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The Effect of Profitability, Solvency, Cash Flow on Stock Returns

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ABSTRACT

The government's policy to implement the downstreaming of energy and raw materials from mining is not merely a fabrication. This study incorporates profitability, solvency, and cash flow as essential predictors of stock returns, offering a thorough understanding of the financial elements that affect market performance. This study employs a quantitative research design to ascertain the impact of profitability, solvency, and cash flow variables on the energy and basic materials sector within companies listed on the Indonesia Stock Exchange (IDX) during the periods of 2019 and 2022, specifically those included in the LQ45 index in 2023. The research findings indicate that cash flow and profitability impact stock returns, but solvency exerts little influence. This research enhances the comprehension of the impact of financial indicators on stock returns within the energy and raw materials industry, particularly in underexplored economic circumstances.

INTRODUCTION

In 2020, Indonesia planned to implement a policy to cease nickel ore exports to facilitate downstream processing. Downstreaming, as described by the Ministry of State Apparatus Empowerment and Bureaucratic Reform (2023), is a process of sustainable economic transformation that facilitates industrialization derived from high value-added mineral resources, thereby altering the economic structure to enhance its value. This policy is predicated on the premise that processing nickel ore into a more valued commodity will yield greater export profits and enhance the export value of other mining products. This approach faces opposition from numerous parties, as seen by the case initiated by the European Union against Indonesia via the World Trade Organization (WTO). Notwithstanding numerous difficulties, the down streaming policy has demonstrated a rise in the export numbers of processed mining products. According to data from BPS (Central Statistics Agency), Indonesia's exports in the mining and other industries amounted to US$ 64.919 billion from January to December 2022, reflecting a 71.22% increase compared to the previous year.

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Following the effective cessation of nickel ore exports in 2020, the Government is now diligently focusing on the downstream development of other mining industries. The initiatives undertaken aim to halt the exportation of several raw mineral commodities, including bauxite ore, tin, iron or steel, gold, and coal. The government posits that local down streaming of raw mineral products will yield much greater added value (Krustiyati & Gea, 2023; Zaki et al., 2023). In October 2022, the government resolved to concede the initial litigation conducted by the Dispute Settlement Body (DSB) about the nickel ore export prohibition policy; nonetheless, it affirmed its commitment to uphold the policy. The Investment Coordinating Board (BKPM) has finalized the development of a downstream strategy for Indonesia until 2040 in its report. Downstream necessitates investment capital amounting to US$545.3 billion, which translates to Rp8,200 trillion at an exchange rate of Rp15,200/US$ by 2040. The recent down streaming, particularly in mining and the establishment of refining facilities, has rendered the sector appealing for investment among both investors and professionals in the mining industry. The shares of mining industry companies are expected to exhibit long-term financial improvement.

The capital market, generally referred to as the stock exchange, serves as a venue for investment, facilitating interactions between capital providers and capital seekers (Butler, 2007; Olowookere & Ogebe, 2019). Companies may leverage the capital market as an alternative to banking or non-banking institutions to procure funds from investors (Krausert, 2009). The presence of a capital market mechanism enables money receivers, such as corporations, to utilize these resources for business investments without delay for fund availability. Investors may allocate capital to these funds with the expectation of generating a profit. from the outcomes generated by company activities. Return denotes the outcomes of investment endeavors or the profit gained by an investor from these operations. A realized return that closely aligns with the expected return value signifies a robust investment. The profit earned by investors using stock instruments is referred to as stock returns. Capital gains (losses) and dividends are sources of stock returns. This statement defines yield as the return that represents the monthly cash flow and revenue generated. Capital gains or losses denote the profits derived from the appreciation or depreciation in the value of an investment. If the stock price at the commencement of the buy period is lower than at its conclusion, a capital gain or profit will be realized. Should the contrary occur, you will incur a loss or depletion of capital. Due to the absence of profit assurance in stock investments, investors must evaluate several factors that can influence stock returns. Stock prices are affected by various factors, one of which is the application of fundamental analysis. Prihadi (2019) necessitates a sequential analysis process, beginning with market analysis, progressing to economic analysis, followed by industry analysis, and concluding with a company analysis. Analysis of corporate performance

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Signal theory was proposed by Suwardjono (2005), who asserted that the emphasis of pragmatic accounting theory lies in the influence of information on the behavior of financial statement readers. This offers an alternative viewpoint that uncovers the foundations of the theory in accounting theory. A firm announcement is a piece of information seen as a signal. Investors may interpret this information as either favorable or unfavorable, contingent upon the nature of the disclosure (Almaskati et al., 2023; Gao, 2024). The

announcement may influence the price fluctuations of the company's securities that are reported in the press (Liu & Krystyniak, 2021; Zheng, 2024). The aforementioned concepts indicate that the relevant paradigm in signal theory posits that the availability of associated information, such as financial statements or firm activity, is interconnected. Business financial statements may be analyzed to inform investment decisions. For investors and business professionals, the data within financial statements is crucial as it offers a comprehensive overview of a company's status. Simultaneously, numerous business professionals frequently engage in corporate activities to ensure the longevity of their enterprises. Companies employ diverse tactics to execute corporate acts, such as distributing dividends, disbursing cash, issuing shares, providing shares through rights issues, repurchasing shares, acquiring other firm assets, and engaging in various commercial initiatives. Utilizing signal theory as a comprehensive framework, investors can provide educated decisions while investing in equity instruments. Investors can conduct their research and benchmarking of a company's financial performance based on the indicators presented in its financial statements. The financial performance of a company is frequently assessed using financial ratio analysis. This study employs variables pertinent to financial ratio analysis, including profitability, solvency, market size, and corporate growth. Signal theory fundamentally represents a communication of corporate information suggesting the company possesses favorable future prospects. The statement conveys financial data and elucidates the company's status to people familiar with its operations.

The significance of this information can subsequently influence alterations in the company's stock price announcement and the incentives provided to investors in the form of shares. Return on assets (ROA) evaluates a company's capacity to generate net profits from its assets, serving as a profitability metric in this analysis. A superior ROA suggests that investors ought to acquire business stocks, anticipating an increase in their values due to the company's assets being efficiently transformed into net income. This occurs as numerous investors purchase substantial quantities of firm stocks, resulting in an elevation of the stock price and, thus, an enhancement of investors' stock returns.

Ayu et al. (2018) assert that the ROA factor positively influences stock returns. The author contends that a rise in a firm's ROA signifies an increase in profits, which subsequently influences investors' propensity to purchase shares in the company. Research conducted by Oginia et al. (2023) indicates an alternative perspective. They contend that the asset realization rate (ROA) does not influence stock returns, and that the ROA level does not indicate that the company is producing superior net income from its assets. This study determined that firm size and profitability, as shown by Return on Assets (ROA) positively influence stock returns (Lalu et al., 2024). The theoretical framework and prior research findings constitute the subsequent research hypothesis:

H1: Profitability Influences Stock Returns

The solvency ratio assesses a company's capacity to utilize debt for operational financing. This study evaluates the company's capacity to finance its operations through debt relative to its equity, utilizing the Debt-to-Equity Ratio (DER) as an indicator of solvency. This serves as a caution to investors against purchasing firm shares when the distribution volume is elevated and the demand for acquisition is minimal. A

higher Debt-to-Equity Ratio (DER) indicates diminished profitability for a corporation, as increased debt levels elevate interest expenses, hence decreasing net profit and dividends distributed. The decrease in investor stock returns will be affected by the reduction in stock prices. Research by Pradnyaningsih & Suarjaya (2022) indicates that the Debt-to-Equity Ratio (DER) adversely affects stock returns, suggesting that a company's debt level negatively influences investor perceptions. Nevertheless, other investigations indicate a different conclusion. Faizah and Ermalina (2021) discovered no association between Debt-to-Equity Ratio (DER) and stock returns, concluding that a company's DER value is not a reliable metric for assessing its success. This study proposes the following hypothesis based on the theoretical framework and findings of prior research:

H2: Solvency Influences Stock Returns.

In financial statements, cash flow refers to the data that indicates the inflow and outflow of funds inside an organization over a specified accounting period. Cash flow statements are categorized into three distinct types: financing, investing, and operating activities. Operational Cash Flow (AKO), utilized to assess the company's performance in executing its operational activities, serves as a proxy for cash flow in this study. The AKO value of a corporation indicates the surplus of its operational performance; a greater number signifies superior conditions. As AKO increases and financial results strengthen, numerous investors are likely to acquire substantial interests in the company, suggesting that investors should purchase shares in anticipation of price appreciation and stability. The stock price will dictate the magnitude of rewards investors earn from their shares. Research by Japlani et al. (2020) indicates that AKO positively influences stock returns. The writers contend that the company's capacity to finance future industrial activities with cash will be evident. This indicator can enhance investor confidence in the firm. Nurmalasari et al. (2015) found no correlation between AKO and stock returns, asserting that the AKO value of a company is not a valid metric for assessing its performance. This discovery contradicts the results of earlier investigations. Informed by the theoretical framework and prior research findings, the following hypothesis is posited for the next study:

H3: Cash Flow Influences Stock Returns.

The aforementioned concerns have captured the author's interest as a foundational aspect of this work. Concerns exist over governmental policies that influence stocks in the energy and raw materials sectors, hence altering the outcomes of prior research on determinants of stock returns. The author intends to perform study on "The Effect of Profitability, Solvency, and Company Cash Flow on Stock Returns: An Empirical Study of Energy and Raw Materials Sector Companies Listed on the IDX and Included in the LQ45 Index from 2019 to 2022." The research intends to assess the impact of profitability, solvency, and cash flow on stock returns, as outlined in the problem formulation of the study. Numerous research on stock returns have been undertaken, examining the influence of basic factors; nevertheless, each study employs distinct evaluation criteria and pertains to various industry sectors. Moreover, the emphasis on the circumstances surrounding the difficulties is also distinct. This leads to contradictions in prior study results; thus, additional research is required to demonstrate the influence of the three fundamental elements—profitability, solvency, and cash flow—on stock returns.

RESEARCH METHODS

The impact of profitability, solvency, and cash flow on the energy and raw

materials industry sector businesses listed on the IDX between 2019 and 2022 and included in the LQ45 index in 2023 is examined in this study. The research is presented using quantitative research methodology. The method that will be used to select samples in this study is called purposive sampling, and involves selecting samples based on predetermined standards.

The dependent variable and independent variable are 2 (two) categories of variables that will be used in this study. Stock returns are the dependent variable in this study, and the following metrics are used to determine the independent variables, profitability, solvency, and cash flow.

Linear regression is most effective way when the correlation between the dependent and independent variables is linear. If a linear relationship is considered adequate for the model, linear regression is the appropriate selections.

RESULTS

The results section summarizes the data collected for the study in the form of descriptive statistics and also reports the results of relevant inferential statistically analysis (e.g., hypothesis tests) conducted on the data. You need to report the results in sufficient detail so that the reader can see which statistical analyses were conducted and why, and to justify your conclusions. Mention all relevant results, including those that are at odds with the stated hypotheses (American Psychology Association 2001: 20).

There is no fixed recipe for presenting the findings of a study. We will, therefore, first consider general guidelines and then turn our attention to options for reporting descriptive statistics and the results of the hypothesis test.

You should present your findings as concisely as possible and still provide enough detail to adequately justify your conclusions, as well as enable the reader to understand exactly what you did in terms of data analysis and why.

You may assume that the reader has a working knowledge of basic statistics (i.e., typically the contents covered in a 1st statistics course). It is, therefore, not necessary to discuss basic statistical procedures in detail. You may, however, have to explain advanced multivariate statistical methods (e.g., repeated measures ANOVA, two- or –way ANOVA, multiple regression analysis, and factor analysis) in nen-technical terms. Figures and Tables (detached from main of the manuscript) often allow one to present findings in a clear and concise manner.

Table 1. Variable Measurement

No.	Criteria	Description
1	Return Stock	$R = \frac{P_t - P_{T-1}}{P_{T-1}}$
2	Profitability	$ROA = \frac{Net\ income}{Total\ aset}$
3	Solvability	$DER = \frac{Total\ Debt\ (Short\ term + Long\ Term)}{Equity}$ $Total$
4	Cash Flow	$AKO = \frac{\text{Cash flows from operating}}{Current\ Liabilities}$

Source: Analisis Laporan Keuangan

This study employs a quantitative methodology encompassing multiple linear regression analysis, classical assumption testing, descriptive analysis, and hypothesis testing. The study utilized a technology to analyze secondary data derived from the financial statements of raw material and energy businesses listed

on the Indonesia Stock Exchange (IDX) for the fiscal years 2019 to 2022, with the companies included in the LQ45 index in 2023. Statistical analysis was conducted utilizing SPSS software, which serves as a tool for data processing and identifying correlations among linked variables. Multiple linear regression analysis refers to the examination of one dependent variable in conjunction with two or more independent variables. This study use the following multiple linear regression equation:

Y = a + ß1 X1 + ß 2 X2 + ß3 X3 + €

Description:

Y = Stock Return a = Constant ß = Regression Coefficient

X1 = Profitability

X2 = Solvency

X3 = Cash Flow

€ = Error

DISCUSSION

The tests conducted for this study utilizing SPSS software yielded descriptive statistical data, detailing the minimum and maximum values, means, and standard deviations for each research variable.

Table 2. Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Return Saham	35	1.00	1.35	1.2149	0.09760
ROA	35	0.26	0.40	0.3406	0.03360
DER	35	0.12	1.90	0.9114	0.44316
AKO	35	0.93	1.39	1.1157	0.10755
Valid N (listwise)	35				

Source : Processed Data (2024)

The findings of the descriptive statistical analysis presented in Table 2 can be interpreted as follows. The minimum stock return value of 1.00 was recorded for PT Indika Energy Tbk (INDY) in 2022, while the maximum value of 1.35 was achieved by PT Bukit Asam Tbk (PTBA) in 2019. The mean value has been ascertained. The stock return variable is 1.2149, with a standard deviation of 0.09760, indicating that the mean exceeds the standard deviation, as 1.2149 > 0.09760. The minimum ROA value of 0.26 was recorded by PT Bukit Asam Tbk (PTBA) in 2019, while the maximum value of 0.40 was achieved by PT Surya Esa Perkasa Tbk (ESSA) in 2020. The mean value has been ascertained. The profitability variable, shown by ROA, is 0.3406 with a standard deviation of 0.03360, signifying that the mean value exceeds the standard deviation, as 0.3406 > 0.03360. The minimum value of the DER variable is 0.12, recorded by PT Harum Energy Tbk (HRUM) in 2019, while the maximum value is 1.90, reported by PT Surya Esa Perkasa Tbk (ESSA) in 2019. The mean value has been calculated. The DER solvency variable is 0.9114, with a standard deviation of 0.44316, indicating that the mean value exceeds the standard deviation, as 0.9114 > 0.44316.

The minimum AKO variable value of 0.93 was recorded by PT Surya Esa Perkasa Tbk (ESSA) in 2019, and the maximum value of 1.39 was recorded by PT Chandra Asri Petrochemical Tbk (TPIA) in 2022. The mean value has been ascertained. The mean cash flow variable evaluated using AKO is 1.1157, with a standard deviation of 0.10755, indicating that the mean exceeds the standard deviation, as 1.1157 > 0.10755. This study use the traditional assumption test to

ascertain if the evidence satisfies the assumptions. The classical assumption test seeks to verify the adequacy of the regression equation, as not all data is suitable for regression analysis. Furthermore, it seeks to eliminate and avert data bias. This study employs standard assumption tests, including normality, autocorrelation, multicollinearity, and heteroscedasticity assessments. The normality test, as described by Ghozali (2011), assesses whether the residuals or confounding variables in the regression model exhibit a normal distribution. The results of the normalcy test derived from the analysis of study data are presented below.

Table 3. Normality Test

		Unstandardized Residual
N		35
Normal Parameters[a,b]	Mean	0.0000000
	Std. Deviation	0.09555919
Most Extreme Absolute Differences	Positive	0.136
	Negative	0.091
Test Statistic		-0.136
Asymp. Sig. (2-tailed)		0.136
		.098[c]

Source: Processed Data (2024)

The Kolmorgorov-Smirnov test was used in this study to test for normality. Table 3 shows the Asymp value and the results of the normality test. Sig. (2-tailed) with a value of 0.098. Given that this number is greater than 0.05, the findings of the normality test indicate that the data are regularly distributed and meet the requirements for normality.

The multicollinearity test according to Ghozali (2011) aims to find evidence that there is a correlation between the independent variables and the regression model. Based on the results of the data processing carried out, the results of the multicollinearity test are as follows:

Table 4. Multicollinearity Test

	Tolerance	VIF
1 ROA	0.809 0.901	1.235 1.110
DER	0.843	1.186
AKO		

Source: Processed Data (2024)

Table 4 presents the results of the multicollinearity assessment for this investigation. The tolerance values for ROA, DER, and AKO are 0.809, 0.901, and 0.843, respectively, all exceeding 0.1. Simultaneously, the values of each ROA variable at 1.235, DER at 1.110, and AKO at 1.186 are all below 10. The findings corroborate the hypothesis that the examined variables are appropriate for subsequent research and that multicollinearity is absent. The autocorrelation test, as described by Ghozali (2011), seeks to determine the link between the confounding error at time t and the confounding error at the preceding time t-1 within a linear regression model. The outcomes of the autocorrelation test on the conducted test results are as follows.

Table 5. Autocorrelation test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.203[a]	0.041	-0.051	0.10008	1.721

Source: Processed Data (2024)

Table 5 displays the results of the autocorrelation test for this study, indicating a dW value of 1.721. The dU value of 1.6528 is derived from research data, utilizing a sample size of 35 (n) and three independent variables (k = 3) from the Durbin-Watson parameter table. The dW value of 1.721 exceeds the dU value of 1.6528, showing a lack of autocorrelation in the data. Ghozali (2011) states that the heteroscedasticity test aims to ascertain the presence of variance inequality among the residuals of different observations in the regression model. The subsequent conclusions pertain to the heteroscedasticity test derived from the analysis of this research data.

Table 6. Heteroscedasticity Test

Model	Coefficients		Coefficients	t	Sig.
1 (Constant)	1.107	0.215		5.151	0.000
ROA	0.642	0.568	0.221	1.130	0.267
DER	-0.003	0.041	-0.013	-0.068	0.946
AKO	-0.097	0.174	-0.107	-0.557	0.582

Source. Processed Data (2024)

Table 6 displays the results of the heteroscedasticity test conducted in this study. The significance values of ROA at 0.267, DER at 0.946, and AKO at 0.582 all exceed 0.050. The data substantiate the conclusion that the regression model is appropriate for this investigation and that heteroscedasticity is absent.

Ghozali (2018) asserts that multiple linear regression analysis is employed to ascertain the nature of the link between independent and dependent variables, as well as the degree of influence among two or more variables. Consequently, the outcomes of the multiple linear regression analysis are derived from the statistical findings of the conducted research, as follows.

Table 7. Multiple linear regression

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std.Error	Beta		
1	(constant)	0.151	0.094		1.612	0.117
	ROA	-0.943	0.248	-0.608	-3.799	0.001
	DER	0.024	0.018	0.201	1.328	0.194
	AKO	0.203	0.076	0.420	2.678	0.012

Source. Processed Data (2024)

According to Table 7, the multiple linear regression equation can be derived

as follows:
R = -0.943(ROA) + 0.024(DER) + 0.203(AKO)
The data mentioned regression equation can be articulated as follows.

The coefficient β1 = -0.943 indicates a negative value. This indicates that a one decimal or 100% increase in the profitability variable, as measured by ROA, results in a fall of 0.943 in the stock return variable. This year, the closing stock price increased by 94.3% compared to the prior year.
The positive coefficient β2 = 0.024 signifies that a one decimal or 100% rise in the solvency variable, as measured by DER, results in a 0.024 increase in the stock return variable. This indicates that the stock price at the conclusion of the current year will decline by 2.4% relative to the closing stock price of the preceding year.
3. The coefficient β3 = 0.203 demonstrates a positive correlation, indicating that a one decimal or 100% increase in the cash flow variable measured by AKO will result in a 0.203 rise in the stock return variable. This signifies a projected decline of 20.3% in the stock price at the end of the current year relative to the closing stock price of the preceding year.

According to Ghozali (2018), the F statistical test is employed to assess the adequacy of the regression model in elucidating the impact of each independent variable on the dependent variable. The outcomes of the statistical tests performed in this study are as follows.

Table 8. F-Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.033	3	0.011	5.754	.003[a]
	Residual	0.059	31	0.002		
	Total	0.092	34			

Source. Processed Data (2024)

The F statistical test findings indicate that the regression model employed in this work is statistically viable for predicting real values, as demonstrated in Table 8. The computed F value is 5.754 with a probability of 0.003, indicating it is below 0.050.
Ghozali (2018) states that the coefficient of determination (R2) test evaluates the degree to which the independent variable elucidates the dependent variable. A coefficient of determination (R2) equal to 1 signifies that the independent variable solely influences the dependent variable's variation, with no other factors contributing to this change. The coefficient of determination (R^2) test yields the below results, derived from the statistical analyses performed in this study.

Table 9. Coefficient of determination Test (R2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.203[a]	0.041	-0.051	0.10008	1.721

Source. Processed Data

Table 9 presents an R-Squared value of 0.041 derived from the coefficient of determination (R2) analysis performed in this investigation. This figure indicates that in this study, the independent variable accounts for 0.041 or 4.14% of the

variation in the dependent variable. The residual value indicates that variables beyond the independent variable may also influence the dependent variable. The coefficient of determination (R^2) test results indicate an R-Squared value of 0.041, as presented in Table 9. This figure indicates that the independent variable in this study accounts for 0.041 or 4.14% of the variance in the dependent variable. The residual number indicates that the dependent variable may be affected by factors beyond the independent variable. The t-statistic test, as described by Ghozali (2018), is utilized to elucidate the impact of independent variables on the dependent variable. The results of the t-statistic test are as follows, derived from the statistical analysis performed for this study.

Based on Table 7, The regression equation reveals a constant value of 0.151, signifying that the stock return is 0.151 when ROA, DER, and AKO are held constant at zero. The impact of variables such as profitability, solvency, and cash flow on stock returns can be elucidated by the t-statistic test results presented in Table 10. The results table of the t-statistic test reveals that the coefficient value of the ROA variable, 0.001, signifies a negative direction. This indicates that firms with elevated ROA values typically have diminished stock returns. The computed t value is -3.799, with a significance level of 0.001, which is below 0.05. The ROA variable significantly influences stock returns at a 5% level, leading to the acceptance of the H1 hypothesis, which posits that profitability impacts stock returns. The findings of this study corroborate the research by Ayu et al. (2018), which asserts that stock returns are affected by ROA. An elevated Return on Assets (ROA) signifies that the organization is utilizing its assets more effectively; yet, a high ROA does not ensure superior performance. Market conditions, industry dynamics, and legal frameworks are among the numerous factors that might influence a company's performance assessment. The statistical test findings showed a coefficient value of 0.194 for the DER variable, reflecting a positive correlation; this suggests that companies with elevated DER values tend to see higher stock returns. The estimated t value is 1.328, and the significance level of 0.194 exceeds 0.05. Consequently, it may be asserted that the DER variable exerts no influence on stock returns at a 5% significance level. The findings of this test suggest that the H2 hypothesis, which posits that solvency influences stock returns, is rejected. The findings of this study corroborate the research by Ayu Devi Nurmalasari et al. (2015), which asserts that DER is unrelated to stock success. The proportion of debt in the corporate capital structure rises with an increase in the Debt-to-Equity Ratio (DER). Elevated debt levels can enhance financial leverage and yield financial gains. Businesses can utilize debt to produce net profits that surpass the interest incurred.

The table of statistical test findings indicates a coefficient value of 0.012 for the AKO variable, exhibiting a positive direction. This indicates that firms with elevated AKO levels frequently experience superior stock returns. The estimated t value is 2.678, with a significance level of 0.012, which is less than 0.05. Consequently, it can be asserted that the AKO variable influences stock returns at a 5% significant level; the AKO variable indeed impacts stock returns. The test results indicate that the H3 hypothesis, which posits that cash flow affects stock returns, is accepted. This study's findings corroborate the research by Japlani et al. (2020), indicating that operational cash flow influences stock returns. The operational cash flow of the company is a key financial performance metric. Companies exhibiting substantial operating cash flow possess a greater

capacity to fulfill dividend and debt obligations, so enhancing corporate stability and rendering the investment opportunity more appealing to investors.

CONCLUSIONS

Research findings and several statistical tests indicate that profitability, as measured by ROA, influences stock returns. Stock returns are unaffected by solvency as defined by the Debt-to-Equity Ratio (DER). Cash flow ascertained by AKO can influence stock returns. The performed research is constrained by a low coefficient of determination (R^2) as indicated by the results of the multivariate linear regression analysis. Given the presented facts, it is advisable to perform additional variable analysis and prolong the research duration, as other factors influence stock returns.

The previously outlined constraints and the study's findings suggest that multiple factors affect investment selection and the evaluation of suitable stock returns. Alongside the financial statements supplied by the company, investors should meticulously assess the business's financial performance from multiple perspectives, including market conditions, industry trends, regulatory influences, and other pertinent aspects. influence the state of organizational performance. It is advisable to broaden the temporal scope and subject matter of the inquiry beyond the LQ45 list to enable further investigation.

The analysis of financial performance is anticipated to be extensively utilized across all firms listed on the IDX by broadening the temporal scope and subjects of the study. Cash flow and profitability serve as instruments for performance analysis in entities. They can assess business performance and quantify business consistency to yield net profit. Moreover, it acts as a catalyst for developing a more competitive management team to enhance business appeal. to enable the company to attract investment from external entities. For Future research, the research should be using another industries, comparing to other countries, or how it affects the policies.

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