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NET PROFIT AND STOCK PRICE: EXPLORING THE MODERATING ROLE OF DIVIDEND PAYOUT RATIO IN IDX QUALITY 30

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Abstract

This study investigates the impact of net profit on stock price with dividend payout ratio as moderating variable, recognizing that understanding the drivers of stock price is crucial for investors and financial analysts. The research utilizes multiple regression analysis to examine the direct effect of net profit on stock price and the moderating role of the dividend payout ratio. The results show that net profit has a positive and significant effect on stock price, supporting the hypothesis that higher profitability leads to increased stock valuation. However, the dividend payout ratio does not significantly moderate the relationship between net profit and stock price, indicating that it does not strengthen the effect of profitability on stock performance. These findings challenge the signaling theory, which suggests that dividend policies serve as a signal to investors. The implications of this research suggest that investors should focus on profitability as the primary indicator when evaluating stocks, while companies should prioritize improving profitability rather than relying on dividend policies to influence stock price. Future research should explore additional variables and apply broader data sets to further understand the relationship between financial performance and stock valuation.

***Keyword:** Net Profit, Stock Price, Dividend Payout Ratio*

INTRODUCTION

Net profit is a key indicator in assessing a company's financial performance, as it directly reflects its profitability and operational efficiency. Investors often use net profit as a basis for making investment decisions because high profits indicate business sustainability and future growth potential (Pingwen Xue, 2021). Companies that are able to generate stable or increasing net profits tend to be more attractive to investors, as this can enhance market confidence and have a positive impact on stock prices (Gitman & Zutter, 2015). The IDX Quality30 Index consists of stocks with a strong track record of high profitability with stable earnings growth and good transaction liquidity (Ciseta Yoda et al., 2023). Based on the explanation, In the context of the IDX Quality 30 index, companies with strong fundamentals and consistent net profits have a greater potential to provide returns to shareholders.

The relationship between net profit and the dividend payout ratio (DPR) is very close, as net profit serves as the primary basis for determining the amount of dividends to be distributed to shareholders. Companies with high net profits generally have greater flexibility

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in setting dividend policies, either by increasing dividend payments or retaining earnings for business expansion. According to recent research, dividend policy often reflects management's optimism about future earnings growth, which ultimately influences investors' investment decisions (Lubis et al., 2024). Within stocks included in the IDX Quality30, the DPR is one of the key factors observed by investors because it reflects the company's long-term financial stability and policy.

As a moderating variable, the dividend payout ratio can strengthen or weaken the relationship between net profit and stock price. Research has shown that companies with a high DPR tend to have lower stock volatility because stable dividends can reduce investor uncertainty (John Lintner, 1956). However, an excessively high DPR can also be a signal that a company is struggling to retain earnings for expansion, which may limit its long-term growth (Damodaran, 2023). In the context of the IDX Quality30, companies with a moderate DPR tend to be more attractive because they are able to balance between distributing profits to investors and reinvesting in the business. Therefore, DPR serves as a factor that can moderate the impact of net profit on stock returns, depending on the company's strategy in managing profitability and dividend policy.

This research offers new insights into the role of the Dividend Payout Ratio as a moderating variable in the relationship between net profit and stock price. It addresses a gap in the existing literature, which has previously given limited attention to this relationship, particularly within the context of companies listed on the IDX30 index.

Theoretical Framework and Hypothesis Development

Stock Price

According to Surahmansyah (2020) stock price is the value agreed upon by the seller and buyer in the capital market, reflecting investors' expectations regarding the company's future performance. Stock prices can fluctuate as new information becomes available in the market. Good financial performance management and appropriate investment strategies are crucial for enhancing a company's attractiveness in the capital market. With strong performance and a promising future outlook, a company can attract more investors, which will ultimately have a positive impact on stock prices and shareholders' wealth (Idris, 2024).

Fama (1970) in his efficient market theory, states that stock prices in the market reflect all available information. Thus, in an efficient market, no investor can consistently earn abnormal profits, as stock prices always adjust to the most recent available information. The signaling theory was first introduced by Spence (1973) in the context of information asymmetry, particularly in the labor market, and was later widely adopted in the field of finance. In practice, signaling theory is used to explain how corporate actions such as dividend announcements, issuance of new shares, or stock buybacks can insfluence investor perceptions and, ultimately, affect stock prices. Although the market is efficient as explained in Fama's efficient market theory, signaling theory acknowledges that companies can still influence stock prices through the signals they send to reduce the information asymmetry present in the market.

Net Profit and Stock Price

Net profit is a key indicator that reflects a company's financial performance. Investors often use net profit information to assess the company's future growth prospects and profitability. According to signaling theory, high net profit is considered a positive signal that indicates the company's financial health, thereby increasing investor confidence and driving stock price growth. Several studies have explained the relationship between net profit and stock price. The research by Putu et al. (2023) found that net profit significantly influences stock prices in companies within the textile and garment sector listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. In line with this research, Bahtiar & Kharisma (2020)

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demonstrated that net profit significantly affects stock prices in companies within the construction sector listed on the IDX. Similarly, Liswatin (2024) stated that net profit positively impacts stock prices in companies within the basic and chemical industry sectors listed on the IDX between 2016 and 2020. The results of these studies are consistent with the theory that an increase in net profit can lead to a rise in stock prices, as it reflects strong financial performance and positive growth prospects.

Dividend Payout Ratio, Net Profit and Stock Price

Net profit is a key indicator that reflects a company's financial performance, often used by investors to assess its growth prospects and future profitability. According to signaling theory, high net profit is regarded as a positive signal, indicating the company's financial health, which can enhance investor confidence and drive an increase in share prices (Fama, 1970). Conversely, the Dividend Payout Ratio (DPR) represents the proportion of net profits distributed to shareholders in the form of dividends, which can influence investors' perceptions of the company's value.

Based on the above explanation, the hypotheses of this study are formulated as follows:
H1: Net profit has a positive effect on stock price.
H2: Dividend payout ratio can strengthen the effect of net profit on stock price.

RESEARCH METHOD

Population and Sample

The research utilizes secondary data, specifically historical records, documentation, and archived reports. These data were collected from the financial statements of IDX Quality 30 companies listed on the official website of the Indonesia Stock Exchange (IDX). The sampling method applied was purposive sampling, which involves selecting samples based on specific criteria aligned with the research objectives. The sampling criteria were as follows:
(1) IDX quality30 companies that were continuously listed on the IDX from 2021 to 2023.
(2) IDX quality30 companies that consistently published financial statements during that period.
(3) IDX quality30 companies that reported positive net income from 2021 to 2023.

Based on these criteria, out of 30 Compenies on the IDX within the stated timeframe, only 19 companies met the requirements to be included in the sample, and resulting 57 data in observations for analysis. A preliminary descriptive analysis was conducted using SPSS 25 software to identify any outliers. After excluding the outliers, resulting in a total of 55 observations for the analysis. The data will be analyzed using a moderated regression analysis approach.

Operational Variables

Stock Price, Net Profit and Dividend Payout Ratio

This study uses stock prices based on the closing prices recorded from 2021 to 2023. Meanwhile the net profit will be conducted using the formula proposed by (Kasmir, 2021) the formula is as follows:

Net Profit = Gross Profit – Operating Costs – Taxes

Instead of that, we calculate the dividend payout ratio uses the formula from (Donald et al., 2017):

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

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RESULT AND DISCUSSION

Table 1. Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
Net Profit	57	20.09	24.55	22.1759	1.33783
Stock Price	57	5.14	10.57	8.0190	1.26667
Dividend Payout Ratio	55	-3.51	.22	-.6551	.75025
Valid N (listwise)	55				

Table 1 shows that all variables exhibit standard deviations lower than their respective means, indicating moderate variability and a relatively consistent pattern across the companies in the sample. The Net Profit variable has a mean of 22.18 and a standard deviation of 1.34, with values ranging from 20.09 to 24.55. This suggests that the profitability of the sampled manufacturing firms is relatively stable, with only minor differences in performance levels during the observation period. The Stock Price variable records a mean of 8.02 and a standard deviation of 1.27, ranging from 5.14 to 10.57, indicating that share prices among these companies are clustered within a moderate range and reflect similar market valuations. On the other hand, the Dividend Payout Ratio (DPR) shows a negative mean of -0.6551 and a standard deviation of 0.75, with a wide range from -3.51 to 0.22. This negative average suggests that a significant number of companies did not distribute dividends during the period or potentially reported losses, reflecting conservative or recovery-oriented financial strategies. Out of 57 initial observations, only 55 were considered valid for complete-case analysis due to missing data in the DPR variable.

Tabel 2. Summary of Clasical Assumption Test Result

Classical Assumption Test	Test Method	Statistic / Test Value	Test Criteria	Conclusion
Normality Test	Kolmogrov Smirnov test	p-value = 0.200	p > 0.05	Data is normally distributed
Multicollinearity Test	VIF (Variance Inflation Factor)	VIF = 1.06	VIF < 10	No multicollinearity
Heteroscedasticity Test	Park Test	p-value = 0.206	p > 0.05	No heteroscedasticity

Based on the information presented in Table 2, the normality of the data was assessed using the Kolmogorov-Smirnov test, which resulted in a p-value of 0.200. As this value exceeds the significance level of 0.05, it indicates that the residuals are normally distributed, fulfilling one of the fundamental assumptions in linear regression analysis. The multicollinearity test utilized the Variance Inflation Factor (VIF), with a recorded value of 1.06. Since this value is well below the commonly accepted cutoff of 10, it suggests that multicollinearity is not a concern in the model, and the independent variables provide distinct contributions without

excessive correlation. Furthermore, heteroscedasticity was evaluated using the Park Test, which yielded a p-value of 0.206. Given that this p-value is greater than 0.05, it can be concluded that the variance of the residuals is constant across all levels of the independent variables. Collectively, these outcomes indicate that the regression model passes all key classical assumption tests, thereby validating its appropriateness for further statistical analysis.

Table 3. Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.947	2.496		-.780	.439
	Net Profit	.449	.112	.475	4.000	.000
a. Dependent Variable: Stock Price						

Based on the results of the regression analysis, it was found that the net profit variable had a regression coefficient of 0.449 with a significance value of 0.000 ($p < 0.05$), which shows that net profit has a positive and significant effect on stock prices. The t value of 4,000 and standardized beta of 0.475 indicate that net profit makes a strong contribution in influencing changes in stock prices. Thus, hypothesis H1 which states that net profit has a positive effect on stock price is accepted. This result is in line with theory and previous findings This result is consistent with the theory and previous findings by Putu et al. (2023), Bahtiar & Kharisma (2020) and Liswatin (2024), it means that an increase in net profit reflects good financial performance, thereby increasing investor confidence and having an impact on increasing share prices.

Table 4. Moderated Ragrassion Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4.457	3.933		-1.133	.262
	Net Profit	.568	.177	.608	3.206	.002
	Dividend Payout Ratio	-5.192	5.419	-3.077	-.958	.342
	Net Profit*DPR	.247	.251	3.136	.987	.328
a. Dependent Variable: Stock Price						

Based on the results of the moderated regression analysis, the interaction term between net profit and dividend payout ratio (Net Profit * DPR) has a positive coefficient of 0.247; however, it is not statistically significant ($p = 0.328 > 0.05$). This indicates that the dividend payout ratio does not significantly moderate the relationship between net profit and stock price. Although the direction of the coefficient is positive, suggesting a potential strengthening effect, the lack of statistical significance means that this effect cannot be confirmed. Therefore, hypothesis H2, which states that the dividend payout ratio can strengthen the effect of net profit on stock price is not supported. This finding is inconsistent with signaling theory by Fama (1970) which suggests that dividend payments signal strong future prospects and profitability to investors. According to the theory, companies that distribute higher dividends are perceived more positively by the market, which should strengthen the relationship between profitability and stock valuation. However, in this study, such moderating influence of dividend policy was not empirically validated.

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CONCLUSIONS AND SUGGESTIONS

The results of this study conclude that net profit has a positive and significant effect on stock price, supporting hypothesis H1 and reinforcing the view that a company's profitability is a key factor influencing investor decisions and stock valuation. However, the dividend payout ratio does not significantly affect stock price and does not moderate the relationship between net profit and stock price, thus hypothesis H2 is not supported. This finding contradicts signaling theory, which posits that dividend payments serve as a positive signal to investors. Therefore, it is recommended that investors continue to use net profit as the primary indicator when evaluating stock performance, while companies should focus on improving profitability to enhance firm value. Future research should explore other potential moderating variables and use broader data sets to validate and deepen the analysis of the relationship between financial performance and stock price.

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