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Examination of the Impact of Return on Assets and Net Profit Margin on Stock Prices

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ABSTRACT

This study seeks to examine the impact of Return on Assets (ROA) and Net Profit Margin (NPM) on stock prices of food and beverage firms listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024. This research employs a quantitative methodology utilizing multiple linear regression analysis. The utilized data comprises secondary data, specifically annual financial reports from food and beverage industries sourced from the official IDX website. The findings demonstrate that ROA exerts a positive and significant influence on stock prices, whereas NPM shows a positive although insignificant effect on stock prices. The data indicate that investors prioritize a company's efficiency in asset utilization for profit generation over its net profit margin.

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INTRODUCTION

Investors, even in the Indonesian capital market, are becoming more selective in choosing investment instruments due to the volatility and uncertainty of global economic trends. Despite facing several economic challenges, including the COVID-19 pandemic and exchange rate fluctuations, the food and beverage industry remains relatively resilient. This sector is currently a significant contributor to the national Gross Domestic Product (GDP) owing to its capacity to expand with rising domestic demand. The food and beverage sector on the Indonesia company Exchange (IDX) illustrates that financial ratios serve as significant indications for setting company values, mirroring the characteristics of the Indonesian capital market. Investors increasingly look to companies' financial performance as a basis for making investment decisions. Investors can measure the potential return on investment (ROI) on a company's shares through fundamental characteristics such as profitability and asset utilisation efficiency, which ultimately influence stock prices (Wiwik & Tri, 2020).

Analysts assess a business's profitability by examining metrics such as net profit margin (NPM) and return on assets (ROA), which reflect the revenue generated per dollar of sales. Investors primarily assess the performance of these two indicators to gauge the degree to which a stock's value corresponds to a company's operational success and financial efficiency. Return on Assets (ROA) and Net Profit Margin (NPM) indicate a company's operational efficiency and profitability. Investors utilize this information to evaluate a company's capacity to make profits from its assets and sales, hence forecasting probable future stock price appreciation (Ananda et al., 2023). This analysis helps identify financially healthy and competitive companies. Companies with high ROA and NPM are generally more attractive to investors because they are perceived as being able to survive and thrive in the face of competition (Nazar and Mawarni, 2023).

On the other hand, there is no universally accepted pattern regarding how ROA and NPM relate to stock prices in practice. During the post-pandemic recovery phase and the unpredictable dynamics of the global economy, This variance is notably evident within the food and beverage subsector of the IDX, especially from 2020 to 2024. Further research is required to elucidate the impact of ROA and NPM on stock prices in the present market context, as previous studies have produced contradictory findings regarding the significance and direction of this relationship (Darwin & Hikmah, 2023).

Previous studies have examined the stock prices of food and beverage companies listed on the Indonesia Stock Exchange, with differing conclusions regarding The influence of Return on Assets (ROA) and Net Profit Margin (NPM). The effect of ROA on stock prices is beneficial yet small, while the effect of NPM is positive and statistically significant (Ilyas et al., 2023). While Hidayati (2023) discovered that ROA positively influences stock prices, whereas NPM exerts no meaningful effect, Junita and Lubis (2020) found the opposite. The divergent findings underscore the necessity for additional study to confirm the reliability of the effects of ROA and NPM on stock prices, both individually and in combination. Re-evaluating these financial indicators is increasingly important for a comprehensive understanding, especially for the current period of 2020-2024, which encompasses the global economic recovery

and the pandemic. Given that the food and beverage subsector is known for its highly dynamic operations, this study aims to improve upon this by revising the analysis period and focusing on this subsector.

THEORETICAL REVIEW

Net Profit Margin (NPM)

The Net Profit Margin (NPM) is a profitability ratio that quantifies the net profit a firm derives from each sale after accounting for all expenses and taxes. NPM is an important indicator for assessing operational efficiency and and company's capacity to control expenses and produce revenues. An elevated NPM signifies superior financial performance, which can increase investor interest (Hatul et al., 2023).

Return on Assets (ROA)

Return on Assets (ROA) is a profitability metric that assesses a company's capacity to create profits from its total assets. Return on Assets (ROA) is a crucial metric for evaluating management efficiency in asset use to create profits, and is frequently employed to measure a company's financial performance and investment appeal (Irdawati et al., 2023).

Share

Shares represent evidence of an individual's or entity's capital investment in a corporation or limited liability company. Consequently, these parties possess a claim on the company's revenue and assets and are entitled to participate in the General Meeting of Shareholders (GMS) (Indonesia Stock Exchange, 2019). Essentially, shares are proof of investor ownership of one of the owners of the issuing company, the company that issued the shares.

Hypothesis

H1: Return on Assets (X1) significantly affects share prices (Y) in food and beverage companies listed on the IDX from 2020 to 2024.

H2: Net Profit Margin (X2) significantly influences share prices (Y) in food and beverage firms listed on the IDX from 2020 to 2024.

H3: The Return on Assets (X1) and Net Profit Margin (X2) exert a substantial concurrent impact on share prices (Y) in food and beverage firms listed on the IDX from 2020 to 2024

METHODOLOGY

This study uses a causal design, a subset of quantitative research, to determine the impact of a series of interrelated factors. This study seeks to evaluate the correlation among stock prices, return on assets (ROA), and net profit margin (NPM). This study employs secondary data, referred to as documentary data, derived from the annual financial reports of food and beverage sub-sector companies listed on the Indonesia Stock Exchange (IDX) for the years 2020 to 2024. All information is sourced from the official websites of participating companies and the IDX website (www.idx.co.id). This study's sample comprises 95 companies from the food and beverage sub-sector listed on the Indonesia Stock Exchange from 2020 to 2024. A purposive sampling approach was employed to determine the sample for this investigation. A sampling strategy that considers certain factors or criteria is known as purposeful sampling (Sugiyono, 2023: 133). This study uses two types of variables: The independent variables are Return on

Assets and Net Profit Margin, while the dependent variable is Stock Price.The multiple linear regression equation for this investigation is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

Keterangan:

Y	= Dependent Variable (Stock Price)
α	= Constant
β_1, β_2	= Regression Coefficient
X_1	= Independent Variable (Return on Assets)
X_2	= Independent Variable (Net Profit Margin)
e	= standar error

RESULT

Multiple Linear Regression Analysis

This regression analysis seeks to investigate the influence of Return on Assets (ROA) and Net Profit Margin (NPM) on the stock prices of food and beverage firms listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024. Upon completion of the analysis, the following data processing results will be produced:

Table 1. Results of Regression Analysis Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	6.424	.208		30.908	<,001		
	ROA	11.339	2.701	.438	4.198	<,001	.531	1.884
	NPM	-1.873	1.765	-.111	-1.061	.290	.531	1.884

a. Dependent Variable: LN_Y

Source: SPSS Processing Results (2025)

The computations shown in Table 4 yield the subsequent multiple regression equation.:

Y = a + b (X1) + b(X2) + e

Y = 6.424 + 11.339 X + (-1.873)X + e

1. The constant coefficient value is 6.424, indicating that the independent variables Return On Assets (ROA) and Net Profit Margin (NPM) are assumed to maintain constant values, then the Share Price value will have a positive value of 6.424.
2. The Return on Assets (ROA) variable possesses a regression coefficient of 11,339. This positive coefficient indicates a unidirectional relationship, meaning that A higher Return on Assets (ROA) correlates with an increased stock price. This means that for every Rp 1 increase in ROA, the stock price will increase by Rp 11,339, assuming the other variables remain constant or equal to zero.
3. The Net Profit Margin (NPM) variable has a regression coefficient of -1.873. This negative coefficient indicates a unidirectional relationship, meaning that the higher the Net Profit Margin (NPM), the lower the Stock Price. This indicates that for each Rp 1 increment in the Net Profit Margin (NPM), the Stock Price diminishes by Rp 1,873, assuming the other variables remain constant or equal to zero

Hypothesis Testing

1. **Determinant Coefficient**

Table 2. Results of Determination Test (R2 Square)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.617[a]	.380	.376	.56104720	2.027

a. Predictors: (Constant), LAG_RES

b. Dependent Variable: Unstandardized Residual

Source: SPSS Processing Results (2025)

The R-squared value of 0.380 signifies that ROA and NPM explain 38% of the stock price variance, with other factors explaining the remaining 62%. The adjusted R-squared value of 0.376 signifies a highly stable model. This model is also suitable for use in multiple linear regression analysis, as the Durbin-Watson value of 2.027 indicates no autocorrelation

2. **T-test**

Table 7. Partial Test Results

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	1.264	.121		10.428	<,001		
	ROA	-2.541	1.575	-.177	-1.614	.109	.531	1.884
	NPM	-.470	1.029	-.050	-.457	.648	.531	1.884

a. Dependent Variable: ABS_RES

Source: SPSS Processing Results (2025)

The t-test findings indicate that:

a. Return on Assets (ROA) exerts a positive and significant influence on stock prices. This indicates that The more effectively a corporation utilizes its assets to generate profits, the greater its stock price will be. This finding aligns with the theory that profitability is a key indicator in determining a company's valuation from the perspective of investors.
b. The Net Profit Margin (NPM) did not exert a substantial influence on stock prices, although the relationship was negative. This means that changes in NPM did not directly influence investor decisions regarding stock prices. These results indicate that while net profit margin is theoretically important, it was not a primary consideration in determining stock valuations in the food and beverage industry during the research duration.

3. **F test**

Table 8. Simultaneous Test Results

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	36.154	2	18.077	11.913	<,001[b]
	Residual	226.104	149	1.517		
	Total	262.258	151			

a. Dependent Variable: LN_Y

b. Predictors: (Constant), NPM, ROA

Source: SPSS Processing Results (2025)

The findings of the F-test indicate that ROA and NPM significantly influence stock prices simultaneously (Table 8). Overall, these profitability metrics provide a framework for predicting stock price movements food and beverage enterprises registered on the IDX from 2020 to 2024.

DISCUSSION

The Impact of Return on Assets on Stock Prices

The Return on Assets (ROA) exhibits a coefficient of -1.614, with a level of significance of 0.109, which above 0.05, according to a statistical study. From 2020 to 2024, the stock valuations of food and beverage corporations listed on the Indonesia Stock Exchange (IDX) were negatively and insignificantly affected by ROA. Stock prices tended to decrease when ROA increased, and vice versa, consistent with this inverse relationship. According to Harahap's (2013) hypothesis, ROA demonstrates a company's capacity to produce cash through its assets, hence this outcome aligns with this assertion. On the other hand, ROA is believed to have a negligible impact on stock price growth because net profit growth is smaller than total asset growth, resulting in low ROA figures. This finding indicates that during the study period, ROA performance did not play a significant role in investors' evaluation of stock returns. The stock prices of food and beverage corporations on the IDX during the 2020 to 2024 timeframe were not significantly affected by the ROA variable.

The Impact of Net Profit Margin on Stock Prices

Between 2020 and 2024, the stock valuations of food and beverage corporations listed on the Indonesia Stock Exchange (IDX) were negatively but not significantly affected by Net Profit Margin (NPM), as per statistical analyses. The coefficient for NPM was -0.457, having a significance level of 0.648, exceeding 0.05. A negative correlation existed between NPM and stock prices, signifying that as NPM increased, stock prices decreased, and vice versa. The findings of this study suggest that investors generally predominantly regard the profitability of a business when making investment decisions, they align with Harahap's (2015) theory, which states that NPM assesses a company's capacity to produce net profit from each transaction. It may arise when investors go beyond net profit margin to consider aspects such as the company's growth prospects, sector conditions, or the overall economy. Therefore, NPM will not significantly impact stock price fluctuations between 2020 and 2024.

The Impact of Return on Assets and Net Profit Margin on Stock Prices

Using an F-statistic of 11.913 and a level of significance of 0.001, the findings of the regression analysis using SPSS indicate that the variables Return on Assets (ROA) and Net Profit Margin (NPM) both have a favorable and substantial impact on stock prices. Both variables in this study accounted for 38% of the variance in stock price fluctuations (R Squared = 0.380), with the remaining 62% caused by factors outside the scope of this study. These results are similar to the study by Zamzami and Hasanuh (2021). According to the results of this study, reveal that Net Profit Margin (NPM) shows no impact on stock prices. Return on Assets (ROA) has no impact on stock prices. Concurrently, Net Profit Margin (NPM), Return on Assets (ROA), Return on Equity (ROE), and inflation have a substantial impact of stock prices. These findings suggest that, although ROA and NPM serve as crucial indicators for analyzing a company's financial performance, they are not the only factors influencing

stock price fluctuations for food and beverage businesses registered on the IDX from 2020 to 2024. Capital market conditions, government regulations, and other core company elements are among the many internal and external variables that influence stock prices. Therefore, investors should not base their assessments solely on ROA and NPM analysis

CONCLUSIONS AND RECOMMENDATIONS

From 2020 to 2024, the stock prices of food and beverage companies registered on the IDX were negatively and insignificantly affected by Return on Assets (ROA). The influence of Net Profit Margin (NPM) on stock prices was quite small and negative. Based on the findings of the F-test with a level of significance of 0.001, both ROA and NPM had an advantageous and large impact on the price of stocks. Although neither variable was particularly important individually, their combined relevance in explaining stock price changes is clear. With an R-squared value of 0.380, we can see that ROA and NPM explain 38% of the stock price variance; the other 38% is due to external variables. Before investing in enterprises in the food and beverage industry, investors should not put all their eggs in one basket; they should also consider other fundamental elements, market conditions, and macroeconomic considerations.

FURTHER STUDY

To improve the accuracy and relevance of future research, these techniques could include longer time periods, panel data approaches, and consideration of sectoral conditions and economic cycles.

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