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Profitability as a Mediating Factor in the Effect of Capital Structure on Stock Prices: An Empirical Study of Companies Listed in the MNC36 Index on the Indonesia Stock Exchange.

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ABSTRACT

This study examines the role of profitability in influencing capital structure on stock prices in companies listed on the MNC36 Index. The population in this study were MNC36 Index companies for the 2018-2023 period. The sample used in this study was 9 companies, determined using a purposive sampling technique, resulting in a total of 54 observational data. The analysis techniques used in this study were descriptive statistics, classical assumption tests, multiple regression, and hypothesis testing using SPSS 23 analysis tools. The results show that capital structure significantly affects stock prices and profitability, but profitability does not mediate the relationship, and firm size does not significantly control stock price variations. These findings suggest that debt management remains important to investor perceptions. Future research should consider sectoral contexts and alternative variables.

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1. INTRODUCTION

In today's competitive corporate environment, businesses must increase productivity and quality to thrive. This requires continuous performance improvement, as investor interest in a company grows alongside its development. Offering shares for sale and purchase on the capital market is a survival strategy in this challenging environment (Trianjani & Suwitho, 2023). The capital market provides an alternative to risky stocks, influenced by market forces such as supply and demand. Stock prices reflect a company's value, with higher prices indicating higher company value. Investors require relevant information and performance measurement tools to make informed investment choices with positive returns. This stock price strength is

determined by the buying and selling prices, which require careful consideration to maximize profits (Habsari & Akhmadi, 2018). Investment is crucial for economic growth because it provides funds for economic activity. Investors often consider company performance as an indicator. A high-quality, risk-free investment guide, known as the Indonesian Stock Index (IDX), is crucial for investors when investing in a company (Simanjuntak, 2021).

Companies with strong business development fall into several categories, with manufacturing companies as the primary pillar. These companies are included in the indexes listed on the Indonesia Stock Exchange (IDX), such as the MNC36 Index. This index reflects the stock performance of 36 companies listed on the IDX, providing a more accurate picture of market conditions. Factors such as market capitalization, liquidity, transactions, and fundamentals are taken into consideration. By following the MNC36 Index, investors can make better stock investment decisions, thereby ensuring the overall growth and development of the Indonesian economy.

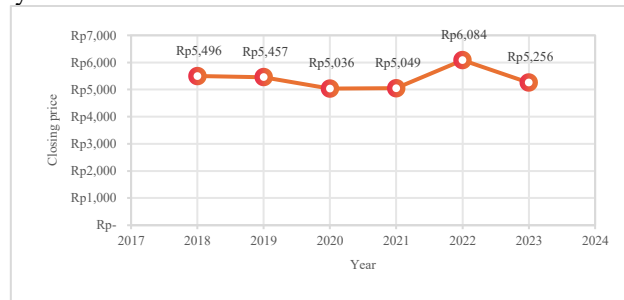


Figure 1. Average Stock Price Development In the MNC36 Index for the 2018-2023 Period
Source: 2024 Research Data

Based on the graph of the company's average stock price over the six years from 2018 to 2023, there has been a fluctuating movement. In 2018, the average stock price was Rp 5,496; and in 2019-2020, it decreased by Rp 5,457 in 2019, and in 2020, it decreased by Rp 5,036. Then, in 2021-2022, the company's average stock price increased by Rp 5,049 in 2021 and Rp 6,084 in 2022; and in 2023, there was another decrease of Rp 5,256. The decline in stock price negatively impacts investor perceptions of the company's business management capabilities and performance, leading to a decrease in capital investment. This is considered substandard, thus reducing demand for share purchases. Conversely, an increase in stock price indicates good business performance, thereby increasing demand for share purchases (Arifin & Agustami, 2016).

The downward trend in stock prices on the MNC36 index can be influenced by several factors. Based on a search of relevant references, debt to equity (DER) is one of the influencing factors. Several studies show that capital structure has a positive impact on stock prices (Charulina et al., 2023), (Wisudani & Priyadi, 2021), (Adikerta & Abundanti, 2020). Meanwhile, other studies have shown that capital structure has a negative impact on stock prices (Arifin & Agustami, 2016), (Nordiana & Budiyanto, 2017), (Agustami & Syahida, 2019). Several studies (Ivan, 2018), (Akhmadi & Prasetyo, 2018), and (Magdalena & Setyawan, 2023) have shown that capital structure does not significantly affect stock prices.

Several studies have found that other variables influence the relationship between capital structure and stock prices. Several studies have identified profitability as one such factor. Previous studies have shown that capital structure positively impacts profitability. Companies with higher debt levels have lower tax burdens, thus increasing their income and potential profitability (Kurniawati & Yulia Safitri, 2021) and (Ajie Santoso & Budiarti, 2020). This is in line with the trade-off theory, which explains that a good capital structure balances the advantages and disadvantages of using debt, with profits and liabilities greater than debt. This theory considers factors such as personal and corporate taxes, bankruptcy costs, and sacrifices to explain why a business should use a good capital structure (Akhmadi & Ariandin, 2018). Several other relevant findings are presented by (A. & Andarini, 2017) and (Indahsafitri et al., 2016) which show that profitability significantly impacts stock prices. Higher profitability indicates optimal financial management, attracts investors, and increases company value. This positive signal increases demand for shares, leading to higher stock prices. Investors who understand the company's decisions and believe in the use of substantial debt are more likely to see stock prices increase.

Based on these various explanations, the researcher intends to re-examine the effect of capital structure on stock prices in the MNC36 Index by including profitability as an intervening variable in the research model. This study aims to obtain empirical answers regarding the effect of capital structure on stock prices. Furthermore, this study aims to obtain empirical answers regarding the role of profitability in the influence of capital structure on stock prices.

2. LITERATURE REVIEW

2.1 Theoretical basis

2.1.1 Trade Off Theory

Trade-off theory explains what optimal debt looks like. This theory is based on considering the costs and benefits of using debt. If the capital structure is below the optimal point, any additional debt will increase the firm's value. Conversely, if any position in the capital structure is above the optimal point, any additional debt will decrease the firm's value (Farid & Akhmadi, 2023).

2.1.2 Signalling Theory

According to Spence (1973), signalling theory refers to information provided by company management regarding company performance that serves as an indication to investors of the company's potential future opportunities. If the news is favorable to investors, it will increase interest in the company's shares and boost the company's value. Conversely, if the news is perceived as unfavorable (a bad signal), it will decrease investor interest in the company's shares and lower the company's value (Brigham & Houston, 2011).

2.1.3 Stock Price

According to Suad Husnan and Enny Pudjiastuti (2004), stock price is the present value of future earnings received by investors. This definition emphasizes that stock price is not merely the current transaction price but a reflection of investors' expectations of future cash flow or earnings. This approach aligns with the principles of financial valuation, where the value of an asset is measured based on the potential profit it is expected to generate. Meanwhile, according to Eduardus Tandelilin (2010), stock price can be understood as proof of ownership of a company's assets. By owning shares, an investor gains rights to the company's income and assets after all company obligations have been met. Essentially, stock price reflects how much an investor is buying into a "piece" of the company and serves as an indicator of the company's performance appreciation in the eyes of the market. Meanwhile, according to Weston & Copeland (2001:92), stock price is measured by the Price to Book Value (PBV) ratio, which is the ratio between the market price per share and the book value per share. In this context, stock prices reflect how much the market values a company's assets relative to their book value. A high PBV indicates that investors are willing to pay more for the stock than the company's book value, which can indicate confidence in the company's growth potential or quality.

2.1.4 Capital Structure

According to Bambang Riyanto (2010), capital structure is the balance or ratio between long-term debt and equity. This structure reflects how a company finances its assets, whether relying more on owner-occupied funds (equity) or external funds (debt). Decisions about capital structure are strategic financial decisions because they affect the level of financial risk, the cost of capital, and the company's value in the eyes of investors. Weston and Copeland (2001) define capital structure as a company's permanent financing, consisting of long-term debt, preferred stock, and shareholder equity. Agus Sartono (2010) defines capital structure as the balance or ratio between long-term debt and equity. Capital structure is a crucial decision in financial management because it influences the risk and expected returns of shareholders.

2.1.5 Profitability

According to Agus Sartono (2010), profitability is a company's ability to generate profits in relation to sales, total assets, and equity. Profitability reflects the level of management effectiveness in managing its resources to generate profits. The higher the level of profitability, the better the company's financial performance because it indicates that assets, capital, and sales are optimally utilized to generate profits. Meanwhile, according to Bambang Riyanto (2010), profitability is a company's ability to generate profits during a certain period. This measure indicates the level of efficiency in capital use and management effectiveness in managing all available resources to generate profits. Profitability is important because it is a key indicator of a company's financial health and attractiveness to investors and creditors. The higher the profitability, the better the company's financial performance. Meanwhile, according to Weston & Copeland (1992), profitability is a company's ability to generate profits in relation to sales, total assets, and equity.

Profitability, as a financial ratio, is used to measure management effectiveness in generating profits from its resources.

2.2 Hypothesis Development

2.2.1 The Effect of Capital Structure on Profitability

According to (Brigham & Houston, 2011) interest paid on debt is tax-deductible, and the use of debt can increase a company's value. However, debt also incurs costs associated with actual or potential bankruptcy. Therefore, an ideal business should determine a capital structure policy that balances the costs of filing for bankruptcy with the benefits and drawbacks of borrowing. Profitable companies will ultimately take on as much debt as possible as long as the interest paid on the loan lowers taxes. A relevant argument is made (Hamidy et al., 2015), stating that taking on more debt can reduce agency costs and tax liabilities, resulting in increased net income.

Empirically, research by (Ratih et al., 2019), shows that a higher debt ratio can result in higher profitability. This is because interest paid on debt is deducted from taxable income, thereby increasing profitability and net income after tax. Another empirical study by (Martini, 2020), found that the use of debt can increase firm value. Increasing debt can increase the risk of bankruptcy because it will lead to more agency problems and financial distress. However, debt is not always a bad thing for a company, so any increase in corporate debt can lead to increased profitability. Based on these explanations, hypothesis 1 (H1) can be formulated: Capital structure has a positive and significant effect on profitability.

2.2.2 The Effect of Capital Structure on Stock Prices

According to the trade-off theory, companies can trade off the tax benefits of debt financing against the risks posed by potential bankruptcy. By taking advantage of tax shields, debt becomes cheaper than common or preferred stock. Thus, debt provides tax shield benefits (Brigham & Houston, 2011). Meanwhile, according to (Wisudani & Priyadi, 2021), corporate debt can increase in value due to tax shields, but there are limits to prevent excessive debt use. Because large amounts of debt can lead to costly bankruptcy, businesses limit the use of debt to reduce expenses.

Empirically, research by (Prayoga, 2023) demonstrates that corporate structure significantly influences its stock price. A good (optimal) structure will increase stock prices, while a poor (poor) structure will decrease stock prices. Other empirical results presented by (Novalddin et al., 2020) found that corporate operational support can generate better stock prices by reducing share ownership, thus affecting stock prices. Research (Wisudani & Priyadi, 2021) proves that a company's ability to manage its capital effectively, which can impact stock prices, is the reason for the positive correlation between stock prices and capital structure, as long as the company can limit its debt usage. Meanwhile, (Trianjani & Suwitho, 2023) explains that a company's ability to repay debt as it falls due reduces taxes and increases investor confidence, leading to an increase in its stock price. Companies can generate profits and repay their obligations, resulting in an increase in stock prices. Based on these various explanations, hypothesis 2 (H2) can be formulated: Capital structure has a positive and significant effect on stock prices.

2.2.3 The Effect of Profitability on Stock Prices

According to Weston & Copeland (2001), a company's reported profits can serve as a signal to investors regarding the company's future performance prospects. Signaling theory explains that management has more information about the company's condition and prospects than outsiders (*asymmetric information*).

Empirically, research by (Akhmadi & Prasetyo, 2018), demonstrates that higher profitability indicates a company's increased ability to generate profits, which in turn increases investor confidence. Other relevant research by (Umar et al., 2020) demonstrates that lower stock prices are associated with lower profitability, and higher stock prices are associated with higher profitability. Investors trust a company to manage its net income, and when purchasing shares, one can compare its profitability with other issuers. Research by (Triadi & Suarmanayasa, 2021), demonstrates that a company's ability to generate profits at a certain sales level is indicated by its profitability, which ultimately increases stock value as long as the company's revenue continues to increase. Research (Sa'idah et al., 2022), shows that stock prices will rise when increased company profitability generates greater investor interest. Companies with high profitability are able to generate attractive profit margins for investors, resulting in increased stock prices in response to

increased demand for their shares. Based on these explanations, hypothesis 3 (H3) can be formulated: Profitability has a positive and significant effect on stock prices.

2.2.4 The Effect of Capital Structure on Stock Prices Mediated by Profitability

Signal theory explains the relationship between profitability and stock prices, while trade-off theory links capital structure and profitability in this study. Trade-off theory explains that investors view the appropriate use of debt as a sign of increasing business value, which can increase profitability. However, excessive use of debt can negatively impact financial results. Debt is viewed as a profitable alternative because it reduces taxes and interest payments (Rahmawati et al., 2024). Meanwhile, according to (Azizi & Akhmadi, 2017), signal theory is used as a guide because internal company signals and information have the power to influence the decision-making of investors and potential investors. Every action involves information signals. When management explains why a company's earnings grew in the previous quarter, investors typically respond positively, which then increases the company's stock market price.

Empirically, research by (A'yun et al., 2022) shows that investors perceive the use of substantial debt as profitable. From an investor's perspective, a company's value will increase when its capital structure includes debt, leading to high profitability. A company's use of debt can be an indication of its future growth potential, and it also indicates that investors consider a large capital structure advantageous. Meanwhile, research (Suzulia et al., 2020) shows that when debt is used, income payments must be made above interest costs. The return on shareholder capital, or net income, is increased through an optimal capital structure combination. Increased stock demand and higher stock prices will result from high profitability, which will also attract investors and increase firm value. (Luh et al., 2022) suggests that companies can attract investor interest in making investment decisions by taking on more debt. Furthermore, taking on more debt can increase profitability, which can attract more investors. Based on these explanations, hypothesis 4 (H4) can be formulated: Profitability mediates the relationship between capital structure and stock prices.

3. RESEARCH METHOD

3.1 Population and Sample

This research employed a descriptive method with a quantitative approach. Data collection techniques included documentation and literature review of publications by MNC36 index companies from 2018 to 2023. Secondary data was obtained from www.idx.co.id and the official websites of the companies concerned. The sampling technique used was *purposive sampling*, which involves selecting samples based on specific criteria. This resulted in nine companies for observation during 2018-2023. The study period was six years, resulting in 54 observational data. The following criteria were met for the nine sample companies:

1. Companies consistently listed on the Indonesia Stock Exchange throughout 2018-2023.
2. Companies with audited financial data throughout 2018-2023.

3.2 Operational Variables

The dependent variable in this study is stock price, which represents the present value of future earnings received by investors, Suad Husnan and Enny Pudjiastuti (2004). The proxy used is *Closing price*, which is the stock price at the end of each company's year, and is estimated to reflect stock price variations over time, using calculations used (Sianturi & Wibowo, 2022). Meanwhile, the independent variable is capital structure, which is the balance or comparison between long-term debt and equity, Agus Sartono (2010). The proxy used is the debt-to-equity ratio (DER), which is a financial ratio that compares a company's total debt to total shareholder equity, Kasmir (2018). The intervening variable is profitability, which is the company's ability to generate profits in relation to sales, total assets, and equity, Agus Sartono (2010). The proxy used is gross profit margin (GPM), a gross ratio that indicates a company's relative profit, calculated by subtracting the cost of goods sold from net sales (Gustmainar & Mariani, 2016). The control variable is firm size (SIZE), which measures a company's success by indicating its size (Sa'adah & Kadarusman, 2014). The proxy used is the natural log of the asset value at the end of the fiscal year (Habsari & Akhmadi, 2018).

The operational variables in this study are summarized in the following table:

Table 3.1. Operational Variables

Variable	Proxy	Scale
Capital Structure (Independen)	DER = Total Debt / Total Equity	Ratio
Profitability (Mediasi)	GPM = Gross Profit / Sales	Ratio

Stock Price (Dependen)	Ln_Closing Price	Ratio
Firm Size (Control)	Ln_Total Assets	Ratio

3.3. Data Analysis

This study uses quantitative data analysis. Descriptive statistical tools, classical assumption test analysis, path analysis, panel data regression analysis, enhanced Sobel test analysis, and hypothesis testing are some of the data analysis tools used to address the research questions. This study used SPSS 23 as the data analysis tool. The collected data was examined using SPSS 23. The research model to be analyzed and tested in this study is presented below:

$$\text{GPM} = \alpha + \beta_1 \text{DER} + \varepsilon_1 \dots\dots\dots \text{Substructural 1}$$

$$\text{CP} = \alpha + \beta_1 \text{DER} + \beta_2 \text{GPM} + \beta_3 \text{FS} + \varepsilon_2 \dots\dots\dots \text{Substructural 2}$$

4. RESULT AND DISCUSSION

4.1 Descriptive Statistical Analysis

Based on the research data processing, the descriptive statistics for the data can be explained as follows:

Table 4.1 Descriptive Statistical Analysis

Variable	Minimum	Maximum	Mean	Std. Deviation
Stock Price	5,96	9,32	8,3402	0,84115
DER	0,09	6,63	2,7718	2,49481
GPM	0,14	0,89	0,5102	0,23963
FS	16,61	26,82	20,2857	2,98623

Source: SPSS 23, processed data

1. The stock price variable, according to the table above, yields a lowest value of 5.96 and a highest value of 9.32, with a mean score of 8.3402 and a standard deviation of 0.84115. The average stock price of the sample companies studied is 834.02% of the total. The stock prices of the sample companies studied show a moderate difference, as indicated by the value of 84.12%. A standard deviation value smaller than the average indicates a relatively greater variation in stock price data, with a wide spread of data relative to the average.
2. The DER (X) variable, according to the table above, yields a lowest value of 0.09 and a highest value of 6.63, with a mean score of 2.7718 and a standard deviation of 2.49481. The average DER of the sample companies studied is 277.18% of the total. The DER of the sample companies studied showed a moderate difference, as indicated by a score of 249.48%. The standard deviation value, which is smaller than the mean, indicates a relatively more diverse DER data variation with a wide spread of data relative to the mean.
3. The GPM variable (Z), according to the table above, produced a lowest score of 0.14 and a maximum score of 0.89, with a mean score of 0.5102, with a standard deviation of 0.23963. The average GPM score for the sample companies studied was 51.02% of the study population. The GPM of the sample companies studied showed a significant difference, as indicated by a score of 23.96%. The standard deviation value, which is smaller than the mean, indicates a relatively more diverse GPM data variation with a wide spread of data relative to the mean.
4. The FS variable (C) according to the table above produces the lowest score of 16.61 and the maximum score of 26.82, the average score (mean) of 20.2857 with a standard deviation of 2.98623. The average UP score of the sample companies studied is 2028.57% of the study population. The FS of the sample companies studied shows quite a large difference, as indicated by the number of 298.62%. The standard deviation value is greater than the average indicating that the variation of FS data is relatively more diverse with a wide distribution of data compared to the average.

4.2 Classical Assumptions

4.2.1 Normality Test

The normality test aims to verify whether the dependent and independent variables in the regression model have a normal distribution. The One-Sample Kolmogorov-Smirnov (K-S) test method was used in this study to determine whether the residual values from the regression are normally distributed. If the significance value is greater than 0.05, then the residual decision-making basis is normally distributed.

Table 4.2 Substructural Normality Test 1
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		54
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.13550138
Most Extreme Differences	Absolute	.110
	Positive	.110
	Negative	-.088
Test Statistic		.110
Asymp. Sig. (2-tailed)		.100 ^c

a Test distribution is Normal.

b Calculated from data.

c Lilliefors Significance Correction.

Based on Table 4.2, the results of the substructural normality test 1 using the One-Sample Kolmogorov-Smirnov test show that the Asymp. Sig. (2-tailed) value is 0.100, indicating that the value is above 0.05. It can be concluded that the research data is normally distributed.

Table 4.3. Substructural Normality Test 2
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		54
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.70010672
Most Extreme Differences	Absolute	.107
	Positive	.107
	Negative	-.102
Test Statistic		.107
Asymp. Sig. (2-tailed)		.178 ^c

a Test distribution is Normal.

b Calculated from data.

c Lilliefors Significance Correction.

Based on table 4.3, the results of the substructural normality test 2 using the One Sample Kolmogorov-Smirnov test show that the Asymp. Sig. (2-tailed) value is 0.178, which indicates that the value is above 0.05; it can be concluded that the research data is normally distributed.

4.2.2 Multicollinearity Test

The multicollinearity test in this study aims to determine the presence or absence of multicollinearity by examining the tolerance value and Variance Inflation Factor (VIF). If the tolerance value is > 0.10 and the VIF is < 10 , then multicollinearity is considered absent in the study.

Table 4.4 Multicollinearity Test
Coefficients^a

Model		Collinearity Statistics	
		Tolerance	VIF
1	DER	.243	4.111
	GPM	.258	3.877

FS	.759	1.317
a Dependent Variable: CP		

Based on Table 4.4 above, the multicollinearity test results indicate that DER, GPM, and FS have tolerance values ≥ 0.10 and VIF values ≤ 10 . Therefore, it can be concluded that there is no multicollinearity among the independent variables in this study, and this regression model is suitable for use.

4.2.3 Heteroskedasticity Test

The heteroscedasticity test is used to determine whether the residual variance of one observation varies from one to another in the regression model. A model that does not exhibit heteroscedasticity is considered very good. The Glejser test is used to measure heteroscedasticity. If the significance value is ≥ 0.05 , heteroscedasticity is absent. Conversely, if the significance value is ≤ 0.05 , heteroscedasticity is present.

Table 4.5 Substructural Heteroscedasticity Test 1
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.134	.015		8.938	.000
DER	-.008	.004	-.263	-1.964	.055

a Dependent Variable: Absres1

Based on Table 4.5, the Glejser substructural test 1 above shows that the significance value of the DER variable is greater than 0.05, namely 0.055. Based on these results, it can be concluded that there is no heteroscedasticity among the independent variables in the regression model.

Table 4.6 Substructural Heteroscedasticity Test 2
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.070	.532		2.011	.050
DER	-.082	.048	-.429	-1.684	.098
GPM	.023	.490	.012	.047	.963
FS	-.017	.023	-.107	-.744	.460

a Dependent Variable: Absres2

Based on Table 4.6, the Glejser substructural test 2 above, the significance values for the DER, GPM, and FS variables are greater than 0.05, namely 0.098, 0.963, and 0.460, respectively. Based on these results, it can be concluded that there is no heteroscedasticity among the independent variables in the regression model.

4.3 Panel Data Regression Analysis

Table 4.7 Regression Equation 1
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.291	.028		10.390	.000
DER	.079	.008	.825	10.518	.000

a Dependent Variable: GPM

The regression test results yield a constant value of 0.291 and an unstandardized beta coefficient value for the DER variable against GPM of 0.079, which represents the path value. The value of $\varepsilon_1 = \sqrt{1 - R^2} = \sqrt{1 - 0,680} = 0,5657$.

Table 4.8 Regression Equation 2

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.902	.884		7.809	.000
	DER	.192	.080	.568	2.382	.021
	GPM	-.521	.814	-.148	-.640	.525
	FS	.058	.038	.205	1.519	.135

a Dependent Variable: CP

The test results for regression equation 2 yield a constant value of 6.902 and an unstandardized beta coefficient value for each DER variable of 0.192; GPM of -0.521; and FS of 0.058, where each variable represents a path value. The value of $\varepsilon_2 = \sqrt{1 - R^2} = \sqrt{1 - 0,307} = 0,8325$. The resulting regression equation model is:

$$\text{GPM} = 0,291 + 0,079 \text{ DER} + 0,5657 \dots\dots\dots \text{Substructural 1}$$

$$\text{CP} = 6,902 + 0,192 \text{ DER} - 0,521 \text{ GPM} + 0,058 \text{ FS} + 0,8325 \dots\dots\dots \text{Substructural 2}$$

Handling:

In sub-structure 1, the constant value of 0.291 indicates the gross profit margin (GPM) when the debt-to-equity ratio is zero or very low. Meanwhile, the debt-to-equity ratio (DER) coefficient of 0.079 indicates that every 1% change in DER causes a change in the same direction in the GPM of 0.079. Meanwhile, in sub-structure 2, the constant value of 6.902 indicates the stock price (CP) when both DER and GPM are zero or very low. Furthermore, the debt to equity ratio (DER) coefficient of 0.192 indicates that every 1% change in DER causes a change in the same direction in the stock price (CP) of 0.192. Meanwhile, the GPM coefficient of -0.521 indicates that every 1% change in GPM causes a change in the opposite direction in the stock price (CP) of 0.521. Firm size, as a control variable, has a coefficient value of 0.058.

4.4 Hypothesis Testing

4.4.1 Testing the Effect of Capital Structure on Profitability

The regression test results show that capital structure has a positive and significant effect on profitability, with a calculated t-value > t-table ($10.518 > 1.675$) and a significance value <0.05 (0.000 <0.05), thus rejecting H_0 . This means that an increased capital structure will increase profitability (Table 4.7). These results align with the trade-off theory: if a company has a large amount of debt and can use it effectively, it will pay less tax, thereby increasing corporate profits. Thus, the company's value will increase. This is consistent with research by (Hamidy et al., 2015), (Ratih et al., 2019), and (Martini, 2020), which states that interest paid on debt is deducted from taxable income, thereby increasing profitability and net profit after tax. Other empirical research by (Martini, 2020).

This research shows that the strategic use of debt can increase a company's ability to generate profits. Management is considered capable of optimizing its debt utilization and increasing efficiency in both investments and operational activities. Furthermore, management is able to maintain a balanced capital structure to prevent excessive debt reliance, which could increase financial risk. The company's capacity is sufficient to generate sufficient cash flow to repay debt and increase its value.

4.4.2 Testing the Effect of Capital Structure on Stock Prices

Based on the results of the regression test, capital structure has a positive and significant effect on stock prices, with a calculated t-value > t-table ($2.382 > 1.675$) and a significance value <0.05 (0.021 <0.05), thus rejecting H_0 . This means that an increased capital structure will increase stock prices (Table 4.8). These results support the first hypothesis, which states that an increased capital structure will increase stock prices. This research is also relevant to the trade-off theory, which serves as the guideline for this study. If a company has a lot of debt, it will pay less taxes and be able to distribute operating profits to investors, thereby increasing stock prices. The research findings align with those of (Prayoga, 2023), (Novalddin et al., 2020), (Wisudani & Priyadi, 2021), and (Trianjani & Suwitho, 2023) which state that corporate structure significantly influences stock price.

This study demonstrates that strategic debt use is viewed as additional funding that can increase demand for a company's shares, boosting stock prices, and subsequently driving increased firm value. Investors view an increased debt ratio as a positive opportunity for increased returns, thus encouraging investment or potentially profitable business development.

4.4.3 Test of the Effect of Profitability on Stock Prices

The results indicate that profitability has a negative and insignificant effect on stock price, with the calculated t-value $(-0.640) < t\text{-table } (1.675)$ and the Sig. value $(0.525) > \alpha (0.05)$. These results do not support the second hypothesis, which states that increased profitability will increase stock price. The results also disagree with *signaling theory*, which states that profitable companies will send signals to the market and investors, enabling the market to distinguish between viable and unviable companies. These results also contradict those of (Akhmadi & Prasetyo, 2018), (Umar et al., 2020), (Triadi & Suarmanayasa, 2021), and (Sa'idah et al., 2022) which essentially prove that profitability has a significant positive effect on stock prices.

The results of this study indicate that profitability and stock prices move in different directions. This implies that the company's operations are inefficient, hindering its ability to generate profits. This sends a negative signal to investors, as they become doubtful or less confident in the company's future prospects, potentially reducing their investment in the company's stock. Investors perceive this as an indication that the stock price will decline.

4.4.4 Testing the Mediating Effect of Profitability

Direct, Indirect, and Total Effects

Based on Tables 4.7 and 4.8, the analysis of the direct, indirect, and total effects is presented as follows:

Direct effect (P1) = 0.192

Indirect effect (P2 x P3) = $-0.521 \times 0.079 = -0.0412$

Total effect (P1 + (P2 x P3)) = $(0.192 + (-0.521 \times 0.079)) = 0.1508$.

From the calculation above, it is clear that the indirect effect is smaller than the direct effect ($-0.0412 < 0.192$). Therefore, GPM is highly unlikely to mediate the relationship between DER and stock price.

Sobel Test

To further confirm the mediating effect, the Sobel Test was conducted to provide further evidence of the correlation between the two relationships. between independent and dependent variables, both directly and indirectly. The Sobel test calculation is shown below:

$$S_{ab} = \sqrt{b^2 s_a^2 + a^2 s_b^2 + s_a^2 s_b^2}$$

$$S_{ab} = \sqrt{(-0,521)^2(0,008)^2 + (0,079)^2(0,814)^2 + (0,008)^2(0,814)^2}$$

$$S_{ab} = \sqrt{0,0000174 + 0,0041353 + 0,0000424}$$

$$S_{ab} = 0,0648$$

Next, after the Sobel value is found, we need to calculate the z value of the ab coefficient using the following formula:

$$z_{hitung} = \frac{ab}{S_{ab}}$$

$$z_{hitung} = \frac{(0,079)(-0,521)}{0,0648}$$

$$z_{hitung} = -0,6355$$

The Sobel test results indicate that profitability is unable to mediate the relationship between capital structure and stock price, with a calculated z-value $< z\text{-table } (-0.6355 < 1.96)$. This result does not support the hypothesis that profitability can mediate the relationship between capital structure and stock price. This

study's findings are inconsistent with the trade-off theory, which states that companies can increase profitability by using debt to reduce agency costs and tax liabilities. These results also deviate from research by (A'yun et al., 2022), (Suzulia et al., 2020) and (Luh et al., 2022), which found that profitability mediates the relationship between capital structure and stock price.

This study's findings indicate that increasing a company's debt ratio, expressed as the debt-to-equity ratio (DER), does not significantly generate tax savings (tax shield) and therefore does not trigger an increase in corporate profits, or vice versa. This ultimately does not receive much attention from investors, causing investors not to take the decision to increase their investment in the company's shares, except for the tendency to "wait and see" so that it does not move the stock price up.

4.4.5 The Effect of Firm Size as a Control Variable

The regression test results indicate that company size has a positive but insignificant effect on stock prices, with a calculated t-value $< t$ -table ($1.519 < 1.675$) and a significant value < 0.05 ($0.135 > 0.05$). This result is inconsistent with research (Habsari & Akhmadi, 2018) and (Juwita et al., 2021) which states that firm size has a significant positive effect on stock prices, which found that firm size has a significant positive effect on stock prices. The results indicate that investors do not consider firm size as a significant factor in determining stock prices. A company cannot increase its stock price simply by increasing or decreasing its size. Firm size is not a primary factor attracting investors, as company assets are likely concentrated in receivables and inventory, which may be illiquid. Since their investments are not yet generating optimal returns, small businesses demonstrate a way to maximize profits.

5. CONCLUSION

The strategic use of debt can improve a company's profitability. Management is considered capable of optimizing its debt use and increasing efficiency in both investment and operational activities. Strategic debt use is also viewed as additional funding that can increase demand for a company's shares, boosting stock prices, and subsequently driving increased company value. Increasing a company's debt ratio, represented by the debt-to-equity ratio (DER), does not significantly generate tax savings (tax shields), and thus does not trigger increased corporate profits, or vice versa. This ultimately receives little attention from investors, thus not having a strong impact on increasing stock prices. Firm size, as a control variable, has a positive but insignificant effect on stock prices. Furthermore, this study has limitations. First, the study was limited to companies in the MNC36 Index, so the results cannot be generalized to all indices on the Indonesia Stock Exchange. Second, it analyzed only one proxy for each variable studied, so the sensitivity level when using other proxies is unknown. Based on these limitations, future research should be conducted on several indices on the Indonesia Stock Exchange. Then the research also uses several proxies for each observed variable so that the level of sensitivity can be determined.

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