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THE EFFECT OF SALES GROWTH AND PROFITABILITY ON STOCK PRICES VIA CAPITAL STRUCTURE

***Abd. Haris. Suo[1st], Fatlina Z[2nd], Vitayanti Fatah[3rd]**
Master of Management Study Program, Faculty of Economics and Business, Tadulako University
* harissuo56@gmail.com,Fatlina.z@gmail.com, Vita_fattah@yahoo.com

Abstract

This study analyzes the impact of revenue growth and profitability on stock prices, focusing on capital structure as an intermediary variable in the property sector listed on the Indonesia Stock Exchange. The research adopts a quantitative approach, using secondary data from observations and official records of the Indonesian Stock Exchange. The data span 2020-2023 and comprise a sample of 21 companies selected through purposive sampling. Data analysis was conducted using path analysis in AMOS 26. The findings indicate that revenue growth has a positive but statistically insignificant effect on both capital structure and stock prices. In contrast, profitability has a negative yet statistically significant effect on capital structure, while it has a positive and meaningful influence on stock prices. Capital structure, however, shows a negative but statistically insignificant impact on stock prices. Thus, capital structure does not mediate the relationship between revenue growth, profitability, and stock prices.

Keywords: Sales Growth, Profitability, Capital Structure, Stock Price

INTRODUCTION

Business competition in an increasingly globalized age requires companies to preserve their value as competition intensifies. Companies are not only focused on maximizing profits but also on developing robust financial plans; effective financial planning influences a company's value and its ability to compete successfully. Through careful financial planning, organizations can strategically manage their capital structure. Proper management of the capital structure not only boosts a company's value but also attracts potential investors to contribute funds, thereby supporting organizational growth.

Effective management of a company's capital structure significantly impacts its revenue growth and profitability. The capital structure reflects the proportion of equity (self-funding) to liabilities (debt). Mismanagement of this structure's balance may lead to excessive debt, potentially jeopardizing the company's financial stability. As Sartono (2010) Notes: Capital structure encompasses the equilibrium among permanent short-term debt, long-term liabilities, preferred shares, and common equity. Meanwhile, according to Fahmi (2015) Capital structure combines various sources of corporate funding to be used effectively to increase stock prices. Companies exhibiting robust revenue growth and profitability positively influence their capital structure, thereby enhancing their overall valuation. This increment in corporate value encourages investor interest, leading to increased stock prices. A well-optimized capital structure strikes a balance between risk and return, ultimately maximizing stock valuations.

From 2020 to 2023, property industry stocks continued to rise. Since the start of the COVID-19 pandemic, which affected economies worldwide, including Indonesia, property stocks have continued to grow. Based on analysts' research, the following presents information on revenue, profits, liabilities, and stock prices for property firms listed on the Indonesia Stock Exchange.

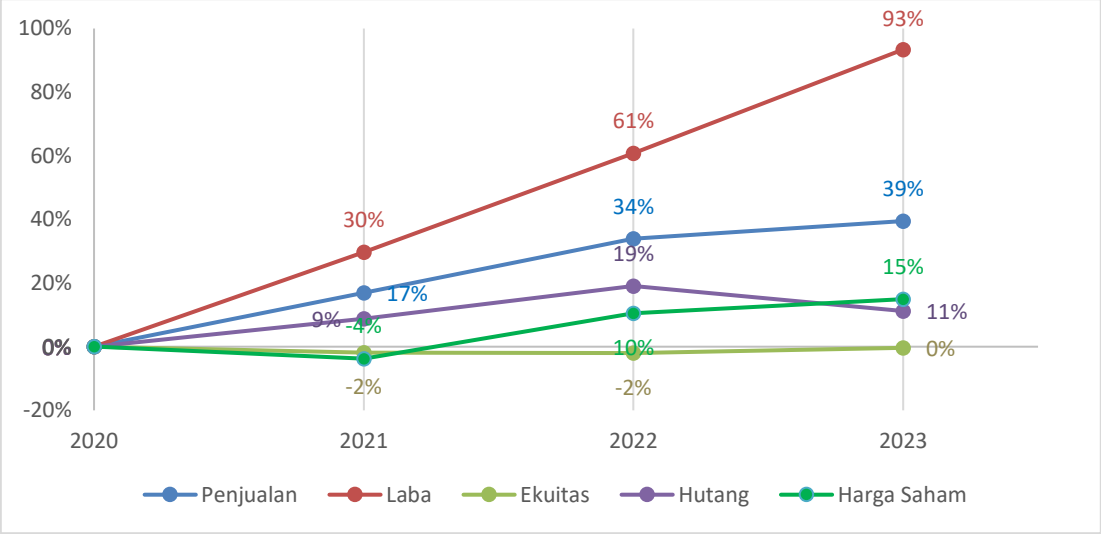

Figure 1. Sales, Profit, Debt, and Stock Price Growth Chart

Referring to Figure 1, revenue growth from 2020 to 2023 was steady, with a total increase of 39%. This indicates that property companies experienced robust sales growth. Their profits continued to grow alongside sales, increasing by 93% from 2020 to 2023. Meanwhile, the equity of these property companies decreased by 93% from 2020 to 2022, while their debt increased by 18.7% over the same period. This trend suggests that these companies rely heavily on equity funding for capital structure management. Stock prices in this sector fluctuated during this period; in 2021, a 5% decline was driven by the COVID-19 outbreak and government policies restricting community activities, which affected the global economy. Initially, stock prices fell; however, between 2022 and 2023, they recovered significantly, rising by 19%.

From the analysis above, it can be inferred that capital structure plays a pivotal role in corporate financial management. The rise and fall of a company's capital structure, often characterized by the debt-to-equity ratio, substantially influences stock valuations on the Indonesia Stock Exchange. This research seeks to identify the determinants of capital structure and their subsequent impact on stock prices in the property sector. Motivated by this significance, the researchers pursued this study under the stated title: "The effect of sales growth and profitability on stock prices through the capital structure as an intervening variable (case study on the property industry listed on the Indonesia Stock Exchange)."

METHODS

The methodology used in this study is quantitative. As articulated by Sugiyono (2018)Positivist approaches are based on positivist principles. These methods adhere to scientific criteria, including empirical evidence, objectivity, measurability, rationality, and systematic processes, rendering them credible scientific approaches. The data used in this study are secondary, derived from company documents and financial statements of companies listed on the Indonesia Stock Exchange (IDX). This information was obtained from the official IDX website at www.idx.co.id.

This study involves two independent variables (sales growth and profitability), one dependent variable (stock price), and one mediating variable (capital structure). Here is an explanation of each variable:

Sales growth (X1)

Sales growth refers to a company's increase in revenue over time, typically measured annually or at other periodic intervals. This variable is quantified using the following formula:

$$Growth\ of\ Refenues\ = \frac{S_{\mathrm{i}}\ -\ S_{t-1}}{S_{t-1}}\ x\ 100$$

a. Profitability (X2)

Profitability, measured by Return on Assets (ROA), indicates how efficiently total assets generate profits. It is calculated as the ratio of net income to total assets and is expressed as a percentage. This variable's measurement scale is ratio-based, using the following formula:

$$ROA = \frac{Earnings\ Before\ Interest\ and\ Taxes}{total\ assets} x\ 100$$

b. Capital structure (Z)

Sartono (2010) Defines capital structure as the equilibrium between permanent short-term liabilities, long-term obligations, preferred shares, and common equity. This variable is also expressed as a percentage, employing a ratio scale. The calculation follows the formula:

$$DER = \frac{Long\ Term\ Debt}{equity}\ X\ 100$$

c. Stock price

Stock price denotes the nominal closing value of ownership or participation in a corporation or limited liability company, and is frequently traded in Indonesia's capital market. The unit of measurement for this variable is the rupiah, and the data are on a ratio scale.

RESULTS AND DISCUSSION

Path Analysis Results

Path analysis is applied to measure the direct and indirect effects of exogenous variables (X1 and X2) on endogenous variables (Y) through intervening variables (Z). Utilizing AMOS 26 software, the following results were derived:

Table 1. Path Analysis Results

Regression Weights					
Relationship	**Estimate**	**SE**	**CR**	**P**	**Label**
Growth → DER	.030	.071	.291	.771	par_1
ROA → DER	-.317	1.701	-3.047	.002	par_2
DER → CS	-.099	1657.798	-.933	.351	par_3
Growth → CS	.005	1069.288	.049	.961	par_4
ROA → CS	.367	27087.933	3.364	***	par_5
Sobel Test					
Relationship	**Estimate**	**Std. Error**	**T-Statistic**	**P-Value**	
Growth → DER	0.030	0.071	-0.000	0.910	
DER → CS	-0.099	1657.798			
(Path 2)					
ROA → DER	-0.317	1.701	0.000	0.910	
DER → CS	-0.099	1657.798			
Correlations					
Relationship	**Estimate**				
Growth ←→ ROA	-.044				
Squared Multiple Correlations					
Variable	**Estimate**				
DER	.102				
Closing Price	.160				

Source: AMOS 26 Software

Based on the results of the path analysis in Table 1, the following insights were obtained:

1) Sales growth partially exerts a positive but statistically insignificant influence on capital structure, with a p-value of 0.771 > 0.05, signifying that its effect is negligible.
2) Profitability partially impacts capital structure negatively but significantly, as indicated by a p-value of 0.002 < 0.05.

3) Revenue growth's influence on stock prices is positive but statistically insignificant, with a p-value of 0.961 > 0.05.
4) Profitability's partial effect on stock prices is both positive and statistically significant, with a p-value < 0.05.
5) Capital structure has a negative but statistically insignificant impact on stock prices, as evidenced by a p-value of 0.351 > 0.05.
6) Capital structure does not mediate the relationship between revenue growth and profitability on stock prices, as demonstrated by a p-value of 0.910 > 0.05.

Based on the path analysis results, the following conceptual model was developed:

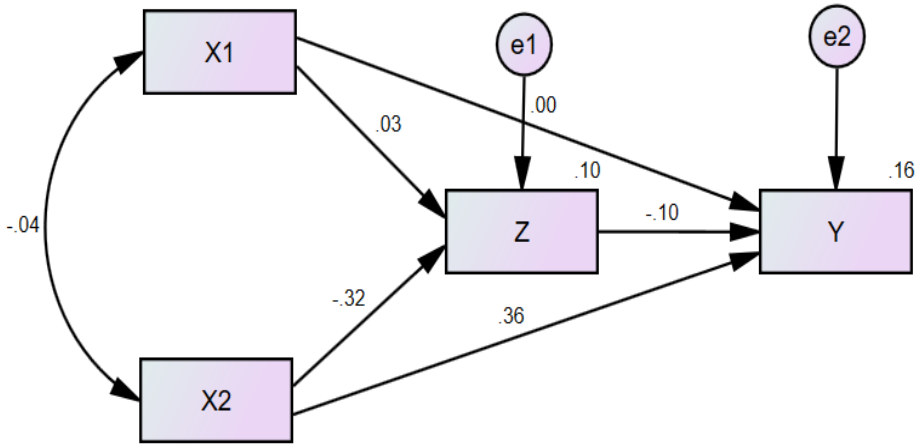

Figure 2. Conceptual Model (Path Analysis Results)

1) The path coefficient for revenue growth (X1) to capital structure (Z) (β1X1) equals 0.03, indicating that a 1% increase in revenue growth leads to a 3% rise in the capital structure.
2) The profitability path coefficient (X2) to capital structure (Z) (β2X2) is -0.32, signifying that for every 1% increase in profitability, the capital structure decreases by 32%.
3) The income growth path coefficient (X1) to stock price (Y) (β3X1) is 0.05, indicating that a 1% rise in income growth increases stock price by 0.05.
4) The profitability path coefficient (X2) to stock price (Y) (β4X2) is 0.36, meaning that a 1% uptick in profitability results in a 0.36-point improvement in stock price.
5) The capital structure path coefficient (Z) to stock price (Y) (β4Y) is -0.10, which implies that for each 1% increase in capital structure, the stock price is reduced by 0.10.

The correlation coefficient between income growth (X1) and profitability (X2) is -0.04, reflecting a negative association between these variables, likely attributable to the balance of internal and external financing sources.

DISCUSSION

The path analysis results provide empirical evidence of the relationships among income growth, profitability, and stock prices, mediated by capital structure as an intervening variable. These findings require further examination in relation to established theories and previous research to develop their broader implications.

The Effect of Sales Growth on Capital Structure

Previous studies have found that income growth has a positive yet insignificant effect on capital structure. While income growth encourages debt accumulation, its impact on capital structure remains marginal. Additionally, although capital structure affects income growth, this relationship is modest, as firms with robust profitability typically reduce their reliance on debt for operational needs.

This research aligns with findings by Purba et al. (2024) regarding the influence of profitability, income growth, and firm size on stock prices, with capital structure serving as an intervening variable in LQ-45 firms on

the Indonesia Stock Exchange. Nevertheless, the findings diverge from the pecking order theory, which suggests that firms with substantial profits prioritize internal funding over external borrowing.

The Influence of Profitability on Capital Structure

Conversely, the study supports the signaling theory, proposing that firms with rising income levels send favorable signals to investors, thereby creating opportunities for enhanced stock prices. The results indicate that profitability has a significant positive effect on stock prices, confirming that higher profits are associated with higher stock prices. Profit growth is a critical measure of a company's financial health, attracting investors who perceive profitable firms as attractive investment opportunities, thereby driving stock prices upward.

The Impact of Sales Growth on Stock Prices

This research corroborates the conclusions of Purba et al., (2024), affirming that rising income levels provide investors with optimistic signals, consistent with signaling theory, in which higher profitability translates into tangible benefits for investors. This study demonstrates that income growth exerts a positive yet insignificant effect on stock prices. While rising income growth may contribute to higher stock prices, this effect is of limited magnitude. Investors are inclined to regard profitability as a more influential determinant of anticipated returns, thereby exerting a more direct influence on stock prices.

The Influence of Profitability on Stock Prices

These findings align with the observations by Purba et al., (2024), which underscores profitability as a pivotal signal for investors. This supports signaling theory, highlighting that firms experiencing profitability growth create value for their investors. This study's findings are consistent with Purba et all (2024) This emphasizes that rising profitability signals positive outcomes for investors, consistent with signaling theory, which links higher profitability to benefits for both the firm and its stakeholders.

The Influence of Capital Structure on Stock Prices

Capital structure has a negative yet insignificant effect on stock prices, indicating that although higher capital structure may correlate with lower stock prices, the effect is not statistically significant. Investors tend to prioritize profitability over debt levels as a more reliable predictor of returns. This study aligns with the work of Hanif & Prabowo (2017) This study explored the impact of profitability and income growth on stock prices using capital structure as an intervening variable (analyzing property and real estate firms listed on the IDX between 2011 and 2015). However, the findings deviate from signaling theory, which posits that elevated debt levels may signal potential risks, thus depressing stock prices.

Capital Structure Becomes an Intervening Variable.

Previous investigations have suggested that capital structure does not serve as an intervening variable between income growth, profitability, and stock prices. This implies that changes in capital structure have minimal influence on the interplay among these variables, as increases in debt do not substantially affect stock prices.

The findings of this research align with the conclusions by Oktarianti, Djazuli, et all (2024), who determined that capital structure does not mediate the relationship between income growth and stock prices. Similarly, Purba et all (2024) Noted that capital structure does not significantly influence the association between income growth and stock prices.

CONCLUSION

Based on the analysis presented in the previous chapter, the following conclusions can be drawn regarding the effects of the research variables:

1. Income growth exhibits a positive but insignificant impact on capital structure, leading to the rejection of hypothesis 1.
2. Profitability demonstrates a negative yet significant effect on capital structure, thus affirming hypothesis 2.
3. An increase in income exerts a meaningful yet negligible influence on stock prices; as a result, hypothesis 3 is not supported.
4. The company's profitability demonstrates a strong and substantial effect on stock prices; hence, hypothesis 4 is upheld.

5. The capital structure exhibits a negative, yet statistically insignificant, impact on stock prices; therefore, hypothesis 5 is accepted.
6. The capital structure cannot serve as an intermediary variable in the relationship between revenue growth and profitability concerning stock prices; Consequently, hypothesis 6 is dismissed.

SUGGESTION

Referring to the research results and discussions that have been drawn into a conclusion, the researcher recommends the following:

A. For the next researcher
   Future investigations should consider additional factors that influence capital structure, such as cash flow stability, asset composition, and sector-specific characteristics, to provide a more comprehensive and nuanced analysis.
B. For companies
   Organizations should focus on enhancing revenue growth, thereby increasing their attractiveness to potential investors, which, in turn, will have a favorable effect on their stock prices.
C. For investors.
   Potential investors are advised to examine the company's debt levels carefully. Reducing reliance on debt for operational costs may improve profits, ultimately yielding higher returns on investment.

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