



Capital Structure's Role in Shaping Stock Return Dynamics

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This study examines the intricate relationships among capital structure, current ratio, return on assets (ROA), long-term debt-to-equity ratio, and stock returns within the property and real estate sector, utilizing a sample of 16 companies. Employing Structural Equation Modeling (SEM), capital structure is introduced as a mediating variable to elucidate its role in the association between the investigated financial metrics and stock returns. Results indicate that neither the current ratio nor ROA significantly influences stock returns, while the long-term debt-to-equity ratio negatively impacts capital structure. Surprisingly, the current ratio exhibits a positive effect on stock returns, while the long-term debt-to-equity ratio shows no significant impact. Notably, capital structure emerges as a positive determinant of stock returns. This study provides a novel perspective by introducing capital structure as a mediator, contributing to the existing body of knowledge. Practical implications suggest that property and real estate investors should consider financial ratios alongside external factors like exchange rates and economic conditions when making investment decisions. However, limitations associated with the study's focus on IDX-listed companies in this sector are acknowledged, necessitating careful interpretation of the findings.

Keywords: *Capital Structure, Current Ratio, Return on Asset, Long-Term Debt to Equity Ratio, Stock Return*

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1. INTRODUCTION

Buying stocks has gained widespread popularity among both domestic and international investors. Stocks signify ownership in a company and entail a right to the company's assets and earnings (Acheampong et al., 2014). Typically, stock investments are made in the capital market, where an effective capital market is anticipated to exhibit a favorable connection between risk and reward.

Industry research data is divided into several company sectors, including the financial sector, manufacturing industry, mining & energy, agriculture & plantations, telecommunications, construction & property, health, logistics & warehousing, and other sectors. Among the 11 stock sectors, the property and non-cyclical consumer stock sectors continue to experience corrections throughout 2022. Analysts assess several factors contributing to the depressed state of the property and real estate stock sector index, notably the potential increase in the benchmark interest rate by the central bank. Citing data from the Indonesia Stock Exchange (IDX), the Composite Stock Price Index (CSPI) closed down by 0.38 percent to reach 7,235.53. The property and real estate stock sector index weakened by 7.26 percent throughout 2022. Changes and increases in share prices in several companies tend to vary in value. This variance is due to the current ratio, return on assets, and long-term debt-to-equity ratio, which impacts the company's stock returns.

The Current Ratio assesses a company's ability to pay off short-term obligations or debts that will soon be due (Kasmir, 2016). According to Utari et al. (2014), "An illiquid company will lose credibility among external parties, especially creditors and suppliers, as well as internal parties, namely its employees."

Return On Assets (ROA) was selected as an indicator for measuring the company's financial performance because ROA measures the company's effectiveness in generating profits by utilizing its assets. With an increase in Return On Assets (ROA), the company's performance also improves as the rate of return increases.

LTDER is an indicator used to measure the proportion of long-term debt compared to equity, or the portion of equity used as collateral for long-term debt (Putri, 2019). The amount of debt and its proportion in the capital structure are important to analyze, as investors must consider the level of opportunities, risks, and potential returns.

Based on data analysis of companies within the Property and Real Estate sector listed on the Indonesia Stock Exchange (IDX) from 2016 to 2020, the utilization of debt by capital owners—indicating the company's reliance on creditors—reveals an average total debt of 75,227,577,720. Only companies under the code BCIP exhibit total debt surpassing this average, with a value of 460,535,533,771. The extensive reliance on debt for capital ownership underscores the heightened dependence on creditors, potentially impacting the company's capital structure and thereby diminishing profits across the board. This scenario can profoundly affect the company, rendering it incapable of optimizing its capital deployment to attain maximum profitability.

Capital structure pertains to the ratio of debt-based funding (debt financing) within a company, essentially representing the company's leverage ratio. Therefore, debt constitutes a fundamental element of the company's capital structure. Introducing more debt into the equation amplifies the company's risk profile and anticipates a subsequent increase in anticipated returns. The escalated risk due to heightened debt levels typically exerts downward pressure on stock prices, although the anticipated increase in returns aims to counterbalance this effect by elevating stock prices. Companies featuring an unfavorable capital structure—characterized by an excessive debt load—encounter a substantial burden that weighs down the concerned entity (Sari & Ardini, 2017). An assessment of a company's condition can be derived from its capital structure, given the direct influence this structure wields over its financial standing. Strong stock returns are a magnet for investors, prompting them to channel their resources into the capital market. Improved returns or profits acquired directly correlate to a better company standing.

Several studies have examined various research topics, including research by Devi et al. (2017) and Watung (2016), which suggest that the current ratio harms capital structure. The findings of studies such as Al Hayat (2014), Basalama et al. (2017), Erari (2014), Tudje (2016), and Wibowo (2015) indicate that the Current Ratio affects Stock Returns. Earlier research by Erari (2014) and Wibowo (2015) demonstrates that Return on Assets influences Stock Returns, although these results

contradict those of Arista & Astohar (2014). In accordance with research by Acheampong et al. (2014), there is a significant relationship between leverage and stock returns. This aligns with the study conducted by Setiyono & Amanah (2016), which suggests that the solvency ratio has a notable positive effect on stock returns. Conversely, previous research by Abdullah et al. (2015) contends that leverage negatively affects stock returns. Similarly, the research conducted by Al-Lozi & Obeidat (2016) suggests that leverage has no impact on stock returns. Nalurita (2015) concludes in her research that the Debt-to-Equity Ratio (DER) positively and significantly impacts stock returns. In contrast, Abdullah et al. (2015) argue that leverage significantly negatively affects stock returns. Al-Lozi & Obeidat (2016) offer a different perspective, who propose that there is no effect on stock returns. Furthermore, Al Salamah & Mustafa (2016) find a negative and significant relationship between capital structure and stock returns. Trần (2015), asserts that both capital structure and financial performance influence stock returns. In contrast, Purwitajati & Putra (2016) argue that capital structure positively affects stock returns. Antara et al. (2014) suggest that the liquidity ratio does not significantly affect stock returns. However, Intariani & Suryantini (2020) find that liquidity positively affects stock returns. Furthermore, Andarsari et al. (2016) posit that liquidity negatively affects capital structure, consistent with the research conducted by Ghasemi & Ab Razak (2016), which states that liquidity impacts capital structure. Shahid et al. (2016) examined Pakistani commercial banks and found that profitability has a significant relationship with and an impact on capital structure. Velnampy & Niresh (2014), also support a positive effect of profitability on capital structure. Conversely, Handayani & Darma (2018) contend that profitability has a negative effect on capital structure.

Based on previous study findings, measurement tools (CR, ROA, Long-term debt to equity ratio) have been employed, and research has focused exclusively on manufacturing and food and beverage companies. Therefore, this research undertakes a study to examine the impact of CR, ROA, and Long-term debt to equity ratio on stock returns, utilizing intervening variables, specifically capital structure, and expanding the analysis to different sectors, particularly property and real estate companies.

Building upon the background as mentioned above, the scope of the issues addressed are as follows: (1) Does the current ratio, ROA, and Long-term debt-to-equity ratio significantly impact stock returns within the property and real estate sector on a partial basis? (2) Can the partial impact of the current ratio, ROA, and Long-term debt-to-equity ratio on the capital structure of property and real estate companies be established? (3) Is there a significant connection between capital structure and stock returns for property and real estate entities? This study aims to thoroughly analyze the extent of these impacts, specifically investigating the influence of current ratio, ROA, and Long-term debt-to-equity ratio on stock returns through the mediating role of capital structure.

The anticipated outcomes of this research are poised to enrich insights and knowledge surrounding the significance of current ratio, ROA, Long-term debt-to-equity ratio, capital structure, and stock returns. These findings are expected to provide valuable decision-making tools for potential investors, aiding them in investment choices and offering considerations for issuers looking to enhance stock returns. Additionally, identifying capital structure as an intervening variable adds intrigue, as it illuminates the causal path connecting financial elements to stock returns via the medium of capital structure.

The practical implications of these findings extend to property and real estate company management, enabling them to make informed investment decisions and devise effective business strategies. This study contributes to existing literature within academic circles by offering specific empirical evidence that elucidates the intricate relationship between financial components and stock performance within the property and real estate industry. Consequently, this study holds the potential to serve as a vital reference for future researchers keen on delving into the financial aspects of the property and real estate sector.

2. LITERATURE REVIEW

Signaling theory is a fundamental concept for understanding financial management. In general, signals are messages sent by companies to outsiders. These signals aim to communicate something to the market or outsiders in the hope that they will change their assessment of the company. Companies possess an information advantage in terms of quality compared to outsiders, who may use specific measures or facilities to infer the quality of a company.

Husna & Satria (2019) assert that the liquidity ratio significantly gauges a company's worth. This ratio indicates the company's capacity to meet its obligations and settle short-term debts. To fulfill immediate obligations or debts due upon maturity, a company must possess an adequate amount of cash or other current assets that can be swiftly converted into cash. Sound liquidity also signifies the company's capability to conduct day-to-day business operations and maintain economic stability, subsequently reducing insolvency risk. Investors factor this in when assessing companies, as financially robust companies are more likely to yield profits and deliver higher returns and dividends to investors.

Bankruptcy implies that the company cannot maintain its operational activities in the long term. The inability to run a business leads to financial congestion, which decreases the company's ability, and even incapacity, to pay returns or dividends to investors. This results in negative judgments by investors, which can affect the company's image and reduce public confidence in the company's performance. As a result, investors may sell their shares, leading to a decrease in stock demand and a corresponding decline in the company's traded stock price.

Current Ratio

Hery (2015) elucidates that the current ratio depicts a company's ability to fulfill its immediate short-term obligations. Kasmir (2011) suggests that the liquidity ratio pertains to a company's aptitude to satisfy its financial commitments that demand immediate attention.

Return on Asset

ROA reflects a company's prowess in generating profits from its utilized assets (Van Horne & Wachowicz, 2009). A positive ROA indicates that the assets employed for the company's operations are generating profits. Conversely, a negative ROA signals that the assets used are not generating profits and result in losses.

Long-Term Debt to Equity Ratio

This ratio gauges the extent of long-term debt employed by a company relative to its equity capital. A higher ratio suggests heightened financial risk for the company, while a lower ratio implies the opposite.

Capital Structure

The balance between long-term debt and equity is often referred to as the capital structure, representing the permanent expenditure form. According to Meivinia (2018), capital structure is the ratio between long-term debt and the company's capital.

Stock Return

Stock return encompasses the rate of financial gain achieved by investors on their investment endeavors, as elucidated by Ang (1997). Operating within the framework of capital market theory, the term "return" denotes the remuneration acquired by an investor through trading shares within the capital market, particularly in the context of publicly traded company shares. It's essential to underline that the stock market does not uniformly assure a predetermined level of return to investors. Instead, investors may find their endeavors rewarded through dividends, bonus shares, and capital gains, which collectively constitute the multifaceted components contributing to the composite structure of stock returns.

3. RESEARCH METHOD

This research adopted a quantitative approach using a descriptive design. Data were gathered from companies' financial

statements in the food and beverage sub-sector listed on the Indonesia Stock Exchange (IDX) between 2017 and 2021. The sample was intentionally selected through purposive sampling, with specific criteria such as being part of the food and beverage group listed on the IDX during the research period, having continuous operations, concluding financial reporting by December 31st, and demonstrating profitability on the IDX. Essential data were collected from annual reports, financial statements, and company sustainability reports (see Table 1).

TABLE 1 / Company Sample

| Stock code | Company name |
|------------|-----------------------------|
| ADHI | Adhi Karya (Persero) Tbk. |
| BSDE | Bumi Serpong Damai Tbk. |
| CTRA | Ciputra Development Tbk. |
| DILD | Intiland Development Tbk |
| JRPT | Jaya Real Property Tbk |
| LPKR | Lippo Karawaci Tbk |
| PTPP | PP (Persero) Tbk |
| PWON | Pakuwon Jati Tbk |
| SMRA | Summarecon Agung Tbk |
| TOTL | Total Bangun Persada Tbk |
| WSKT | Waskita Karya (Persero) Tbk |

Source: Processed, 2023

A variance-based model employing the Partial Least Squares (PLS) method for path analysis was utilized for data analysis. According to Jogiyanto & Abdillah (2015), Partial Least Squares (PLS) analysis is a multivariate statistical technique for comparing multiple dependent and independent variables. PLS, a variant-based SEM statistical method, addresses challenges in multiple regression when encountering issues with the data, such as small research sample sizes, missing values, and multicollinearity. In contrast, when applying small Ordinary Least Square regression, missing data, and multicollinearity between predictors, the standard error of the estimated coefficients increases. High multicollinearity raises the theoretical risk of hypothesis rejection in regression model testing. PLS serves as a variant-based structural equation analysis capable of concurrently testing the measurement and structural models. The measurement model assesses validity and reliability, while the structural model performs causality tests (hypothesis testing using prediction models).

The validity test determines the research instrument's ability to measure what it's intended to measure. This test measures a concept and evaluates the consistency of respondents in responses to questionnaires or research instruments. Construct validity can be generally measured by the loading score parameter in the research model (Rule of Thumb > 0.7) and using AVE, communality, R^2 , and redundancy. AVE score must be > 0.5 , communality > 0.5 , and redundancy close to 1. Indicators with loading scores < 0.5 can be removed from the construct if they don't load into the representing construct. If loading scores are between 0.5-0.7, indicators should not be deleted as long as AVE and communality scores are > 0.5 . Convergent validity's parameters are based on AVE and communality scores above 0.5. This indicates that an indicator's probability of entering another variable is lower (< 0.5), enhancing the indicator's convergence into the intended construct by more than 50%. The discriminant validity test parameter compares the correlation between latent variables or examines cross-loading scores. The loading score table displays different indicators in a construct, which gather into the intended construct, distinct from indicators in other constructs.

The validity test also includes a reliability assessment for measuring the internal consistency of the measuring instrument. Reliability can be assessed through the Cronbach's alpha value and the Composite Reliability value. A reliable construct requires a Cronbach's alpha value > 0.6 and a Composite Reliability value > 0.7 . The Structural Model (Inner Model) portrays the relationship between latent variables based on substantive theory. The structural model's evaluation employs the R-Square for the dependent construct, the Stone-Geisser Q-square test for predictive relevance, and t-tests for the significance of the structural

path coefficient (Herliana, 2018). The R2 value gauges the degree of variation in changes of the independent variable on the dependent variable. A higher R2 value indicates better prediction within the proposed research model. The path coefficient's value, or inner model, is shown by the T-statistic. It must exceed 1.96 for a two-tailed hypothesis and 1.64 for a one-tailed hypothesis (One-tailed) for testing at a 5% alpha and 80% power level.

4. RESULTS AND DISCUSSION

4.1 RESULTS

4.1.1 Measurement Evaluation (Outer Model)

Convergen Validity

In measuring Convergent Validity, each indicator can be indicated by the size of the loading factor. Indicators are said to be valid if the loading factor is positive and greater than 0.5. The loading factor value can be seen in the table 2.

TABLE 2/ Convergent Validity (AVE)

| Variable | Loading Factor | Information |
|--------------------------------|----------------|-------------|
| Current Ratio | 1,000 | Valid |
| Return on Assets | 1,000 | Valid |
| Long-Term Debt to Equity Ratio | 1,000 | Valid |
| Capital Structure | 1,000 | Valid |
| Stock returns | 1,000 | Valid |

Source: Processed, 2023

Table 2 displays loading factor all above 0.5, confirm the indicators' validity. Additionally, the AVE values for these indicators, also above 0.5, further support their validity.

Discriminant Validity

To assess the Discriminant Validity of each indicator, it is determined by the square root of the average variance extracted (AVE). If the AVE of the latent variable surpasses the correlation value of the latent variable, it signifies that the indicator variable possesses robust discriminant validity. A discriminant validity score exceeding 0.5 is deemed satisfactory. The AVE values are presented in the table 3 for reference:

TABLE 3/ Discriminant Validity TestResults (Fornell-Larcker Criterio)

| Variable | AVE | Information |
|--------------------------------|-------|-------------|
| Current Ratio | 1,000 | Valid |
| Return on Assets | 1,000 | Valid |
| Long-Term Debt to Equity Ratio | 1,000 | Valid |
| Capital Structure | 1,000 | Valid |
| Stock returns | 1,000 | Valid |

Source: Processed, 2023

According to Table 3, the derived AVE values indicate that all variable indicators—namely, CR, ROA, long-term debt-to-equity ratio, capital structure, and stock return—exhibit AVE values exceeding 0.5. This validates the indicators as robust representations of their respective latent variables.

Composite Reliability

Assessment of composite reliability entails reviewing the composite reliability value, as measured by Cronbach's alpha coefficient. Adequate reliability is affirmed when the composite reliability value exceeds 0.7, and Cronbach's alpha value surpasses 0.6. Both the composite reliability and Cronbach's alpha values are provided in table 4 below.

TABLE 4 / Reliability Test Result

| Variable | Composite Reliability | Cronbach Alpha | Information |
|--------------------------------|-----------------------|----------------|-------------|
| Current Ratio | 1,000 | 1,000 | Reliable |
| Return on Assets | 1,000 | 1,000 | Reliable |
| Long-Term Debt to Equity Ratio | 1,000 | 1,000 | Reliable |
| Capital Structure | 1,000 | 1,000 | Reliable |
| Stock returns | 1,000 | 1,000 | Reliable |

Source: Processed, 2023

As shown in Table 4, the composite reliability values all surpass 0.7, indicating strong reliability. Additionally, the Cronbach alpha values for these indicators, exceeding 0.6, further establish their high reliability

4. 1. 2 Structural Model Equation (Inner Model)

Partial least square (PLS) analysis was conducted to test the influence relationship between the variables of CR, ROA, Long-term to equity ratio, capital structure, and stock returns so that a description of the relationship between the research variables can be obtained as follows:

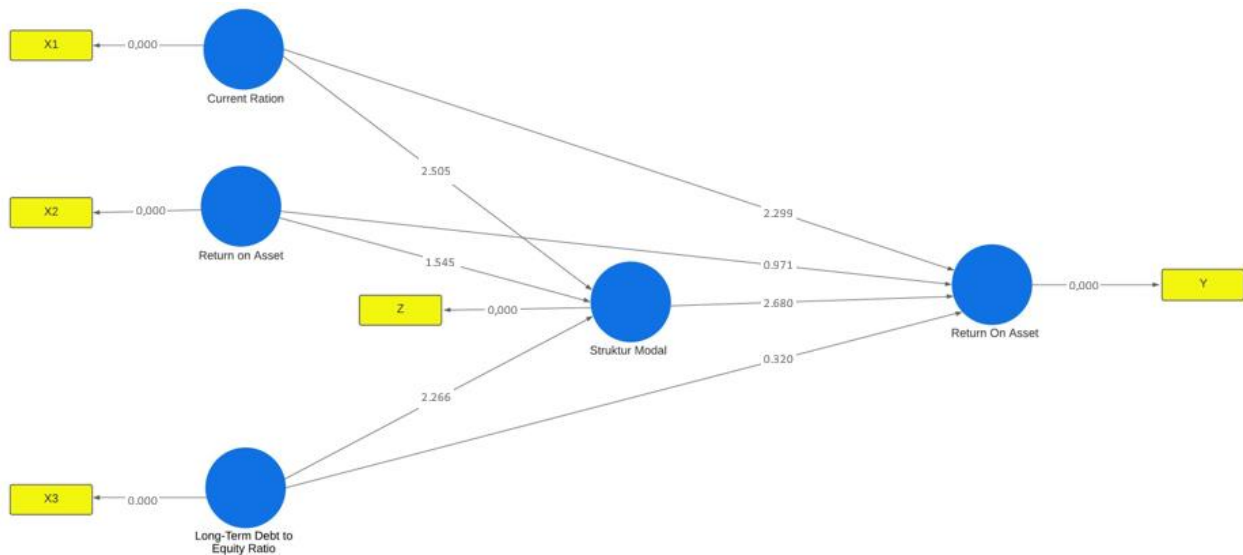


Figure 1. Measurement Model with PLS

The assessment of the inner model involves examining the coefficient of determination (R-squared or R²), which serves as a measure of the goodness of fit for each variable, reflecting the predictive capability of the structural model.

R-Square (R²) Test

TABLE 5 / R-Square (R²) Test

| Variable | R Square |
|-------------------|----------|
| Stock returns | 0.111 |
| Capital Structure | 0.594 |

Source: Processed, 2023

The R² value for the stock return variable is 0.111, explaining 11.1% of the variance using Current Ratio, Return on Asset ratio, and Long-Term Debt to Equity Ratio, with the remaining 88.9% attributed to unexamined factors. Similarly, the capital structure variable's R² value is 0.594, accounting for 59.4% of the variation through the same variables, while 40.6% stems from unexplored determinants.

Path Coefficient

TABLE 6 / Path Coefficient

| | Original sample (O) | Sample Means (M) | Standard Deviation (STDEV) | T Statistics (O/STDEV) | P Values |
|--|------------------------|---------------------|-------------------------------|--------------------------|--------------|
| Current Ratio-> Capital Structure | -0.443 | -0.477 | 0.177 | 2,505 | 0.013 |
| Return on Assets-> Capital Structure | 0.216 | 0.198 | 0.140 | 1,545 | 0.123 |
| Long-Term Debt to Equity Ratio-> Capital Structure | -0.399 | -0.367 | 0.176 | 2,266 | 0.024 |
| Current Ratio-> Stock Returns | -0.517 | -0.498 | 0.225 | 2,299 | 0.022 |
| Return on Assets-> Stock Returns | 0.108 | 0.109 | 0.112 | 0.971 | 0.332 |
| Long-Term Debt to Equity Ratio-> Stock Returns | 0.079 | 0.048 | 0.248 | 0.320 | 0.749 |
| Capital Structure -> Stock Return | -0.403 | -0.408 | 0.150 | 2,680 | 0.008 |

Source: Processed, 2023

The path coefficient table above shows that the Current Ratio variable has a t-statistic value of 2.505 while the t-table value is 1.962, meaning that the t-statistic value is > t-table. The original sample value is -0.443, meaning that the direction of the relationship between the Current Ratio and the capital structure is negative. The return on Asset ratio variable has a t-statistic value of 0.971 while the t-table value is 1.962, meaning the t-statistic value < t-table. The Long-Term Debt to Equity variable has a t-statistic value of 2.2669 while the t-table value is 1.962, meaning the t-statistic value > t-table. While the original sample value is -0.399, the relationship direction between the Long-Term Debt to debt-to-equity ratio and capital structure is positive. The current Ratio variable has a t-statistic value of 2.299, while the t-table value is 1.962, meaning the t-statistic value > t-table. The original sample value is -0.517, meaning that the direction of the relationship between the Current Ratio and stock returns is negative. The Return on Asset variable has a t-statistic value of 1.545 while the t-table value is 1.962, meaning the t-statistic value < t-table. Therefore, the Return on Asset ratio variable does not affect capital structure. The Long-Term Equity Ratio variable has a t-statistic value of 0.320 while the t-table value is 1.962, meaning the t-statistic value < t-table. Then the Long-Term Equity Ratio variable does not affect stock returns. The capital structure variable has a t-statistic value of 2.680 while the t-table value is 1.962, meaning that the t-statistic value is > t-table. While the original sample value is -0.403, meaning that the direction of the relationship between capital structure and stock returns is negative.

Indirect Effect or Mediation Test

TABLE 7 / Indirect Effect or Mediation Test

| | Original sample (O) | Sample Means (M) | Standard Deviation (STDEV) | T Statistics (O/STDEV) | P Values |
|---|------------------------|---------------------|-------------------------------|--------------------------|--------------|
| Current Ratio-> Capital Structure -> Stock Return | 0.179 | 0.192 | 0.102 | 1,748 | 0.081 |
| Return on Assets->Capital Structure -> Stock Return | -0.087 | -0.082 | 0.067 | 1,297 | 0.195 |
| Long-Term Debt to Equity Ratio->Capital Structure -> Stock Return | 0.161 | 0.153 | 0.099 | 1,625 | 0.105 |

Source: Processed, 2023

The test results show that the Current Ratio variable has a t-statistic value of 1.748 while the t-table value is 1.962, meaning the t-statistic value < t-table. The Current Ratio variable has a t-statistic value of 1.297 while the t-table value is 1.962, meaning the t-statistic value < t-table. The Long-Term debt-to-equity ratio variable has a t-statistic value of 1.625 while the t-table value is 1.962, meaning the t-statistic value < t-table.

Indirect Effect or Mediation Test

$$Q2 = 1 - (1-R1) \times (1-R2)$$

$$Q2 = 1 - (1-0.111) \times (1-0.594)$$

$$Q2 = 1 - 0.360$$

$$Q2 = 0.64$$

The Q2 value, representing predictive relevance, is 0.64 or 64%, indicating that 64% of the dataset's variability is clarified by the studied variables, leaving 36% unaccounted for by the analysis.

4. 2 Discussion

4. 2. 1 Effect of Current Ratio on Capital Structure

The test outcomes reveal a significant influence of the "Current Ratio" variable on capital structure. This aligns with Hudan et al. (2016) argument that greater liquidity reduces reliance on debt financing. However, our findings suggest a minor and inconsequential impact of the current ratio on capital structure, given the prevalence of accounts receivable and inventory in current assets. The insights of Herlambang & Marwoto (2014) highlight the importance of meeting current debt obligations for liquidity. Tanri et al., (2020) proposed that companies prioritize internal capital before seeking external funding, which aligns with the pecking order theory.

4. 2. 2 Effect of Return on Asset on Capital Structure

This suggests the absence of an effect of this variable on stock returns. In relation to the Impact of Return on Assets on Capital Structure (H2), our investigation reveals a unidirectional connection between the return on assets (ROA) and capital structure, indicating that a lower return on assets corresponds to a decreased capital structure. This outcome stems from the observation that higher returns on assets contribute to increased retained earnings, a dynamic that might be counterbalanced by higher debt in favorable business circumstances. The strategic use of debt offers tax advantages for companies, as interest payments are tax-deductible and can lower taxable income. Interestingly, our findings diverge from prior studies conducted by (Ernawati & Budiharjo, 2020; Mulyani, 2014), both of which identified a positive and substantial link between return on assets and capital structure. However, our conclusions align with Shahid et al. (2016), who documented a negligible and negative impact of ROA on capital structure.

4. 2. 3 Effect of Long-Term Debt to Equity Ratio on Capital Structure

Thus, the Long-Term Debt to debt-to-equity ratio positively influences capital structure; an increase in the ratio corresponds to heightened capital structure. Our study aligns with the notion that increased debt levels can elevate the solvency ratio, thereby shaping a company's capital structure. This holds significance as a company's capital structure encompasses long- and short-term debt, making fluctuations in the solvency ratio consequential for the overall structure. This discovery resonates with Shahid et al. (2016) findings, demonstrating a significant interplay between leverage and capital structure. The solvency ratio is vital for businesses in devising capital structure strategies to achieve optimal arrangements.

4. 2. 4 Effect of Current Ratio on Stock Return

Hence, it is deduced that the Current Ratio negatively impacts stock returns, indicating that stock returns decline as the Current Ratio rises. Our study affirms the hypothesis that the Current Ratio (CR) indeed wields a positive and significant influence on stock returns, aligning with the signaling theory proposed by Brigham & Houston (2021). This positive effect of CR on stock returns finds concurrence in earlier research, exemplified by the works of (Dwikirana & Prasetiono, 2016; Martak & Prasetyo, 2020). The Current Ratio reflects a company's capacity to fulfill short-term obligations, thus fostering investor confidence in prospects and correlating with elevated stock returns.

4. 2. 5 Effect of Return on Asset on Stock Return

This indicates the absence of an effect of the return on asset ratio on capital structure. Additionally, the study's outcomes corroborate the hypothesis that ROA positively and significantly impacts stock returns. This discovery aligns with empirical research by Hisar et al. (2021) and Utami (2014), emphasizing ROA's significance as a crucial financial metric for evaluating a company's financial performance (Aminah, 2021; Hisar et al., 2021; Utami, 2014). A higher ROA signifies enhanced asset utilization for profit generation, serving as a pivotal indicator for investors and stakeholders to gauge a company's capacity for efficient and effective income generation through optimized asset utilization.

4. 2. 6 Effect of Long-Term Debt to Equity Ratio on Stock Return

This suggests the absence of an effect of the Long-Term Debt to Equity Ratio variable on stock returns. The findings of this study substantiate the MM theory (Modigliani-Miller) with taxes, which proposes that companies can enhance performance by leveraging debt to alleviate their tax liabilities. The notable and positive impact of LDER on stock prices aligns with this theory, illustrating how debt-financed companies can capitalize on reduced tax burdens through the associated interest payments. Nonetheless, these outcomes diverge from prior research by Asiyah et al. (2022), which failed to detect a significant effect of LDER on stock prices.

4. 2. 7 Effect of Capital Structure on Stock Returns

The capital structure variable exhibits a t-statistic of 2.680, surpassing the t-table value of 1.962, indicating its significant impact. The sample value of -0.403 signifies a negative association between capital structure and stock returns. Thus, we deduce that capital structure negatively affects stock returns, suggesting that as capital structure increases, stock returns decrease. The study findings reveal that a higher capital structure value entails increased external obligations for the company, potentially leading to diminished stock returns. This aligns with the research (Parwati & Sudiarta, 2016), which emphasizes the adverse influence of heightened debt levels on investor interest and stock returns. However, contrary to this study, other research conducted by Allozi & Obeidat (2016) and Banerjee et al. (2016) detected a significant negative effect of capital structure on stock returns.

4. 2. 8 Effect of Capital Structure on Stock Returns

The proof of the test results suggests that there is no effect of the Current Ratio variable on stock returns with capital structure as an intervening variable. Additionally, it is noted that the statement erroneously indicates a positive relationship direction. The study findings suggest that the liquidity ratio, like the current ratio, does not directly impact stock returns when capital structure intervenes. This observation aligns with the Pecking Order Theory, which underscores the interplay of various economic conditions affecting a company's capital structure and investors' stock returns. While liquidity ratios serve as vital indicators of a company's short-term obligation fulfillment capability, they may not directly alter the level of stock returns obtained by investors, especially if changes in liquidity ratios have insignificant effects on the company's capital structure dynamics (Brigham & Houston, 2021). Company-specific policy considerations, influenced by distinct economic circumstances and external factors, may contribute to this outcome. The decision-making process for investors and banks encompasses financial ratios, capital structure, and broader economic conditions impacting investors' stock returns. Banks may adjust lending practices in response to the prevailing economic landscape and a company's financial stability to mitigate default and credit risks.

4. 2. 9 Effect of Return on Asset on Stock Return with Capital Structure as Intervening variable

It suggests that the Return on Asset variable doesn't play a role in stock returns when capital structure is considered as an intermediary. We also note that the statement incorrectly states that the direction of the relationship is negative. The study findings emphasize that profitability, specifically the return on assets, doesn't directly impact stock returns when capital structure acts as a go-between. This conclusion aligns with the Pecking Order Theory, which highlights diverse economic conditions' influence on a company's capital structure and investor stock returns. While profitability ratios are important markers of financial health and operational efficiency, they might not immediately affect stock returns if changes in profitability ratios don't significantly affect a company's capital structure. The decision-making process for investors and banks extends beyond just ratios and capital structure to include broader economic factors that can affect investor stock returns. Banks may adjust their lending strategies based on a company's financial stability and the prevailing economic climate, aiming to reduce the risk of default and credit issues.

4. 2. 10 Effect of Long-Term Debt to Equity Ratio on Stock Return with Capital Structure as Intervening variable

Consequently, the Long-Term Debt to debt-to-equity ratio variable does not influence stock returns when considering capital structure as an intervening element. Additionally, the relationship's direction is positive. The study findings underscore that the solvency ratio, gauged through the long-term debt-to-equity ratio, lacks a direct impact on stock returns when capital structure functions as an intermediary. This alignment harmonizes with the Pecking Order Theory, which posits that diverse economic conditions shape a company's capital structure, consequently influencing stock returns for investors. While solvency ratios offer critical insights into a company's capacity to fulfill long-term obligations, their effect on stock returns might not be substantial if changes in solvency ratios fail to alter a company's capital structure significantly. The decision-making process for investors and banks extends beyond the purview of financial ratios and capital structure to encompass broader economic factors affecting stock returns. Banks may adjust lending strategies based on a company's financial stability and the prevailing economic climate to mitigate default and credit risks.

5. CONCLUSION

In this study, we investigated the effects of the current ratio, return on asset, and long-term debt-to-equity ratio on stock return with capital structure as an intervening variable. Our findings show that the current ratio negatively affects capital structure, while the return on an asset does not affect the stock return. The long-term debt-to-equity ratio also negatively affects capital structure. Moreover, capital structure negatively affects stock return, meaning that a higher capital structure leads to lower stock returns. However, the current ratio has no direct influence on stock return with capital structure as an intervening variable, and the direction of the relationship is positive. Return on asset and long-term debt to equity ratio do not influence stock return with capital structure as an intervening variable, and the direction of the relationship is positive.

Based on these results, we suggest that investors consider the information provided in this study when making investment decisions. Furthermore, future researchers should consider adding other independent and mediating variables to understand better the indicators that have a relationship with stock return.

This study's novelty lies in utilizing an intervening variable that has been rarely employed before—namely, "capital structure." As a theoretical contribution, this study illustrates how the capital structure can function as an intervening variable between several financial ratios and stock performance. Specifically, the study delves into the impact of capital structure as a linkage among the current ratio, return on assets (ROA), and long-term debt-to-equity ratio on the stock returns of companies in the property and real estate sector.

The study's findings engender novel insights into the dynamic intricacies underlying the relationship between financial ratios and stock returns. In practical terms, the implications of this research manifest in the discernment that investment decisions are contingent not solely upon an enterprise's internal financial performance but also on external determinants such as exchange rate fluctuations and prevailing economic conditions within the country. Consequently, the empirical outcomes of this study hold the potential to furnish investors with heightened acumen, facilitating informed and all-encompassing investment deliberations. Furthermore, this research postulates that financial practitioners and policymakers stand to benefit from integrating external ramifications into their evaluation of investment prospects and risk management strategies. Overall, this study enhances the understanding of the interplay between financial ratios, capital structure, and stock performance. Moreover, it underscores the significance of factoring in external factors when making investment decisions.

6. LIMITATION AND IMPLICATION

This study's scope is limited to specific financial ratios and a single mediating variable, leaving room for exploring

additional variables that impact stock returns. The study doesn't establish causation among variables, suggesting a need for future research to delve into causal relationships. Findings might be industry-specific and may change with evolving market conditions. The precise mediation mechanisms of capital structure warrant further investigation, and using more recent data could enhance the study's relevance.

Managers should focus on optimizing capital structure by balancing debt and equity financing. Maintaining an appropriate current ratio for liquidity management is crucial, as it indirectly contributes to positive stock returns through capital structure. While return on assets doesn't directly affect stock returns, enhancing asset utilization can still lead to healthier financial performance. Investors should consider studying insights to make informed investment decisions.

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