone is insufficient to influence stock prices directly. Investors do not necessarily regard high liquidity as an indicator of superior firm value. Instead, investors place greater emphasis on the company's ability to transform its liquid resources into profitable outcomes. Therefore, profitability functions as an important mechanism through which liquidity affects market valuation. This result is consistent with the empirical findings of this study, where liquidity has no direct effect on stock prices but has a significant positive effect on profitability, which subsequently increases stock prices.

Moreover, the mediation analysis reveals that profitability acts as a full mediator in the relationship between liquidity and stock prices. This finding implies that the impact of liquidity on stock prices occurs entirely through profitability. Therefore, building construction companies seeking to enhance their stock prices should not only maintain adequate liquidity but also ensure that their liquid resources are utilized efficiently to improve profitability. By converting liquidity into higher earnings, companies can strengthen investor confidence and increase their market value.

The findings demonstrate that investors in the building construction sector are more concerned with profitability than liquidity itself. While liquidity provides the resources necessary to support business operations, investors only respond positively when those resources are successfully converted into higher profitability. Therefore, profitability serves as the primary channel through which liquidity influences stock prices.

The Effect of Profitability in Mediating the Relationship between Solvency and Stock Prices

The results of the mediation analysis indicate that profitability is unable to mediate the relationship between solvency and stock prices. This finding suggests that the influence of solvency on stock prices does not occur through profitability. Although solvency has a significant direct effect on stock prices, its effect on profitability is statistically insignificant, resulting in an insignificant indirect effect through profitability. Consequently, profitability does not function as an intervening variable in explaining the relationship between solvency and stock prices.

These findings do not support the prediction of Signaling Theory, which suggests that the use of debt may serve as a positive signal regarding management's confidence in future growth opportunities and profit generation. According to the theory, debt financing can be interpreted as management's willingness to undertake risks in order to maximize returns and enhance firm performance. Under such circumstances, increased debt utilization is expected to improve profitability, which subsequently strengthens investor confidence and increases stock prices. However, the empirical results of this study indicate that the use of debt in building construction companies does not significantly contribute to higher profitability.

One possible explanation for this finding is the capital-intensive nature of the building construction industry, where companies rely heavily on external financing to support large-scale projects and operational activities. While debt may provide the necessary funds for project implementation and business expansion, it also generates substantial financial obligations in the form of interest expenses and debt servicing costs. As a result, the benefits obtained from debt financing may be offset by the additional costs incurred, limiting its contribution to profitability.

Furthermore, the insignificant effect of solvency on profitability suggests that profitability in building construction companies is influenced more by operational efficiency, project execution, contract acquisition, cost management, and market conditions than by financing decisions alone. Consequently, higher leverage does not necessarily translate into improved financial performance. When debt utilization fails to increase profitability, profitability cannot serve as a mechanism through which solvency affects stock prices.

The findings also indicate that investors respond directly to solvency information rather than through its impact on profitability. Investors may perceive debt utilization as a signal of a company's growth opportunities, financing capacity, and ability to undertake large-scale projects. Therefore, the positive effect of solvency on stock prices observed in this study appears to arise from investor expectations regarding future business expansion rather than from improvements in current profitability.

Overall, the results demonstrate that profitability is not an effective mediating variable in the relationship between solvency and stock prices. Thus, the addition of profitability as an intervening variable does not strengthen the influence of solvency on stock prices. Instead, solvency affects stock prices directly, while profitability remains independent of the company's debt utilization decisions.

The findings reveal that investors in the building construction sector respond more strongly to a company's financing capacity and growth potential reflected by solvency than to the profitability generated from debt utilization. As a result, solvency influences stock prices directly, while profitability does not act as a transmission mechanism between solvency and market valuation.

CONCLUSION, SUGGESTION, AND LIMITATION

This study aims to examine the effects of liquidity and solvency on stock prices, both directly and indirectly through profitability, in building construction sub-sector companies listed on the Indonesia Stock Exchange during the 2019–2025 period. Based on the results of the analysis and hypothesis testing, several conclusions can be drawn.

First, liquidity does not have a significant effect on stock prices. This finding indicates that investors do not consider liquidity as a primary factor in determining investment decisions. Therefore, the ability of a company to fulfill its short-term obligations is not directly reflected in stock price movements.

Second, solvency has a positive and significant effect on stock prices. This result suggests that investors perceive debt utilization as a positive signal of the company's financing capacity, growth opportunities, and ability to undertake large-scale projects. Consequently, higher solvency contributes to higher stock prices.

Third, profitability has a positive and significant effect on stock prices. This finding confirms that profitability is an important determinant of investor confidence and market valuation. Companies with higher profitability tend to attract greater investor interest, resulting in increased stock prices.

Fourth, liquidity has a positive and significant effect on profitability. Adequate liquidity enables companies to maintain smooth operational activities and fulfill short-term obligations efficiently, thereby contributing to improved profitability.

Fifth, solvency does not have a significant effect on profitability. This finding indicates that the use of debt does not necessarily improve a company's profitability. Profitability appears to be influenced more by operational and managerial factors than by financing decisions alone.

Sixth, profitability significantly mediates the relationship between liquidity and stock prices. The results indicate that liquidity affects stock prices indirectly through profitability. In other words, liquidity can enhance stock prices only when it contributes to higher profitability. Furthermore, profitability acts as a full mediator in the relationship between liquidity and stock prices.

Finally, profitability does not mediate the relationship between solvency and stock prices. Although solvency has a significant direct effect on stock prices, its impact does not occur through profitability. This finding suggests that investors respond directly to solvency information rather than to the profitability generated from debt utilization.

Overall, the study highlights the important role of profitability as a mechanism through which liquidity influences stock prices, while solvency affects stock prices directly without the involvement of profitability. These findings contribute to the development of Signaling Theory and provide empirical evidence regarding the determinants of stock prices in Indonesia's building construction industry.

IMPLICATIONS

Theoretical Implications

Based on the results of research that has been carried out, an R-Square value of 0.278 is obtained, which means that only 27.8% of the research variables explain stock prices. For this reason, it is hoped that further research will add other variables or indicators from these existing variables to better illustrate how liquidity and solvency can increase share prices through profitability as mediation. In addition, it is hoped that further research can expand the scope of research beyond just the building construction sub-sector and extend the research period in order to obtain a more comprehensive picture.

Based on the research results that have been explained, this research has a theoretical contribution and confirms signaling theory as the main theory in this research. However, there are still hypotheses that are rejected because they show insignificant results such as the effect of liquidity on stock prices and the effect of solvency on profitability and the effect of solvency on stock prices through profitability. For this reason, further research can consider other theories that are more appropriate in explaining the influence between these variables.

Managerial Implications

The findings of this study provide several managerial implications for both corporate management and investors. For corporate management, the results highlight the importance of maintaining adequate liquidity and improving profitability to enhance stock prices. Although liquidity does not directly affect stock prices, it contributes indirectly through profitability. Therefore, companies should ensure effective working capital management and maintain sufficient liquidity to support operational activities, meet short-term obligations, and improve overall financial performance. Efficient liquidity management can strengthen profitability, which subsequently increases investor confidence and market valuation.

Furthermore, company management should optimize the use of debt financing to support business growth while carefully controlling financial risks. Although solvency has a positive effect on stock prices, excessive debt may increase financial burdens and reduce profitability. Therefore, managers should establish an optimal capital structure that balances growth opportunities with financial sustainability. Effective debt management can strengthen creditor confidence, support business expansion, and enhance the company's attractiveness to investors.

For investors, the findings suggest that investment decisions should not rely solely on stock price trends but should also consider the company's financial fundamentals. Investors are advised to evaluate liquidity, solvency, and profitability ratios to gain a comprehensive understanding of a company's financial condition and future prospects. In particular, profitability should receive greater

attention because it has a direct positive effect on stock prices and serves as a mediating mechanism through which liquidity influences market valuation.

In addition, investors should complement fundamental analysis with technical analysis and broader market information, including macroeconomic conditions, industry trends, and investor sentiment. Since a substantial proportion of stock price variation is explained by factors outside the research model, integrating multiple sources of information can help investors make more informed investment decisions and reduce investment risk.

Research Limitations and Suggestions

Research Limitations

This study has several limitations that should be considered when interpreting the findings. First, the research focuses exclusively on building construction sub-sector companies listed on the Indonesia Stock Exchange during the 2019–2025 period. Therefore, the findings may not be generalizable to other industrial sectors that have different operational characteristics, financial structures, and market conditions.

Second, this study examines stock prices using only liquidity, solvency, and profitability as the main variables. The relatively low R-Square values indicate that a substantial proportion of the variation in stock prices and profitability is explained by other factors not included in the research model. Such factors may include firm size, sales growth, dividend policy, corporate governance, investment decisions, macroeconomic conditions, interest rates, inflation, exchange rates, and investor sentiment.

Third, this study employs financial statement data as the primary source of information. As a result, the analysis does not fully capture external factors and market dynamics that may influence investor behavior and stock price movements.

Suggestions for Future Research

Future studies are encouraged to expand the scope of research by including companies from different sectors or by conducting comparative studies across industries to improve the generalizability of the findings. Future researchers may also extend the observation period to obtain a more comprehensive understanding of long-term relationships among financial performance variables and stock prices.

In addition, future research is recommended to incorporate other variables that may affect stock prices and profitability, such as firm size, sales growth, dividend policy, capital structure, corporate governance, firm value, investment opportunity set, and macroeconomic indicators. The inclusion of

these variables may improve the explanatory power of the model and provide a more comprehensive understanding of the determinants of stock prices.

Furthermore, future studies may consider using alternative analytical approaches, such as panel data regression, dynamic panel models, or covariance-based structural equation modeling (CB-SEM), to compare findings and enhance methodological robustness. Researchers are also encouraged to investigate the role of other mediating or moderating variables that may strengthen the relationship between financial performance and stock prices.

Finally, investors and corporate managers should pay close attention not only to financial ratios but also to external economic conditions and industry developments when making investment and managerial decisions. A comprehensive evaluation of both internal and external factors is essential for improving corporate performance and achieving sustainable growth in market value.

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