International Journal of
Economics Development Research, Volume 4(3), 2023
pp. 1508-1519

Mediating Role of Dividend Payout Ratio in the Relationship Between Financial Ratios and Stock Prices among Infrastructure Sector Companies Listed on the Indonesia Stock Exchange

Shinta Dewi [1], Yulfiswandi [2]

Abstract:

The rise in infrastructure sector stock prices indicates successful in increasing company value, which can be calculated using financial ratios. However, there is still a lot of diversity in the influence of financial ratios on the stock prices. Therefore, the purpose of this study is to evaluate how the stock price can be influenced by financial ratios mediated by Dividend Payout Ratio among companies trading on the Indonesia Stock Exchange that are involved in infrastructure sector from 2017-2021. The research in this article makes use of secondary data that was analyzed using panel data regression. Twenty-four infrastructure businesses trading on the IDX make up the sample. In accordance with the findings of this study, it can be inferred that stock prices are not affected by the Current Ratio and Debt to Equity Ratio, while stock prices are significantly influenced positively by Return on Assets. Although the Dividend Payout Ratio does not act as a mediator between the Current Ratio and Return on Assets on stock prices, but mediates the effect of Debt to Equity Ratio on stock prices.

Keywords: *Current Ratio, Debt to Equity Ratio, Dividend Payout Ratio, Return on Asset, Stock Price*

1. Introduction

Infrastructure plays a crucial role in driving economic development, with both direct and indirect impacts on regional economic growth (Sebayang & Sebayang, 2020). Compared to other sectors, the infrastructure sector demonstrates a notably high growth rate. United Nations Industrial Development Organization (UNIDO) survey findings from 2022, Singapore holds the top position in the Quality Infrastructure for Sustainable Development Index (QI4SD). Meanwhile, Indonesia is ranked second in ASEAN, which means that Indonesia outperforms other countries and is only one level below Singapore. In addition, Indonesia is ranked 34th out of 137 countries in the world with a QI4SD index value of 56.0.

[1] *Department of Management, Universitas Internasional Batam, Indonesia.*
2041358.shinta@uib.edu
[2] *Department of Management, Universitas Internasional Batam, Indonesia.*
yulfis.wandi@uib.edu

According to the data provided by the Central Bureau of Statistics, the number of cellular phone users increased by approximately 2.89% in 2021, reaching a total of 365.88 million individuals. The widespread adoption of cellular phones has the potential to yield positive effects on the infrastructure sector. In the modern era, internet connectivity has become an essential requirement for communication and daily activities. Furthermore, the onset of the Covid-19 pandemic witnessed a significant surge in cellular phone and internet usage, contributing significantly to the rise in stock prices within the infrastructure sector.

The increase in stock prices that occurred in the infrastructure sector can be interpreted as a form of success in increasing company value. Firm value can be calculated using financial ratios which can be obtained from financial statements. Particularly in terms of profitability, an essential aspect to consider is the Return On Asset value, which indicates the extent to which the corporation can make money off of all of its holdings. The Current Ratio evaluates a company's liquidity by showing how quickly its current assets can be turned into cash. Company capacity is very useful in Debt to Equity Ratio to satisfy its commitments and the risk of default for investors.

Current Ratio (CR) is used often to evaluate the extent to which a company can pay its bills as they come due (Husna & Satria, 2019). Investors typically have more confidence in companies that exhibit strong liquidity, as it signifies their capacity to distribute dividends. According to research that conducted by Dönmez and Özkan (2022), Lubis and Purwanto (2022) prove that Current Ratio demonstrates a significant positive influence on stock price. In contrast, Alashi (2022), Hashim (2020), and Riani et al. (2020) states that stock prices are not affected by the Current Ratio.

Debt to Equity Ratio (DER) is usually utilized to evaluate a company's solvency, which assesses the ability of the capital structure to meet obligations and determines the risk of bad credit to investors (Hertina, 2021). The research that conducted by Tarmidi et al. (2020), Hashim and Shahrumzaki (2020), Riani et al. (2020), Hashim (2020), and Alashi (2022) indicate that the stock price contained in a company is not in sync with the existence of Debt to Equity Ratio. In contrast to the findings of Tangngisalu (2022), Lubis and Purwanto (2022), Sukesti et al. (2021), and Pernamasari et al. (2020) indicates that stock prices are positively and significantly influenced by the Debt to Equity Ratio.

The company's capacity to generate profits from its entire asset base can be measured using the Return on Assets (ROA), this is one of the ratios used to measure profit that is widely used. According to Hertina (2021), a company with a higher profitability ratio tends to earn greater profits, highlighting the significance of a high return rate in enhancing overall company performance. Based on the studies conducted by Mehrotra (2022), Tangngisalu (2022), Ramij and Das (2021), Tarmidi et al. (2020), Pernamasari et al. (2020), and Hashim (2020) stated that a high Return on Assets has the potential to significantly positive raise the stock price. On the other hand, Musah and Aryeetey (2021), Gyawali (2022), Hashem et al. (2020), and Hove et al. (2020) argue that Return on Asset has an insignificant effect on stock price.

According to the findings of previous research, can be concluded that there are still a lot of diversity in the influence that occurs on the Current Ratio, Debt to Equity Ratio, and Return on Assets on stock prices contained in the infrastructure sector for a company. Therefore, with this diversity, the aim of this study is to investigate how financial ratios impact the stock price of companies within the infrastructure sector that are listed on the IDX. Additionally, this study also used mediating variables in the form of Dividend Payout Ratio

2. Theoretical Background

Current Ratio and Stock Price
CR is utilized to assess a company's capabilities to fulfill its short-term liabilities (Husna & Satria, 2019). Investors typically have more confidence in companies that exhibit strong liquidity, as it signifies their capacity to distribute dividends. However, a high level of debt can disrupt a company's earnings, as the company must prioritize fulfilling its obligations before distributing dividends (Lubis & Purwanto, 2022). Thus, it indicates that the CR affects Stock Price, a consistency found in the research conducted by Dönmez and Özkan (2022) & Lubis and Purwanto (2022) indicate that the impact of CR on Stock Price is positive and significant. This is attributed to that the CR reflects capacity of the corporation to meet its short-term obligations. Based on this research, the following is the first hypothesis:
H1: Stock price are positively and significantly influenced by the Current Ratio in companies listed engaged in infrastructure sector on IDX.

Debt to Equity Ratio and Stock Price
DER is usually utilized to assess a company's solvency, evaluating the capability of its capital structure to fulfill obligations and determines the risk of bad credit to investors (Hertina, 2021). DER typically represents the equilibrium between capital and liabilities in the company's financial statements, indicating the extent of external funding utilization in financial operations. Thus, it proves that Stock Price is affected by the DER, corroborating the findings of Tangngisalu (2022), Lubis and Purwanto (2022), Sukesti et al. (2021), and Pernamasari et al. (2020), whom suggest that stock price are significantly positive influenced by the DER. This occurs due to total liabilities tend to be very high compared to total equity, so the DER becomes higher. In light of these findings, the following is the second hypothesis:
H2: Stock price are positively and significantly influenced by the Debt to Equity Ratio in companies listed engaged in infrastructure sector on IDX.

Return on Asset and Stock Price
ROA is employed to evaluate a company's capacity to earn profits from its entire asset portfolio. According to Hertina (2021), a company with a higher profitability ratio tends to earn greater profits, highlighting the significance of a high return rate in enhancing overall company performance. Changes in income, working capital, costs, and asset utilization can affect the ROA. Mehrotra (2022), Tangngisalu (2022), Ramij and Das (2021), Tarmidi et al. (2020), Pernamasari et al. (2020), and Hashim (2020)

proving that the impact of ROA on Stock Price is positive and significant. Therefore, the following is the third hypothesis:
H3: Stock price are positively and significantly influenced by the Return on Asset in companies listed engaged in infrastructure sector on IDX.

Current Ratio and Stock Price Mediated by Dividend Payout Ratio
Dividend Payout Ratio provides insight into the portion of the company's net income distributed to its shareholders as dividends (Novyarni & Permana, 2020). According to the research conducted by Rahmadi (2020) and Chan (2020), who argue that companies not only focus on liquidity when paying dividends. Jana (2017), Shabrina & Hadian (2021), and Novyarni & Permana (2020) suggests that Stock Price are positively and significantly influenced by the CR mediated by Dividend Payout Ratio. The fourth hypothesis of this research is as follows:
H4: Stock price are influenced by the Current Ratio mediated by Dividend Payout Ratio in companies listed engaged in infrastructure sector on IDX.

Debt to Equity Ratio and Stock Price Mediated by Dividend Payout Ratio
Angelia and Toni (2020) suggesting that a corporation's dividend-paying capacity diminishes with increased leverage levels. But the studies that conducted by Jana (2017) and Arshad et al. (2022) indicating a significant positive impact of DER on the Dividend Payout Ratio. Therefore, the following is the fifth hypothesis:
H5: Stock price are influenced by the Debt to Equity Ratio mediated by Dividend Payout Ratio in companies listed engaged in infrastructure sector on IDX.

Return on Asset and Stock Price Mediated by Dividend Payout Ratio
When a company's profitability in earning profits increases, it results in an increased distribution of dividends. Companies can generate profits by effectively managing their total assets within their operational activities. Thus, it proves that the Dividend Payout Ratio can be significantly positively influenced by ROA, which is consistent with the research conducted by Angelia and Toni (2020), Chan (2020), Jana (2017), Shabrina and Hadian (2021), and Arshad et al. (2022). Therefore, the sixth hypothesis is as follows:
H6: Stock price are influenced by the Return on Asset mediated by Dividend Payout Ratio in companies listed engaged in infrastructure sector on IDX.

3. Methodology

Population and Sample
The study population comprised 62 infrastructure sector companies that were listed on the IDX from 2017-2021. However, only 24 companies were selected as samples, and the data was gathered from the company’s annual report for the years 2017 through 2021.

The sample in this study was using a purposive sampling technique based on certain considerations and criteria that align with objectives of this study. The following are some of the criteria considered in the sample selection:

1. Firms that operating in the infrastructure sector that are currently listed on the Indonesia Stock Exchange in the period between 2017 to 2021.
2. Infrastructure sector companies that have distributed dividends at least twice during the period of 2017-2021.
3. The annual financial statements are published from 2017-2021.

Operational Variables

Current Ratio

The calculation for Current Ratio is conducted employing the subsequent formula:

$$CR = \frac{Current\ Assets}{Current\ Liabilities}$$

Debt to Equity Ratio

The calculation for Debt to Equity Ratio is conducted employing the subsequent formula:

$$DER = \frac{Total\ Debt}{Total\ Equity}$$

Return on Asset

The calculation for Return on Asset is conducted employing the subsequent formula:

$$ROA = \frac{Net\ Profit}{Total\ Assets}$$

Dividend Payout Ratio

The calculation for Dividend Payout Ratio is conducted employing the subsequent formula:

$$DPR = \frac{Dividend}{Net\ Income}$$

Stock Price

The calculation for Stock Price is used by the closing price.

Data Analysis Method

The research employs the panel data regression method for data analysis which will be carried out using the Eviews 12 application to analyze whether there is an influence between variables through several processes of descriptive statistic, common effects, fixed effects, and random effect model. The research will use the chow, hausman, and lagrange multiplier tests to determine the optimal model to use. Subsequently, the last process involves conducting hypothesis tests, specifically a combination of the t-test, the F test, and the R-Squared test. Next, the Dividend Payout Ratio is examined using the Sobel test to see whether it may serve as a mediator between the independent and dependent variables.

4. Empirical Findings/Result

Table 1. Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
Stock Price	120	102	6400	1256,925	1453,364
Current Ratio	120	0,000625	9,283865	1,663250	1,737823
Debt to Equity Ratio	120	0,081047	10,29468	1,613199	1,497608
Return on Asset	120	-0,116425	0,172175	0,046957	0,047943
Dividend Payout Ratio	120	-15,07551	7,175413	0,247451	1,596217

Source: Processed Data (2023)

The Stock Price variable (Y) shows the lowest value of Rp 102 which occurred at PT. Temas Tbk in 2019, the highest value was Rp 6,400 which occurred at Jasa Marga (Persero) Tbk.

The Current Ratio variable (X1) exhibits the lowest value of 0.000625, observed in PT. Bali Towerindo Sentra Tbk in 2020. Conversely, PT. Cikarang Listrindo Tbk achieved the the highest value of 9.283865 in 2021. The average value across the companies is calculated to be 1.663250, with a standard deviation of 1.737823. The findings from this data indicate that a company's value more than 1.663250 means that Current Ratio is categorized as high.

The Debt to Equity Ratio variable (X2) exhibited the lowest value of 0.081047 in 2017, which was observed in Pelayaran Nelly Dwi Putri Tbk. Conversely, the highest value of 10.29468 was recorded in PT. Bali Towerindo Sentra Tbk in 2018. The average value is 1.613199, with a standard deviation of 1.497608. These findings indicate that a company's value more than 1.613199 means that Debt to Equity Ratio is high category.

The Return on Asset variable (X3) demonstrates the lowest value of -0.116425, observed in Samudera Indonesia Tbk in 2019. PT. Temas Tbk achieved the highest value of 0.172175 in 2021. The average value across the companies is calculated to be 0.046957, with a standard deviation of 0.047943. These findings from this data indicate that a company's value exceeding 0.046957 indicates that Return on Asset is high category.

The Dividend Payout Ratio variable (XA) exhibited the lowest value of -15.07551 in 2021 which occurred at Indosat Tbk. Conversely, the highest value of 7.175413 was recorded in PT. Temas Tbk in 2021. The dataset has a mean value of 0.247451 and a standard deviation of 1.596217. These findings indicate that a company's with a value greater than 0.247451 is categorized as having a high Dividend Payout Ratio.

Panel Data Regression Model Selection

Table 2. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	24.862897	(23,92)	0.0000
Cross-section Chi-square	237.151508	23	0.0000

Source: Processed Data (2023)

Using a significant level of 0.05, when deciding between the Common Effect Model and the Fixed Effect Model, the Chow test is used. The Common Effect Model can be chosen if the probability value is higher than 0.05, and vice versa. The cross-section chi-square test results are shown in the table above, and the p-value is 0.0000, which is smaller than the significance level of 0.05. Consequently, the Fixed Effect can be chosen as the best model.

Table 3. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.571940	4	0.0727

Source: Processed Data (2023)

The purpose of conducting the Hausman test was to compare the appropriateness of using either the Fixed Effect Model or the Random Effect Model. It is advisable to use the Fixed Effect Model if the probability value is less than 0.05, and the Random Effects Model if it is more than 0.05. The above table indicates a cross-section random of 0.0727 with $\alpha = 5\%$. This suggests that the Random Effect Model is the preferred option.

Table 4. Lagrange Multiplier Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	136.7520	1.228657	137.9806
	(0.0000)	(0.2677)	(0.0000)

Source: Processed Data (2023)

The Lagrange Multiplier test differentiates between the Random Effect Model and the Common Effect Model in order to determine which is more appropriate for assessing panel data. If the p-value is less than 0.05, the Random Effects Model is the best fit, and vice versa. Breusch-Pagan in the table above interprets the p-value of 0.0000 which is certainly lower than the significant level of 0.05. The Random Effect is the best model chosen based on the test results.

Hypothesis Test

Table 5. Partial Test (t-Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Summary
C	1132.189	298.2744	3.795796	0.0002	-
Current Ratio	-87.81291	72.48446	-1.211472	0.2282	Not Significant
Debt to Equity Ratio	24.97585	54.44641	0.458724	0.6473	Not Significant
Return on Asset	5415.297	1375.115	3.938068	0.0001	Significant Positive
Dividend Payout Ratio	-96.12724	36.10981	-2.662081	0.0089	Significant Negative

Source: Processed Data (2023)

The results presented in the table above are as follows:

1. CR has a probability with a value of 0.2282 > 0.05. Therefore, the Current Ratio no affect stock price.
2. DER has a probability with a value of 0.6473 > 0.05. Therefore, the stock price are not significantly impacted by the Debt to Equity Ratio.
3. ROA certainly has a probability with a value of 0.0001 < 0.05. Thus, the stock price are positively impacted significantly by Return on Asset.

4. DPR has a probability with a value of 0.0089 < 0.05. Thus, the stock price is negatively and significantly affected by Dividend Payout Ratio.

Table 6. Simultaneous Test (F Test)

Dependent Variable	F	Sig.	Summary
Stock Price	6.365412	0.000116	Feasible to use

Source: Processed Data (2023)

As indicated in the table above, the stock price variable has a value of 6.365412, and the significance value is 0.000116, which is below 0.05. Therefore, it can be inferred that the stock price is affected simultaneously by the Current Ratio, Debt to Equity Ratio, and Return on Asset.

Table 7. Coefficient of Determination

Dependent Variable	Adjusted R^2
Stock Price	0.152794

Source: Processed Data (2023)

According to the table above, indicates that the result of the adjusted R-Squared for the stock price obtained is 0.152794 or equivalent to 15.28%, which means that the the stock price variable may be described by the Current Ratio, the Debt to Equity Ratio, and the Return on Asset, while other factors not employed in this study is explain the remaining 84.72%.

Table 8. Sobel Test

Variable	t-Statistic (>1,65)	Prob. (<0,05)	Summary
CR → DPR → SP	0,197301	0,421795	Not Significant
DER → DPR → SP	1,684651	0,046027	Significant Positive
ROA → DPR → SP	0,050342	0,479924	Not Significant

Source: Processed Data (2023)

Sobel test findings in the table above suggest that stock prices are influenced by the Current Ratio which is mediated by the Dividend Payout Ratio, with a value of -0.197301 and a p-value of 0.421795. It follows that the Current Ratio's effect on the stock price cannot be mediated by the Dividend Payout Ratio.

With a significant value of 1.684651 and a probability value of 0.046027, its found that stock prices are influenced by the Debt to Equity Ratio is mediated by the Dividend Payout Ratio. This indicates that a role is played by the Dividend Payout Ratio in mediating the influence of the Debt to Equity Ratio on stock price.

Stock prices are not influenced by Return on Assets mediated by the Dividend Payout Ratio which is interpreted with a value of 0.050342 and p-value of 0.479924. Therefore, the involvement of the Dividend Payout Ratio in mediating the influence of Return on Assets on stock price cannot be established

5. Discussion

H1: The Effect of Current Ratio on Stock Price

According to the test results in Table 5, show that the CR has an insignificant effect on stock price. Consequently, it can be concluded that the first hypothesis (H1) is rejectable. This study results revealed that any changes in the CR will not have any

impact on the stock price. This is due to there is a possibility that investors do not use the CR as a consideration. Therefore, CR will not affect the stock price significantly. The obtained result aligns with the findings of Hashim (2020) research, which revealed that CR doesn't has any impact to stock price. Another study conducted by Riani et al. (2020) also states that CR not affect stock price significantly. According to Alashi (2022) revealed that any increase or decrease in CR as an indicator of the company's capability to settle short-term obligations has no effect on the company's stock price.

H2: The Effect of Debt to Equity Ratio on Stock Price

According to the regression analysis results presented in Table 5, it's found that DER has an insignificant impact on stock price, hence the hypothesis of the second (H2) is rejectable. Investors being able to evaluate how the company utilizes its obligations for operational expenses, regardless of whether the debt level is high or low. Consequently, investor interest in stock investment is not diminished. The findings of results from this research agree with Tarmidi et al. (2020) research, indicate that DER does not have an impact on the stock price. Other research that conducted by Hashim and Shahrumzaki (2020), Riani et al. (2020), Hashim (2020), and Alashi (2022) also support this research, which revealed that DER not affect stock price significantly.

H3: The Effect of Return on Asset on Stock Price

The results obtained from Table 5, shows that stock prices are positively and significantly influenced by the ROA. Therefore, one might draw the conclusion that the hypothesis of the third (H3) is acceptable. The effect of the company's ROA on stock price is positive which means that if the ROA value increases, the company's profitability improves, potentially leading to an increase in stock price, and vice versa. Consequently, a higher ROA value reflects the company's improved capacity to earn profits. These results align with the research carried out by Mehrotra which also affirm that stock prices are positively and significantly influenced by the ROA. The other study carried out by Tangngisalu (2022), Ramij and Das (2021), Tarmidi et al. (2020), Pernamasari et al. (2020), and Hashim (2020) also mentioned that stock prices are positively and significantly influenced by the ROA.

H4: The Effect of Current Ratio on Stock Price Mediated by Dividend Payout Ratio

According to the sobel test results in Table 8, shows that the Dividend Payout Ratio does not act as a mediator for the impact of the CR on the stock price. As a result, the fourth hypothesis (H4) is rejectable. The results of this study found that companies not only focus on liquidity when paying dividends, because the lack of the company's capability to fulfill short-term obligations, resulting in a high level of risk. So the stock price is not affect by CR that mediate by Dividend Payout Ratio. The obtained result aligns with the findings of Chan (2020), which revealed that Dividend Payout Ratio doesn't act as a mediator in the impact of CR on stock price. According to Rahmadi (2020) revealed that investors' confidence in the company's capacity to fulfill promised dividends increases with a higher CR, and vice versa.

H5: The Effect of Debt to Equity Ratio on Stock Price Mediated by Dividend Payout Ratio

According to the Sobel test results in Table 8, it's determined that the Dividend Payout Ratio has a mediating role in the impact of the DER on stock price, hence the fifth hypothesis (H5) is acceptable. The company can fulfill the dividends to be paid if the increase in the DER is offset by an increase in sales so that the profit to be obtained will increase and the availability of dividends for investors. These findings align with the research carried out by Jana (2017), which indicate that stock price are positively and significantly affected by DER that mediated by Dividend Payout Ratio. The other study carried out by Arshad et al. (2022) also supported this research, demonstrating that the Dividend Payout Ratio act as a mediator in the impact of DER on stock price.

H6: The Effect of Return on Asset on Stock Price Mediated by Dividend Payout Ratio

The Sobel test results presented in Table 8, indicate that the Dividend Payout Ratio does not act as a mediator in the impact between ROA and stock price. In conclusion, it can be stated that the sixth hypothesis (H6) is rejectable. This study results revealed that any changes in profitability, whether an increase or decrease, do not influence dividend policy. This is suspected because the company conducts stable dividend policy. The higher profitability does not impact dividend policy because the company is more concerned with expanding, one of the ways is by retaining profits to strengthen the capital structure. The obtained result aligns with the findings of Simbolon et al. (2022) research, which states that there is no impact of ROA on the stock price mediated by Dividend Payout Rati

6. Conclusions

In this study, the focus is on examines the influence of financial ratios on the stock prices in 24 companies listed on the Indonesia Stock Exchange engaged in infrastructure sector companies from 2017 to 2021. The financial ratios examined include the Current Ratio, Debt to Equity Ratio, and Return on Asset, all of which serve as independent variables. The stock price is the dependent variable, while the Dividend Payout Ratio is the mediating variable in this research.

The finding result indicate that the Return on Asset had a positive and significant impact on the stock price. However, neither the Current Ratio nor the Debt to Equity Ratio exhibited a significant impact on the stock price. A company's liquidity positively correlates with its capacity to fulfill its obligations. In addition, the Dividend Payout Ratio was determined to solely act as a mediator for the influence of the Debt to Equity Ratio on stock price, but has no role in mediating the effect of Current Ratio and Return on Asset on stock price.

Another noteworthy observation from this study is the inadequacy of the research model as a reliable predictor of stock prices. Therefore, it is advisable for future researchers aiming to investigate the same field should consider augmenting or

utilizing an improved research model to encompass a wider range of factors with potential influence on stock prices

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