THE EFFECT OF CAPITAL STRUCTURE ON PROFITABILITY AND STOCK RETURNS

(An empirical analysis of food and beverage companies listed between 2019 and 2021 on the IDX)

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ABSTRACT
This study looks at the connection between capital structure, profitability, and stock returns. along with the factors influencing each of these three variables separately. The exogenous variables in this study include business size, asset growth, tangibility, and liquidity, whereas the capital structure, profitability, and endogenous variables are stock returns. Businesses in the food and beverage sector that are listed on the IDX for the 2019–2021 fiscal year make up the population. period; 21 businesses are chosen as a sample. The analytical unit is made up of 63 data points. Using SPSS 24, path analysis is the data analysis method that is employed. The study's findings show that capital structure is highly influenced by the following variables: company size, growth, tangibility, and liquidity of assets. Profitability is greatly influenced by a number of factors, such as capital structure, asset growth, and business size. The size of the company, capital structure, and asset growth all significantly affect stock returns.

Keywords: *Capital Structure, Profitability, Stock Return, Company Size, Asset Growth, Tangibility, Liquidity.*

1. INTRODUCTION

The amount Indonesia owed abroad in 2019 was $403.446 billion. [1]. In 2020, it reached $417.180 billion[2] and in 2021, it fell to $414.893 billion [3] [4]. Government debt 2019 reached $202.872 billion, while private debt reached $200.574 billion. In 2021, government debt reached $209.205 billion, while personal debt reached $205.302 billion. According to this statistics, Indonesian private firm debt has climbed during the last two years by 1.024%. This demonstrates how Indonesian private businesses continue to depend on loan financing. [5]. However, Indonesia's external debt increased by 1.034% in 2020 and decreased by 0.995%.

The capital structure of a corporation is composed of its funding sources, debt and capital. The financial standing of the business and performance will be impacted by the capital structure, no matter how excellent or poor it is. Businesses with excessive debt or a weak capital structure will put a heavy load on the organization [5].

Profitability is an essential factor and attracts the attention of shareholders in assessing the efficiency and effectiveness of capital structure management carried out by management [6]. In a highly competitive business world, every company utilizes profitability to develop its business. By analyzing financial conditions, companies can choose the right policies and decisions to overcome existing problems and minimize risks to their business [7].

Numerous research works have looked into how capital structure affects profitability. Study carried out by [8], [6] and [9] claims that profitability is significantly and favorably impacted by capital structure. An alternative investigation carried out by [10], [7] and [11] asserts that there is little to no detrimental influence of capital structure on profitability. Meanwhile, research conducted in the [12] claims that the impact of capital structure on profitability is negligible or nonexistent..

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An increased degree of risk is associated with shares of firms that go public because of their susceptibility to changes in the political and economic landscape as well as internal company developments. Share prices may be impacted by these adjustments in a favorable or unfavorable way. To minimize consequences or losses, investors must exercise caution while making judgments about their money. Making predictions about the stock returns that investors will receive is one task. [13].

One way to predict returns, risks and other factors in investment activities is to use basic examination [14]. Financial ratios are a tool for assessing the health and performance of a business's finances. Among them is the generating of revenue. A company's profitability is a gauge of its ability to make money at a given share capital, asset, and revenue level. [15].

Research conducted by [8] and [15] claims that stock returns are significantly and favorably impacted by profitability. This differs from the study carried out by [16] and [13] It claims that stock returns are positively and marginally impacted by profitability. In the meanwhile, studies carried out by [17] and [18] claims that stock returns are negatively and negligibly impacted by profitability.

In addition, the capital structure takes into account internal company issues that affect returns. A higher debt-to-asset ratio indicates that the organization's capital structure is utilizing debt more frequently. [19]. A high debt-to-asset ratio makes investors shy away from buying shares in the company, which lowers stock returns. Study carried out by [8] and [17] claims that the impact of capital structure on stock performance is negligible or nonexistent. Several inquiries carried out by [20] and [13] claims that stock returns are significantly and favorably impacted by capital structure. In the meanwhile, studies carried out by [21] claims that capital structure has little to no beneficial impact on stock returns. In the meanwhile, studies conducted by [19] asserts that capital structure has a negative and substantial impact on stock performance.

The public has perceived manufacturing companies as providing products needed by the market, where the greater the market demand, the more products must be produced [11]. Food and beverage firms are one type of manufacturing company. The reason this food and beverage company was selected for 2019–2021 is the idea that meeting basic necessities is vital. The company's ability to make money before, during, or after the epidemic was unaffected. The goods of these enterprises, which meet the fundamental demands of Indonesian society, have allowed several food and beverage companies to thrive and endure. [10].

This research aims to find evidence that The following factors affect a firm's profitability: 1) The dimensions, expansion, tangibility, liquidity, and capital structure of a business; 2) How these factors affect a company's capital structure; 3) Stock returns are influenced by the company's size, growth, tangibility, liquidity, capital structure, and profitability.

2. LITERATURE REVIEW

2.1. Firm Size

Comparing the sizes of companies based on asset worth, sales value, and equity amounts is known as company size. A company's cash flow is more stable the larger it gets, it reduces the likelihood of incurring debt. A company's total assets define its size, and the natural logarithm of those total assets can be used to calculate the company's value..[22]. Firm size can affect capital structure because larger businesses usually employ more debt. These steps are taken by the company to meet customer wants, encourage operational expansion, and generate profits that exceed overall sales. [23]. The natural logarithm of the company's total sales (Ln Sales) will be replaced by the size of the business in this study. A corporation will grow in size in proportion to the increased possibility of utilizing foreign funds. The rationale is that if a big business needs more cash, it can use foreign capital to sell in bulk.

2.2. Growth

The company's rapid expansion is indicative of its wider reach. Because there is an increase in the company's assets or sales, high company growth also demonstrates successful company performance. [24]. Companies that have gone public must evaluate their development and performance since the public can act as investors based on these evaluations. The growth rate indicates how well a business can produce insignificant earnings that are set by the business.[25]. Since company growth is a reflection of the firm's continual development, every company aspires to attain significant growth each year. Since the business is making profits more quickly, the more significant the outlay needed to finance the business's operations, the less dividends the corporation will be able to pay out in order to save money for growth initiatives. [26].

2.3. Tangibility

A company's fixed tangible assets are primarily what creditors can use as collateral to recoup their money in the event that the borrower experiences financial difficulties. [27]. Because most tangible assets may be used as collateral, they make it easy for businesses to get outside financing, which leads to high leverage. [28]. The increase in debt levels in this scenario will be viewed by investors as something beneficial, since they will view tangible assets as a percentage of total assets. [29]. However, in poor nations, a high proportion of tangible assets to total assets does not ensure that lender loans will be repaid because, in the event of bankruptcy, an inadequate legal system may cause this process to be delayed or prevented.

2.4. Liquidity

According to [30] The ability of the business to settle short-term loans on time is referred to as liquidity. Liquid current assets are those that can be swiftly converted into cash, such as goods and receivables. The liquidity assessment yields two conclusions: first, the corporation is considered liquid if it is able to pay its debts. Nevertheless, a business that is unable to pay its debts is considered illiquid. [22].

The ability of a business to pay off its outstanding short-term or current debt is assessed using liquidity ratios. Companies that can pay off their debts in a shorter time will gain greater trust from creditors to issue debt or provide large amounts of funding, affecting the company's capital structure. [31].

2.5. Capital Structure

esearch on debt policy began with study conducted by Modigliani and Miller in 1958. They argued that using debt for companies would not affect company value. The use of large debt will not affect company value. So, company management can use debt without worrying about reducing value [32]. Modigliani and Miller's opinion received a lot of criticism, so in 1963, they corrected it. At first, they did not consider taxes, but in the 1963 correction, they made use of tax hypotheses. The usage of debt can increase a company's worth if tax considerations are taken into account in the model. The utilization of debt will result in extra expenses because of interest payments. These additional costs will reduce profit before tax in order to lower the amount of tax that has to be paid. The company's worth will rise as a result of the tax savings from this lower tax payment.

2.6. Profitability

According to [13] A corporation is considered profitable if it can turn a profit in a certain amount of time. A helpful measure for assessing a company's capacity to turn a profit at a specific asset and sales level is a profitability ratio. Furthermore, the profitability of a business serves as a gauge of its effectiveness. In order to avoid potential

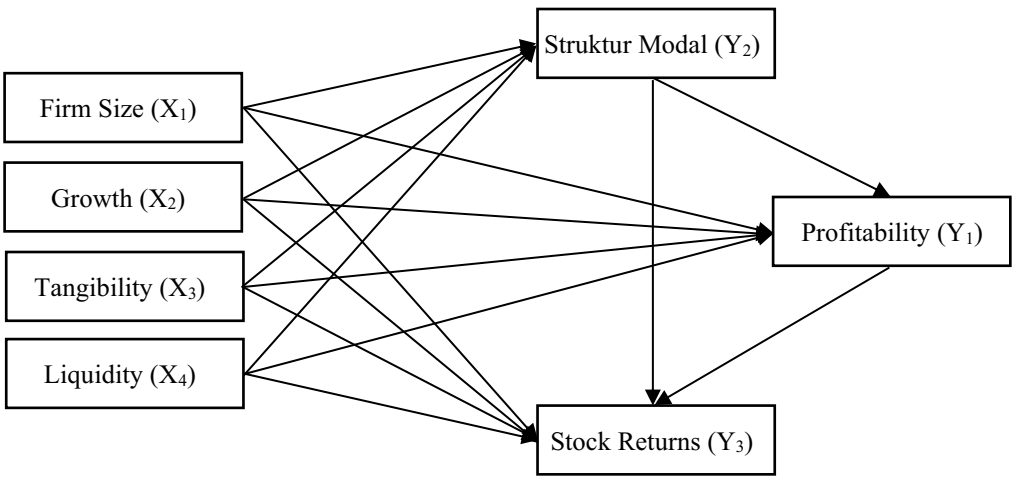

Figure 1. Research Model

Source: (T. Chandra, 2019) edited, 2023.

incompetence, one may also assess a company's performance by observing how it handles its resources and how steady its operations are by monitoring its working capital. Pay off all of the debt it has, including short- and long-term. [18].

3. METHOD, ANALYSIS, AND DATA

3.1. *Sample and Population*

This study used an explanatory research design, which tests hypotheses to explain the direction and intensity of a link between two or more symptoms or factors. In order to evaluate theories and This study focused on the order of relationships and the strength of effect between research components in order to evaluate hypotheses then determine whether to accept or reject them in light of the findings of other studies.

A secondary or quantitative data research design is used in This research. This study made use of information from yearly reports For the 2019–2021 period, 84 food and beverage firms are listed on the Indonesia Stock Exchange (BEI). The company's annual report, which covers the years 2019–2021 is used in this investigation. The purpose of this study is to determine how capital structure affects stock returns and profitability.

Purposive sampling, a sampling technique that gives precise criteria for the research, was used to gather samples for this study. A sample of manufacturing businesses with the following criteria that are listed on the IDX is used in this study: 1) Food and beverage firms that were listed in sequential order on the IDX between 2019 and 2021; 2) Food and beverage companies whose financial statements were accessible via the IDX and the company website between 2019 and 2021. Purposive sampling produced a final result of 21 firms, meaning that 63 data points total were seen in the sample..

3.2. Data Analysis Technique

a. Test Coefficient of Determination (R^2)

The range of values for the coefficient of determination is 0 to 1. A determination value of R2 around zero indicates a very low degree of independent variable explanation of dependent variable. Conversely, a value near one indicates that the independent variable has all the necessary knowledge to accurately forecast how the dependent variable will vary..

b. F Test

The F test shows if all of the independent variables in the model have an equal impact on the dependent variable. Use the F test to ascertain the extent to which the independent variable's dimensions taken together have an effect on the dependent variable. Testing can be done at a significance threshold of less than 0.05 by comparing the F count value to the F table..

c. T Test

Finding out if the regression coefficient of each independent variable has an impact on the dependent variable is the goal of the t test. Finding the level of significance at which each independent variable influences the dependent variable is the aim of the t test. under the assumption that the other independent variable remains constant. Another way to perform the t-count test is to use SPSS to examine each variable's significance value in the regression results output at a significance level of 0.05 ($\alpha = 5\%$).

d. Path Analysis

Using the route analysis method, path analysis seeks to determine the impact of intervening variables. The analytical model is employed, according to [34], to determine the direct and indirect impacts of the independent factors on the dependent variable. In this study, the independent variables (enterprise size, growth, tangibility, liquidity) and dependent factors (capital structure, profitability, stock returns) are associated.

4. RESULT

4.1. Results of Sub Structural Hypothesis Test I

a. Test Results of Coefficient of Determination (R^2)

Table 1. Test findings for substructure 1's coefficient of determination

Summary Models				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992[a]	.984	.983	.022925
a. Predictors: (Constant), X4_LIQUIDITY, X3_TANG, X1_SIZE, X2_ASSETGROWTH b. Dependent Variable: Y2_DAR				

Source: output SPSS 24

Table 1 indicates that the modified R Square value is 98.3%, or 0.983. The coefficient of determination value indicates that, for the 2019–2021 period, the variables SIZE, ASSETGROWTH, TANG, and LIQUIDITY explain 98.3% of the variation in DAR variables between food and beverage companies listed on the IDX. Other factors not included in this research model account for 1.7% of the variation..

b. F Test Results

Table 2. F test results of sub structure I

ANNOVA					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.892	4	.473	899.995	.000[b]
Residual	.030	58	.001		
Total	1.923	62			
a. Dependent Variable: Y2_DAR b. Predictors: (Constant), X4_LIQUIDITY, X3_TANG, X1_SIZE, X2_ASSETGROWTH					

Source: output SPSS 24

Table 2 suggests that the following variables: SIZE, ASSETGROWTH, TANG, and LIQUIDITY have an impact on the DAR for food & beverage firms that are scheduled to be listed between 2019 and 2021 on the IDX. 0.000 is the value of Sig., which is less than 0.05...

c. t Test Results

Table 3. t test results of sub structure I

Coefficients					
Model	B	Std. Error	Beta	t	Sig.
(Constant)	-1.099	.168		-6.523	.000
X1_SIZE	1.439E-6	.000	.446	6.666	.000
X2_ASSETGROWTH	.024	.008	.223	2.842	.006
X3_TANG	1.027	.469	.106	2.189	.033
X4_LIQUIDITY	.022	.006	.239	4.044	.000
a. Dependent Variable: Y2_DAR					

*Sig < 5%

Source: Output SPSS 24

The following describes the effect of the independent variable on the dependent variable DAR, based on the statistical test findings shown in Table 3: 1) If the variable SIZE (X1) shows a t test result, the hypothesis is accepted.) show that the value of sig. 0.000 is less than 0.05; this indicates that, for the 2019–2021 period, the SIZE variable significantly affects DAR in food and drink businesses that are listed on the IDX; 2) The sig value was determined from the t test result for the variable ASSETGROWTH (X2). The hypothesis is supported if 0.006 is less than 0.05, indicating a significant relationship between the ASSETGROWTH variable and DAR for food and beverage companies listed on the IDX between 2019 and 2021; 3) When the variable TANG (X3) provides a t test result of sig. 0.033, which is less than 0.05, the hypothesis is accepted. This demonstrates that the TANG variable has a significant impact on DAR for the 2019–2021 period for food and beverage companies listed on the IDX. timeframe; 4) The sig value was obtained from the t test findings for the variable LIQUIDITY (X4). Food and beverage firms listed on the IDX will see a significant impact from the LIQUIDITY variable on DAR throughout the 2019–2021 timeframe, if 0.000 is less than 0.05, suggesting that the hypothesis is adopted.

4.2. Results of Sub Structural Hypothesis Test II

a. Test Results of Coefficient of Determination (R^2)

Table 4. Results of the test for the coefficient of determination of substructure 2

Summary Models				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.985[a]	.970	.968	.032498
a. Predictors: (Constant), Y2_DAR, X3_TANG, X4_LIQUIDITY, X2_ASSETGROWTH, X1_SIZE b. Dependent Variable: Y1_ROA				

Source: output SPSS 24

It is deduced from Table 4 that the modified R Square value is 96.8%. or 0.968. The coefficient of determination value indicates that, for the 2019–2021 period, the variables SIZE, ASSETGROWTH, TANG, LIQUIDITY, and DAR can explain 96.8% Consider the variation seen in the ROA factors of food and beverage businesses registered on the IDX. Other variables not included in this research model account for the remaining 3.2% of the variation.

b. F Test Results

Table 5. F test results of sub structure II

ANNOVA					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.976	5	.395	374.198	.000[b]
Residual	.060	57	.001		
Total	2.036	62			
a. Dependent Variable: Y1_ROA b. Predictors: (Constant), Y2_DAR, X3_TANG, X4_LIQUIDITY, X2_ASSETGROWTH, X1_SIZE					

Source: output SPSS 24

Table 5 indicates that the factors SIZE, ASSETGROWTH, TANG, LIQUIDITY, and DAR have an impact on the ROA of food and beverage companies listed on the IDX during the duration of 2019 to 2021. Relative to 0.05, the value of sig. is 0.000.

c. t Test Results

Table 6. t test results of sub structure II

Coefficients					
Model	B	Std. Error	Beta	t	Sig.
(Constant)	-.604	.314		-1.921	.060
X1_SIZE	8.998E-7	.000	.271	2.213	.031
X2_ASSETGROWTH	.027	.013	.248	2.151	.036
X3_TANG	.027	.692	.003	.040	.968
X4_LIQUIDITY	-.002	.009	-.018	-.200	.842
Y2_DAR	.504	.186	.490	2.708	.009
a. Dependent Variable: Y1_ROA					

*Sig < 5%

Source: Output SPSS 24

The following represents the impact of the independent factors on the dependent variable ROA, as determined by the statistical test results displayed in Table 6: When the hypothesis is accepted, the results of the t test for the variable SIZE (X1) indicating that the value of sig. 0.031 is less than 0.05 suggest that the SIZE variable significantly influences ROA ln food and drink businesses that are listed on the IDX for the 2019–2021 period timeframe; 2) The variable ASSETGROWTH (X2)'s sig value was ascertained from the outcome of the t test. 3) The outcome of the TANG variable t test (X3) derived the value of sig. 0.968 is greater than 0.05, indicating that the hypothesis is accepted, indicating that the ASSETGROWTH variable has a significant impact on return on assets (ROA) in food and beverage companies listed on the IDX for the 2019–2021 period, while the TANG variable has no significant impact on ROA in these

companies; the hypothesis is accepted if 0.036 is less than 0.05. 4) Using the results of the t test for the variable LIQUIDITY (X4), the sig value was determined. 5) The hypothesis is accepted when the t test on the variable DAR (Y2) yields a value of 0.009, which is less than 0.05. This suggests that, for the 2019–2021 timeframe, the DAR variable significantly affects ROA in food and beverage companies listed on the IDX. When the value of 0.842 is greater than 0.05, the hypothesis is rejected since it shows that the LIQUIDITY variable has no discernible impact on ROA in food and beverage companies that are listed on the IDX for the 2019–2021 period.

4.3. Results of Substructure III Hypothesis Test

a. Test Results of Coefficient of Determination (R^2)

Table 7. Test results of the coefficient of determination of sub structure III

Summary Models				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.905[a]	.819	.800	.003343
a. Predictors: (Constant), Y1_ROA, X3_TANG, X4_LIQUIDITY, X1_SIZE, X2_ASSETGROWTH, Y2_DAR b. Dependent Variable: Y3_SR				

Source: output SPSS 24

One can deduce that the adjusted R Square value is 80%, or 0.800, based on Table 7. The value of the coefficient of determination shows that the variables SIZE, ASSETGROWTH, TANG, LIQUIDITY, ROA, and DAR account for 80% of the explanation of the SR variables of food and beverage companies that are listed between 2019 and 2021 on the IDX. The remaining 20% of the explanation is provided by other variables that are not part of this research model.

b. F Test Results

Table 8. F test results of sub structure III

ANNOVA					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.003	6	.000	42.307	.000[b]
Residual	.001	56	.000		
Total	.003	62			
a. Dependent Variable: Y3_SR b. Predictors: (Constant), Y1_ROA, X3_TANG, X4_LIQUIDITY, X1_SIZE, X2_ASSETGROWTH, Y2_DAR					

Source: output SPSS 24

It is evident from Table 8 that the variables SIZE, ASSETGROWTH, TANG, LIQUIDITY, ROA, and DAR have an impact on the SR of companies that sell food and beverages that are listed on the IDX for the years 2019–2021. Sig. has a value of 0.000, which is less than 0.05.

c. t Test Results

Table 9. t test results of sub structure III

Coefficients					
Model	B	Std. Error	Beta	t	Sig.
(Constant)	.075	.033		2.233	.030
X1_SIZE	-9.791E-8	.000	-.715	-2.246	.029
X2_ASSETGROWTH	.001	.001	.158	.529	.599
X3_TANG	.121	.071	.296	1.704	.094
X4_LIQUIDITY	.000	.001	-.038	-.166	.869
Y2_DAR	.052	.020	1.234	2.575	.013
Y1_ROA	-.002	.014	-.045	-.135	.893
a. Dependent Variable: Y3_SR					

*Sig < 5%

Source: Output SPSS 24

Based on the results of the statistical test t in Table 9, the independent variable's effect on the dependent variable SR is as follows: 1) The hypothesis is accepted if the t test findings for the variable SIZE (X1) indicate that the value of sig. 0.029 is less than 0.05.; this indicates that, for the 2019–2021 period, the SIZE variable significantly affects SR in food and beverage firms that are IDX-listed; 2) The variable ASSETGROWTH (X2)'s sig value was ascertained from the outcome of the t test. 3) The t test result for the variable TANG (X3) produced a value of sig. 0.094, which is more than 0.05, indicating the rejection of the hypothesis and the absence of a significant relationship between the TANG variable and SR in food and beverage companies listed on the IDX for the 2019–2021 4) The sig value was obtained from the t test results for the variable LIQUIDITY (X4). 0.599 is greater than 0.05, indicating that the ASSETGROWTH variable does not have a significant effect on SR in food and beverage firms listed on the IDX for the 2019–2021 timeframe. If 0.869 is higher than 0.05, the hypothesis is not supported, indicating that, for the 2019–2021 timeframe, food and beverage businesses listed on the IDX, SR is not significantly impacted by the LIQUIDITY variable; 5) The sig value was obtained from the ROA (Y1) variable's t test result. If 0.893 is higher than 0.05, the hypothesis is not supported, indicating that, for the 2019–2021 timeframe, 6) When the t test result for the variable DAR (Y2) provides a value of sig. 0.013, which is less than 0.05, the hypothesis is accepted. The food and beverage companies listed on the IDX show that the ROA variable has no appreciable impact on SR. This suggests that the DAR variable has a considerable impact on SR in food and beverage companies listed on the IDX for the 2019–2021 timeframe.

5. DISCUSSION

5.1. How Firm Size Affects Capital Structure

Table 3 indicates that capital structure is highly favorably impacted by business size, supporting the first premise. Larger businesses will typically perform better than smaller businesses, making it easier for them to get funding from outside sources. Due to their reputation for having a low bankruptcy risk and their vast asset and sales bases, which provide external confidence, this condition will entice investors to place their money in large-scale businesses. This study corroborates earlier findings by [35] It asserts that capital structure is greatly and favorably impacted by size. This is because third parties will view a larger company favorably since it will be better able to repay its loans. Research conducted by [22] It also says that capital structure is positively and severely impacted by size. Due to their enormous finance needs, multinational enterprises rely on funds from external sources to achieve their financial obligations. This lends credence to the signaling theory, which holds that big businesses serve as good signals for other businesses and stakeholders. Analogous research was carried out by [34], [28] and [27] asserts that scale has a positive and significant effect on capital structure.

5.2. The Effect of Growth on Capital Structure

The second hypothesis, which states that change only partially influences capital structure, is rejected by Table 3, which demonstrates that growth significantly positively affects capital structure. A company's capital structure or debt is significantly impacted by its rate of expansion. The upward trend suggests that any company's improved growth will enhance its capital structure. The corporation will be able to invest more money as a result of this expansion, which will improve its capital structure as it expands. This supports the pecking order idea as well, which maintains that when a business runs out of cash and needs more to keep developing, it will borrow money or look for outside investment. These findings are consistent with studies carried out by [36] and [25].

5.3. The Effect of Tangibility on Capital Structure

Table 3 indicates that tangibility significantly improves capital structure, supporting the third hypothesis. The same outcomes are also achieved by [37] The favorable impact of tangibility on capital structure is noteworthy. Big assets will demonstrate the company's capacity to offer more collateral, allowing it to take on more debt and profit from it. With a high degree of tangibility, creditors have the right to the guaranteed tangible assets of the business in the event that it encounters financial difficulties or even declares bankruptcy. This lends credence to the market-timing argument, which holds that The company intends to increase debt levels by utilizing its tangible assets. The results of the study align with [38] and [29].

5.4. Liquidity's Impact on Capital Structure

Rejecting the fourth hypothesis, Table 3 demonstrates that liquidity improves capital structure significantly, suggesting that liquidity affects capital structure only somewhat. Liquidity boosts a company's capacity to pay off its

debt. Businesses with strong liquidity demonstrate that they will make the best use of their internal capital, which comes from retained earnings and shares. This indicates that businesses with large liquidity choose to settle their debts via loans or other outside funding sources. These findings are consistent with the study that was done. [35] and [39].

5.5. The Effect of Firm Size on Profitability

Table 6 indicates that profitability is significantly positively impacted by business size, indicating the acceptance of the fifth hypothesis. These findings are consistent with the research. [8] that for businesses included in the Kompas 100, the size of the firm significantly improves profitability. Big businesses are more likely than small businesses to produce more profits. To put it another way, big businesses can leverage their economies more effectively, which boosts their bottom line. According to these findings, research was carried out by [12] and [7].

5.6. The Effect of Growth on Profitability

Growth has a strong positive influence, as seen in Table 6, supporting the acceptance of the sixth hypothesis. Profitability will rise in the event of higher asset growth, as indicated by company expansion as measured by asset growth. A business that is expanding quickly can benefit financially from being branded as one that the market views favorably, but as competition grows, the business will lose ground to them. These findings are consistent with studies carried out by [8] and [9].

5.7. The Effect of Tangibility on Profitability

Table 6 demonstrates that tangibility has no discernible beneficial impact on profitability. meaning the seventh hypothesis is rejected. Food and beverage companies generally have tangible or physical assets for daily operational activities. Profitability is often related to a company's ability to provide added value to customers or consumers. It is not entirely dependent on the degree of tangibility of the product. Intangible products such as software, consulting services, or intellectual property rights such as trademarks can provide significant added value without necessarily having tangible physical properties. These findings are consistent with studies carried out by [40].

5.8. How Liquidity Affects Profitability

Table 6 demonstrates that liquidity has a negligible and adverse impact on profitability, supporting the eighth premise that not true. In this case, the relationship between profitability and liquidity is bidirectional; as liquidity rises, profitability falls. It does not, however, have a substantial effect, indicating that idle money or funds that are not being used effectively and efficiently are the reason of the high current ratio and the decline in profitability. These findings are consistent with studies carried out by [41] and [42].

5.9. How Capital Structure Affects Profitability

The ninth hypothesis is approved in light of Table 6, which shows that capital structure significantly and favorably affects profitability. Because of its high operational costs, the company also needs large funds to finance this. Food and beverage companies use debt to cover operating expenses and derive tax-deductible benefits from interest expenses. Tax reductions will boost profits as well. These outcomes are consistent with the study that was carried out. [8] and [6].

5.10. How Firm Size Affects Stock Returns

Based on Table 9, which demonstrates that firm size has a negative and large impact on stock returns, the eleventh hypothesis is accepted. In this instance, investors do not use major corporations as a benchmark when making investments. According to the company size proxied by Ln Sales, a large total sales volume does not always translate into a high rate of return. These findings are consistent with studies carried out by [8], [15] and [16].

5.11. How Growth Affects Stock Returns

The eleventh hypothesis is rejected by Table 9, which shows that growth has a small and positive impact on stock returns. Growing companies frequently need huge sums of money, which forces them to reduce dividend payments and withhold part of their profits. Low investor enthusiasm for the company's shares will be the effect of this low dividend distribution. These findings are consistent with studies carried out by [43] and [44].

5.12. The Effect of Tangibility on Stock Returns

Table 9 indicates that tangibility positively and marginally affects stock returns, indicating the rejection of the twelfth hypothesis. This demonstrates that high tangibility food and beverage businesses that are listed for 2019–2021 on the IDX timeframe are not taken into account when investors are making share purchases. These findings are consistent with studies carried out by [8] and [45].

5.13. How Liquidity Affects Stock Returns

Table 9 disproves the thirteenth hypothesis by demonstrating that liquidity has a negligible and unfavorable effect on stock returns. Investors tend to steer clear of companies with high liquidity because they believe these businesses are less efficient with their capital. However, the impact is minimal because not all businesses adopt this. These findings are consistent with studies carried out by [8] and [21].

5.14. How Capital Structure Affects Stock Returns

Table 9 indicates that capital structure significantly increases stock returns, indicating the rejection of the fourteenth hypothesis. Investors and the business can both profit financially from an effective capital structure. The company's profits may rise if it uses borrowed money with borrowing costs that are less than the anticipated rate of return on investment. In this instance, the comparatively cheap cost of borrowing allows the investor to receive a bigger return on his investment. These findings are consistent with studies carried out by [20] and [13].

5.15. The Effect of Profitability on Stock Returns

Table 9 indicates that profitability has a negligible and negative impact on stock returns, indicating the rejection of the fifteenth hypothesis. The stock market tends to reflect investors' expectations and expectations regarding a company's future performance. ROA is a historical performance indicator based on financial statements, but it does not provide a complete picture of a company's future growth prospects and potential. Suppose investors have a more robust view of factors such as innovation, market expansion, business strategy, or other factors that affect a company's future. In that case, ROA may not significantly influence their investment decision-making. These findings are consistent with studies carried out by [17] and [18].

6. SUMMARY AND SUGGESTIONS

6.1. Conclusion

This study's objective is to evaluate and assess how capital structure affects stock returns and profitability. This study employed a sample of 21 firms from the total of 63 firms in the food and beverage industry listed on the IDX for the 2019–2021 timeframe, using purposeful selection procedures. The following are the study's conclusions:

Capital structure is positively and significantly impacted by firm size. Growth significantly and favorably affects capital structure. The capital structure is positively and significantly impacted by tangibility. The capital structure is significantly and favorably impacted by liquidity.

Profitability is positively and significantly impacted by the size of the company. Profitability is positively and significantly impacted by growth. Profitability is unaffected by tangibles. Profitability is unaffected by liquidity. Profitability is significantly and favorably impacted by capital structure.

Firm Size significantly and negatively affects stock returns. Stock returns are positively and significantly impacted by growth. Returns on stocks are unaffected by tangibleness. Returns on stocks are unaffected by liquidity. Stock returns are significantly and favorably impacted by capital structure. Returns on stocks are unaffected by profitability.

6.2. Limitation and Suggestions

If the company's management seeks to enhance the capital structure by taking into consideration factors that have been shown to impact the enterprise's profitability as well as its capital structure. Regarding the other hand, investors should focus on other elements and assess the company's prospects by examining its firm size, growth, and capital structure, all of which have been shown to have a substantial impact. And for further researchers, the use of samples is not only limited to food and beverage companies and is expanded to other sectors, besides that the period is not only limited to 3 years so that it can produce information that is more supportive of previous studies.

7. AUTHOR'S CONTRIBUTIONS

1) Agustinus Kris Bayuarditama (First Author): search, calculate and input financial report data then process it in SPSS.
2) Ratih Kusumawardhani (Second Author): provide reference scientific articles, guide, direct and evaluate authors in the process of writing articles.
3) Pristin Prima Sari (Third Author): guide, direct and evaluate authors in the process of writing articles.

The first author played an overall role in the creation of this article, assisted by support from the second and third authors in terms of information, funds, and resources.

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