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The Role of Profitability in Mediating the Effect of Financial Performance on Stock Returns: An Empirical Study of LQ45 Companies (2021–2025)

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Abstract: This study aims to analyze the effects of Current Ratio (CR), Debt to Equity Ratio (DER), and Total Asset Turnover (TATO) on Stock Returns, with Return on Equity (ROE) as a mediating variable, in companies included in the LQ45 index during 2021–2025. The study was motivated by Indonesian capital market volatility during the research period and inconsistent findings in previous studies concerning financial ratios and stock returns. A quantitative approach with an associative-causal research design was employed. The sample was selected using purposive sampling, resulting in 16 companies that met the established criteria. Data analysis was performed using panel data regression and path analysis with EVIEWS 14. The results show that DER and TATO have positive and significant effects on ROE, while CR has no significant effect on ROE. ROE has a positive and significant effect on Stock Returns, whereas CR, DER, and TATO do not have significant direct effects on Stock Returns. Furthermore, ROE mediates the effects of DER and TATO on Stock Returns but does not mediate the effect of CR on Stock Returns. These findings indicate that profitability plays an important role in linking financial performance to Stock Returns among LQ45 companies during the research period.

Keyword: Current Ratio, Debt to Equity Ratio, Return on Equity, Return Saham, Total Asset Turnover.

Indonesian Abstract: Penelitian ini bertujuan untuk menganalisis pengaruh Current Ratio (CR), Debt to Equity Ratio (DER), dan Total Asset Turnover (TATO) terhadap Imbal Hasil Saham (Stock Returns), dengan Return on Equity (ROE) sebagai variabel mediasi, pada perusahaan yang terdaftar dalam indeks LQ45 selama periode 2021–2025. Penelitian ini dilatarbelakangi oleh volatilitas pasar modal Indonesia selama periode penelitian dan ketidakkonsistenan temuan pada penelitian sebelumnya mengenai rasio keuangan dan imbal hasil saham. Pendekatan kuantitatif dengan desain penelitian asosiatif-kausal digunakan dalam penelitian ini. Sampel dipilih menggunakan metode purposive sampling, yang menghasilkan 16 perusahaan yang memenuhi kriteria yang ditetapkan. Analisis data dilakukan menggunakan regresi data panel dan analisis jalur (path analysis) dengan bantuan perangkat

lunak EViews 14. Hasil penelitian menunjukkan bahwa DER dan TATO berpengaruh positif dan signifikan terhadap ROE, sedangkan CR tidak berpengaruh signifikan terhadap ROE. ROE berpengaruh positif dan signifikan terhadap Imbal Hasil Saham, sedangkan CR, DER, dan TATO tidak memiliki pengaruh langsung yang signifikan terhadap Imbal Hasil Saham. Selain itu, ROE memediasi pengaruh DER dan TATO terhadap Imbal Hasil Saham, namun tidak memediasi pengaruh CR terhadap Imbal Hasil Saham. Temuan ini mengindikasikan bahwa profitabilitas memainkan peran penting dalam menghubungkan kinerja keuangan dengan Imbal Hasil Saham pada perusahaan-perusahaan LQ45 selama periode penelitian.

Keywords: Rasio Lancar, Rasio Utang Terhadap Ekuitas, Imbal Hasil Ekuitas, Imbal Hasil Saham, Perputaran Total Aset.

INTRODUCTION

The capital market plays an important role in supporting economic development by facilitating the transfer of funds from investors to companies and other entities requiring financing (Lubis et al., 2024). Through this mechanism, public funds can be allocated to productive sectors that generate economic value. For stock investors, the expected outcome of investment is reflected in stock returns, which represent the gain or loss obtained from changes in stock prices and other investment benefits. Therefore, stock returns can serve as an important indicator for evaluating investment performance and market responses to corporate conditions (Yeni et al., 2024).

Stock returns are not determined solely by internal corporate conditions but are also influenced by changes in the macroeconomic and investment environment (Rudhani et al., 2025). During 2021–2025, the Indonesian capital market experienced considerable fluctuations following the economic recovery from the COVID-19 pandemic, changes in interest-rate policies, inflationary pressures, geopolitical tensions, and domestic political developments. These conditions affected investor sentiment and contributed to changes in stock-price movements (Botta & Sakariyahu, 2025). The movement of the IHSG, IDX30, and LQ45 during the research period also showed different patterns. While the IHSG recorded a positive return of approximately 42% by the end of 2025, LQ45 and IDX30 remained negative at approximately –15% and –21%, respectively. This condition indicates that the performance of highly liquid and fundamentally strong stocks within LQ45 did not necessarily move in line with the overall Indonesian stock market.



Source: TradingView (2026).

Figure 1. Movement of IHSG, IDX30, and LQ45 Returns, January 2021–December 2025

The difference in index performance indicates that investors need to consider company-specific fundamental information when assessing stock-return prospects. Financial performance can provide information regarding a company's ability to manage its resources, meet financial obligations, utilize assets, and generate returns for shareholders. Financial ratios therefore become important indicators for evaluating these aspects. In this study, financial performance is represented by Current Ratio (CR), Debt to Equity Ratio (DER), Total Asset Turnover (TATO), and Return on Equity (ROE).

CR represents the company's ability to meet its short-term obligations through current assets (Brigham & Houston, 2019). A high level of liquidity does not necessarily indicate better profitability because excessive current assets may remain unutilized for productive activities. DER reflects the proportion of debt financing relative to shareholders' equity and indicates the company's financial leverage and associated risk (Gitman & Zutter, 2015). The use of debt can potentially increase profitability when borrowed funds are utilized productively, although excessive leverage may increase financial risk. Meanwhile, TATO measures the effectiveness of total assets in generating sales. Higher asset turnover indicates that company resources are being utilized more efficiently to generate revenue (Brigham & Houston, 2019). ROE measures the company's ability to generate net income from shareholders' equity and therefore provides investors with information regarding the effectiveness of capital utilization.

The relationship between financial ratios and stock returns can be explained through Signaling Theory. Spence (1973) explains that information owned by one party can be used as a signal to another party under conditions of information asymmetry. In the capital market, financial performance information disclosed by companies can become a signal for investors in assessing future prospects. Strong profitability may be interpreted as a positive signal, potentially increasing investor confidence and affecting stock prices and returns. The relationship can also be viewed through Agency Theory, which emphasizes the potential conflict between shareholders and managers arising from differences in interests and information. Financial performance indicators can therefore provide information regarding how effectively management utilizes company resources for shareholders' interests (Jensen & Meckling, 1976).

Therefore, profitability is positioned as a variable mediating the relationship between financial ratios and stock returns. Studies by Aulia et al. (2025), Chabachib et al. (2020), Marlisa et al. (2021), and Atthahiry et al. (2025) indicate that ROE can mediate the relationship between financial ratios and stock returns, acting as either a full or partial mediator. Research by Chabachib et al. (2020) found that ROE fully mediates the relationship between the Current Ratio (CR) and stock returns, while partially mediating the relationship between the Debt-to-Equity Ratio (DER) and stock returns; however, ROE failed to mediate the relationship between Total Asset Turnover (TATO) and stock returns. Atthahiry et al. (2025) found that ROE partially mediates the relationship between CR and stock returns but found no evidence of ROE mediating the relationship between TATO and stock returns. Meanwhile, Mardiyah et al. (2021) demonstrated that ROE does not mediate the relationship between CR and stock returns because CR has no effect on ROE, despite having a direct impact on stock returns. In contrast, Marlisa et al. (2021) and Aulia et al. (2025) found that ROE acts as a partial mediator in the relationship between DER and stock returns. These varying results indicate that ROE's ability to mediate the relationships between liquidity, solvency, and activity ratios and stock returns remains inconsistent; thus, further research is required to obtain empirical evidence regarding ROE's role as a mediating variable.

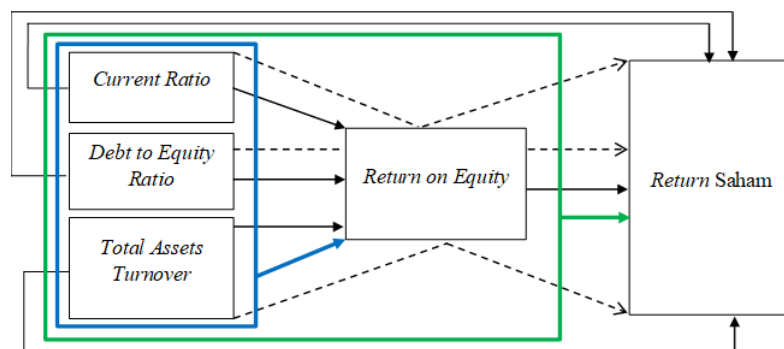
Previous research has also predominantly examined specific industries or used ROA as a profitability measure. Research that simultaneously examines CR, DER, and TATO with ROE as a mediating variable in relation to stock returns among LQ45 companies remains limited, particularly during the 2021–2025 period. The LQ45 index provides an appropriate

research setting because it represents liquid companies with relatively strong market characteristics, yet their stock-return performance during the observation period did not necessarily follow the overall market movement. This condition creates an opportunity to examine whether internal financial performance can explain stock-return differences among companies included in the index.

Therefore, this study aims to analyze the effects of CR, DER, and TATO on ROE; examine the effects of CR, DER, TATO, and ROE on Stock Returns; and determine whether ROE mediates the effects of CR, DER, and TATO on Stock Returns among LQ45 companies during 2021–2025. The study is expected to provide empirical evidence regarding the role of profitability in linking financial performance with stock returns and to contribute to the discussion of fundamental analysis in the Indonesian capital market.

Conceptual Framework and Research Model

The research framework connects the three financial indicators with profitability and stock return. CR, DER, and TATO are specified as explanatory variables, ROE as the mediating variable, and stock return as the dependent variable.

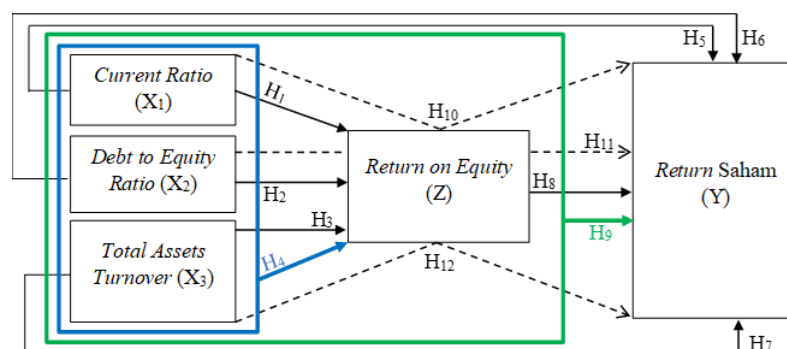


Source: Adapted from Chabachib et al. (2020), Atthahiry et al. (2025), Mardiyah et al. (2021), Marlisa et al. (2021), Aulia et al. (2025), Aprilyani & Nurhamdi (2025), Aini & Siregar (2026) dan Handayani & Aprilia (2023).

Figure 2. Conceptual Framework

Research Model

The research model translates the conceptual framework into direct, simultaneous, and indirect paths that are tested empirically.



Source: Adapted from Chabachib et al. (2020), Atthahiry et al. (2025), Mardiyah et al. (2021), Marlisa et al. (2021), Aulia et al. (2025), Aprilyani & Nurhamdi (2025), Aini & Siregar (2026) dan Handayani & Aprilia (2023).

Figure 3. Research Model

METHOD

This study employs a quantitative approach with an associative-causal research design. The research focuses on companies included in the LQ45 Index listed on the Indonesia Stock Exchange during 2021–2025. Secondary data were obtained from the IDX LQ45 Company Fact Sheet, annual financial statements published by the Indonesia Stock Exchange and individual company websites, as well as year-end closing stock prices used to calculate annual stock returns.

Purposive sampling was employed based on four criteria: companies had to remain continuously included in the LQ45 Index throughout 2021–2025, consistently publish annual financial statements, provide complete data for Current Ratio (CR), Debt to Equity Ratio (DER), Total Asset Turnover (TATO), and Return on Equity (ROE), and report positive profits consecutively during the observation period. From 73 companies that had been included in the LQ45 Index at some point during the period, 18 companies met the sampling criteria, resulting in 90 initial firm-year observations.

Before panel-data regression was conducted, outlier screening was performed using a z-score approach with a threshold of ± 3 standard deviations (Joseph F et al., 2019). Two companies, PT Barito Pacific Tbk and PT Unilever Indonesia Tbk, were identified as outliers. To maintain a balanced panel structure, all observations from these two companies were excluded, leaving 16 companies and 80 firm-year observations for the final analysis.

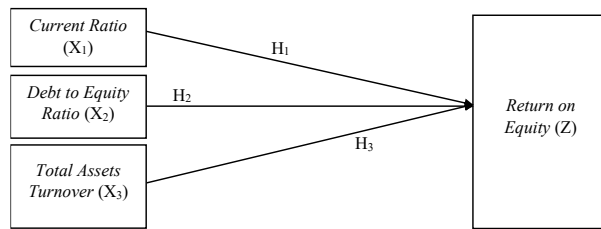
The independent variables are CR, DER, and TATO; ROE is the mediating variable; and Stock Return is the dependent variable. CR is measured as current assets divided by current liabilities, DER as total liabilities divided by total equity, TATO as sales divided by total assets, and ROE as net income after tax divided by total equity. Stock Return is calculated based on the annual change in year-end closing stock prices.

Table 1. Operational Definition of Variables

Variable	Measurement	Scale	Main Source
Current Ratio (CR)	Current Assets / Current Liabilities	Ratio	Brigham & Houston, (2019)
Debt to Equity Ratio (DER)	Total Debt / Total Equity	Ratio	Gitman & Zutter (2015)
Total Asset Turnover (TATO)	Sales / Total Assets	Ratio	Gitman & Zutter (2015)
Return on Equity (ROE)	Net Income / Total Equity	Ratio	Brigham & Houston, (2019)
Stock Return	$(\text{Closing Price}_t - \text{Closing Price}_{t-1}) / \text{Closing Price}_{t-1}$	Ratio	Gitman & Zutter (2015)

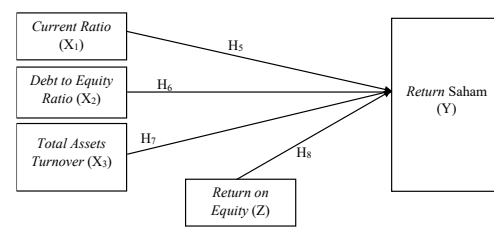
Source: Brigham & Houston, (2019) and Gitman & Zutter (2015)

Panel-data regression was conducted through two structural models. Model 1 estimates the effects of CR, DER, and TATO on ROE, while Model 2 examines the effects of CR, DER, TATO, and ROE on Stock Return. The selection of the appropriate panel-data model was based on the Chow, Hausman, and Lagrange Multiplier tests, which are used to determine the most suitable specification among the Common Effect Model, Fixed Effect Model, and Random Effect Model (Ghozali & Ratmono, 2017). Prior to hypothesis testing, multicollinearity and heteroscedasticity tests were conducted to assess the validity of the regression models (Septianingsih, 2022). The partial effects were evaluated using the t-test, while the joint effects were assessed using the F-test. The mediating role of ROE was subsequently examined using the Sobel test. The structural equations were formulated as follows:



Source: Adapted from Chabachib et al. (2020), Atthahiry et al. (2025), Mardiyah et al. (2021), Marlisa et al. (2021), Aulia et al. (2025), Aprilyani & Nurhamdi (2025) and Aini & Siregar (2026).

Figure 4. Substructural Model 1



Source: Adapted from Chabachib et al. (2020), Atthahiry et al. (2025), Mardiyah et al. (2021), Marlisa et al. (2021), Aulia et al. (2025) and Handayani & Aprilia (2023).

Figure 5. Substructural Model 2

Substructural Model 1 : $ROE = \alpha_1 + \beta_1 CR + \beta_2 DER + \beta_3 TATO + \epsilon_1$

Substructural Model 2 : $Stock\ Return = \alpha_2 + \beta_5 CR + \beta_6 DER + \beta_7 TATO + \beta_8 ROE + \epsilon_2$.

RESULTS AND DISCUSSION

Descriptive Statistics

The final dataset consists of 80 balanced panel observations from 16 companies over five years. The descriptive statistics indicate considerable variation across firms, particularly in liquidity, leverage, asset efficiency, profitability, and stock returns. This variation reflects differences in the financial conditions and operational characteristics of LQ45 companies throughout the 2021–2025 observation period.

Table 2. Descriptive Statistics

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
CR	2.187317	1.937761	5.654751	0.175365	1.261405
DER	0.903035	0.715826	4.457518	0.128817	0.881958
TATO	0.699999	0.574998	1.611304	0.131179	0.393694
ROE	0.150593	0.127484	0.615333	0.003999	0.100685
Stock Return	0.027720	-0.049020	1.178112	-0.485938	0.308727

Source: EViews 14 output, processed by the researcher.

The descriptive profile shows that CR has the largest average value among the ratio variables, while stock return displays the greatest relative dispersion. The standard deviation of stock return is substantially larger than its mean, indicating that market returns varied considerably across firms and years. By contrast, CR, DER, TATO, and ROE show lower dispersion relative to their respective means. This pattern supports the view that firm-level financial conditions may be comparatively stable within the selected LQ45 firms, whereas stock returns remain more sensitive to changing market expectations and external conditions.

Panel Model Selection and Diagnostic Tests

Before estimating the panel regression models, model specification and diagnostic tests were conducted to determine the appropriate estimation method for each structural model. The results of the panel model selection and diagnostic tests are presented in Table 3.

Table 3. Panel Model Selection and Diagnostic Tests

Structural Model	Chow Test	Selected Model	Diagnostic Result
Substructural Model 1: ROE	Cross-section F = 0.0000; $p < 0.05$	Fixed Effect Model	No multicollinearity; no heteroskedasticity
Substructural Model 2: Stock Return	Chow $p = 0.1612$; LM favors CEM	Common Effect Model	No multicollinearity; no heteroskedasticity

Source: EViews 14 output, processed by the researcher.

For Substructural Model 1, the Chow test supports the Fixed Effect Model because the cross-section probability is below the 0.05 threshold. The model therefore allows firm-specific effects to be incorporated into the estimation. For Substructural Model 2, the Chow test does not indicate a fixed-effect specification, and the subsequent Lagrange Multiplier procedure supports the Common Effect Model. The diagnostic results indicate that the estimated models do not suffer from problematic multicollinearity or heteroskedasticity under the criteria applied in the study.

Effect of CR, DER, and TATO on ROE

The estimated first structural equation is:

$$\text{ROE} = -0.016276 + 0.008198\text{CR} + 0.040894\text{DER} + 0.113508\text{TATO}$$

Table 4. Partial Test of Structural Model 1

Variable	Coefficient	Probability	Decision
CR	0.008198	0.4263	Not significant
DER	0.040894	0.0161	Positive and significant
TATO	0.113508	0.0006	Positive and significant

Source: EViews 14 output, processed by the researcher.

CR has a positive coefficient of 0.008198 but its probability value of 0.4263 exceeds 0.05. The result indicates that liquidity does not have a statistically meaningful effect on ROE. In the LQ45 setting, maintaining current assets at a sufficient level may primarily serve as a protection against short-term obligations rather than as a direct mechanism for generating higher returns on equity. A relatively high liquidity position may also involve resources that have not yet been deployed productively. The finding is consistent with studies reporting an insignificant relationship between CR and ROE, including Mardiyah et al. (2021), Aprilyani & Nurhamdi (2025), Aini & Siregar (2026), and Handayani & Aprilia (2023).

DER has a coefficient of 0.040894 with a probability of 0.0161, indicating a positive and significant effect on ROE. Within the sample, higher leverage was associated with higher profitability. This result can be interpreted through the productive use of debt: when external financing is directed toward activities capable of generating earnings, leverage can strengthen the return obtained on equity. The finding is consistent with Chabachib et al. (2020), Atthahiry et al. (2025), Marlisa et al. (2021), and Aini & Siregar (2026).

TATO records a coefficient of 0.113508 and a probability of 0.0006, showing a positive and significant relationship with ROE. The result indicates that more effective asset turnover is associated with stronger profitability. Assets that are utilized more productively can generate greater sales relative to the resources committed, providing a basis for improved earnings and ROE. This finding is in line with Aprilyani & Nurhamdi (2025) and Aini & Siregar (2026).

Table 5. Simultaneous Test of Structural Model 1

Variable	Adjusted R-squared	Prob. (F-statistic)	Decision
Substructural Model 1	0.118522	0.005558	Not significant

Source: EViews 14 output, processed by the researcher.

The simultaneous test in Model 1 shows that Current Ratio (CR), Debt to Equity Ratio (DER), and Total Asset Turnover (TATO) jointly have a significant effect on Return on Equity (ROE). This is indicated by a probability value of 0.005558, which is below the 0.05 significance level. Therefore, CR, DER, and TATO collectively contribute to changes in ROE.

The Adjusted R-squared value of 0.118522 indicates that CR, DER, and TATO collectively explain 11.85% of the variation in ROE, while the remaining 88.15% is explained by other factors outside the model. This finding indicates that profitability measured by ROE is not determined solely by liquidity, capital structure, and asset utilization. Although CR does

not have a significant effect individually, DER and TATO show significant effects on ROE. Thus, the simultaneous significance of the model confirms that these financial indicators remain relevant when considered collectively in explaining variations in company profitability. This result is consistent with Aini & Siregar (2026) and Aprilyani & Nurhamdi (2025), who found that CR, DER, and TATO jointly have a significant effect on ROE. These findings further support the view that liquidity, leverage, and asset utilization collectively provide relevant information for explaining variations in company profitability.

Effect of CR, DER, TATO, and ROE on Stock Return

The second structural equation estimated using the Common Effect Model is:

$$\text{Stock Return} = -0.290990 + 0.020818\text{CR} + 0.021943\text{DER} + 0.056065\text{TATO} + 1.421804\text{ROE}$$

Table 6. Partial Test of Structural Model 2

Variable	Coefficient	t-Statistic	Probability	Decision
CR	0.020818	0.695412	0.4889	Not significant
DER	0.021943	0.437161	0.6633	Not significant
TATO	0.056065	0.563343	0.5749	Not significant
ROE	1.421804	4.262080	0.0001	Positive and significant

Source: EVIEWS 14 output, processed by the researcher.

CR has a positive coefficient of 0.020818 with a probability value of 0.4889, indicating that CR does not significantly affect Stock Return. This finding suggests that the level of short-term liquidity does not directly determine stock-return movements among LQ45 companies during the observation period. Although a higher CR indicates a greater ability to meet short-term obligations, excessive liquidity may also indicate that current assets have not been utilized optimally to generate returns. Therefore, liquidity information alone may not provide a sufficiently strong signal for investors when making investment decisions. This finding is consistent with Chabachib et al. (2020) and Handayani & Aprilia (2023).

DER has a positive coefficient of 0.021943 with a probability value of 0.6633, indicating that DER does not significantly affect Stock Return. The result suggests that changes in the proportion of debt relative to equity were not directly reflected in stock-return movements during the observation period. This finding is particularly relevant because DER has a positive and significant effect on ROE in the first structural model. Thus, the use of debt may influence the company's internal profitability without necessarily generating an immediate response from investors in the stock market. The market may instead respond to the extent to which the financing structure is translated into stronger profitability. The finding is consistent with Handayani & Aprilia (2023), who reported that DER did not significantly affect Stock Return.

TATO has a positive coefficient of 0.056065 with a probability value of 0.5749, indicating that TATO does not significantly affect Stock Return. This result suggests that the efficiency of asset utilization does not directly translate into changes in stock returns among LQ45 companies during the observation period. Although TATO has a positive and significant effect on ROE, the efficiency reflected by TATO may need to be translated into stronger profitability before becoming relevant to investors. Therefore, investors may not respond directly to changes in asset turnover when those changes are not accompanied by sufficient improvements in earnings. This finding differs from Atthahiry et al. (2025), who reported a significant negative effect of TATO on Stock Return, indicating that the relationship between asset efficiency and stock returns may vary across research objects and observation periods.

ROE has a coefficient of 1.421804 and a probability of 0.0001, demonstrating a positive and significant effect on stock return. This result supports the signaling perspective because stronger profitability provides information about the firm's ability to generate earnings from shareholders' capital. Investors can interpret a higher ROE as a more direct indication of the firm's capacity to create economic benefits from equity. The finding is consistent with

Atthahiry et al. (2025), Chabachib et al. (2020), Mardiyah et al. (2021), Aulia et al. (2025), serta Handayani & Aprilia (2023).

Table 7. Simultaneous Test of Structural Model 2

Variable	Adjusted R-squared	Prob. (F-statistic)	Decision
Substructural Model 2	0.207061	0.000244	Significant

Source: EVIEWS 14 output, processed by the researcher.

The simultaneous test for the second structural model is also significant, with an F-statistic of 6.157329 and a probability of 0.000244. Thus, CR, DER, TATO, and ROE jointly contribute to explaining stock return. The Adjusted R-squared value of 0.207061 indicates that CR, DER, TATO, and ROE collectively explain 20.71% of the variation in Stock Return, while the remaining 79.29% is explained by other factors outside the model. This finding indicates that stock-return movements cannot be explained solely by the financial indicators examined in this study. Although the partial test shows that only ROE has a significant direct effect on Stock Return, the simultaneous result demonstrates that CR, DER, TATO, and ROE remain relevant when considered collectively. From an investor perspective, these indicators provide different types of financial information, including liquidity, capital structure, asset utilization, and profitability, which together can provide a broader representation of the company's financial condition and prospects. This result is consistent with Handayani & Aprilia (2023), who found that CR, DER, ROE, and TATO simultaneously have a significant effect on Stock Return. Therefore, the findings support the relevance of considering financial performance indicators collectively when examining variations in Stock Return.

Mediation Analysis

The Sobel procedure was applied to determine whether ROE transmits the effects of the three financial ratios to stock return. The results are presented in Table 8.

Table 8. Sobel Mediation Test

Mediation Path	Sobel t	t-table	Decision	Mediation Type
CR → ROE → Stock Return	0.78600967	1.990847069	No mediation	—
DER → ROE → Stock Return	2.13188266	1.990847069	Mediation	Full mediation
TATO → ROE → Stock Return	2.74427015	1.990847069	Mediation	Full mediation

Source: Sobel test calculation based on EVIEWS 14 path coefficients.

The Sobel statistic for the CR pathway is 0.78600967, which is below the critical value of 1.990847069. ROE therefore does not mediate the relationship between CR and stock return. This result is consistent with the insignificant CR–ROE relationship in the first structural model, so the indirect transmission mechanism through profitability is not established.

For DER, the Sobel statistic of 2.13188266 exceeds 1.990847069, indicating that ROE mediates the relationship between DER and stock return. The mediation is classified as full because DER has no significant direct effect on stock return, while DER significantly affects ROE and ROE significantly affects stock return. The implication is that the relevance of leverage for stock return is transmitted through profitability rather than through a direct market response.

The TATO pathway produces a Sobel statistic of 2.74427015, which is also higher than 1.990847069. ROE therefore mediates the relationship between TATO and stock return. The mediation is classified as full because TATO has no significant direct effect on stock return, but it significantly affects ROE and ROE significantly affects stock return. Asset efficiency thus becomes more relevant to the market when its improvement is reflected in the firm's ability to generate returns on equity.

CONCLUSION

This study examined the role of return on equity as a mediating variable in the relationship between current ratio, debt-to-equity ratio, and total asset turnover and stock return among LQ45 companies listed on the Indonesia Stock Exchange during 2021–2025. The results show that current ratio has no significant effect on return on equity, while debt-to-equity ratio and total asset turnover have positive and significant effects. In the stock-return model, current ratio, debt-to-equity ratio, and total asset turnover have no significant direct effects, whereas return on equity has a positive and significant effect. The mediation results indicate that return on equity does not mediate the relationship between current ratio and stock return but fully mediates the relationships between debt-to-equity ratio and stock return and between total asset turnover and stock return. Overall, the findings indicate that profitability provides a more relevant channel through which leverage and asset utilization are associated with stock returns, while liquidity does not demonstrate a significant relationship through the proposed mediation mechanism. The study therefore highlights the role of profitability as an intervening mechanism in understanding the relationship between financial performance and stock return in LQ45 companies.

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